

Summary of Key Audit Findings for Quarter 4 2017/18

Budget Management

Each year the Council has two spending plans: the revenue budget and the capital programme. Together they provide an overview of how the Council plans to spend its money. The Council decides this based on the priorities that Members have set and the reconciling policy, performance and resources (RPPR) process combines business and financial planning to make sure the key priorities of the Council are funded.

The revenue and capital budgets approved by Members are collated and published in the budget book at summary level, but detailed budgets for every budget holder and manager are communicated via Finance Teams and are available for viewing on the Council's main financial management information system (SAP).

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

- Adequate governance arrangements are in place that enables effective communication and challenge/scrutiny of the Council's financial position;
- Sufficient, relevant and reliable information is available to enable budget holders, senior management and Members to interpret the Council's financial position against the planned budget and the Council plan (with particular reference to the flow of financial information from individual service budgets to corporate reports);
- Remedial action is taken where appropriate so as to minimise the risk of budget under/overspend.

Overall, we were able to provide an opinion of **substantial assurance** in this area. We found that budget reports at a corporate level are submitted to senior officers and Members on a quarterly basis and that budgets are scrutinised at departmental level on a monthly basis. There is consistency in the financial information/data that is reported and flowing through each level of the organisational structure and an established timeline for reporting the budget position which we found was being adhered to. In addition, senior officers have expressed that they and their teams are receiving the support they require in relation to budget management.

A small number of opportunities for improvement were highlighted as a result of the audit, but in all cases these were deemed to be low priority in nature. Actions to address these were agreed with management.

Procure to Pay

Procure to Pay is the end to end process from the procurement of services to the payment of suppliers. The central Accounts Payable (AP) Team is responsible for the processing of payments to suppliers using the AP system which is a 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 over £250 by approving orders or invoices for goods, works or services, or by using purchase cards payments;

- Purchase orders should be raised with suppliers, with non-purchase order payments made in the exception. Invoices are only processed against approved goods receipt notes (with the exception of framework and invoice plans). Only approved invoices and purchase card statements are paid. 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. Spend is effectively monitored against budgets as it is incurred; 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 Governance and Investments

East Sussex County Council (ESCC) has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all participating employers in East Sussex. The primary objective is to ensure assets held on behalf of the fund are managed for the long term benefit of scheme members (in accordance with the rules of the scheme and the regulatory framework), maximising the fund's growth whilst minimising investment risk. As at 31 March 2016, an actuarial valuation was carried out by Hymans Robertson LLP which valued the fund with assets of £2,771M and liabilities of £3,012M, representing a funding level of 92%.

The purpose of this audit was to ensure that:

- All entries relating to the fund have been accurately recorded in the Ledger;
- Monitoring arrangements for the fund and fund managers are suitably robust;
- Contributions and investment returns are received in a timely manner;
- There is effective strategic oversight for the management and investment of the fund;
- Risk management arrangements are sufficiently robust;
- Stakeholders receive timely and accurate information;
- The fund is administered in accordance with best practice and legislative requirements.

Based on the work undertaken, were able to provide **reasonable assurance** over the control environment in this area. A robust framework is in place for managing the fund's investments, with regular monitoring and accurate entries recorded in the Ledger. A governance framework is in place that complies with the Code of Practice and provides effective oversight of fund management and administration.

Some weaknesses were, however, identified. These included measures to improve collaboration between key teams involved in Pension Fund governance and administration to ensure statutory obligations, such as the production and distribution of annual benefit statements to members of the pension fund within stated deadlines (see also Processes and Systems audit below), are met, and, where this does not happen, to ensure breaches are reported to the pensions regulator in accordance with the required timescales. To address these areas, management have agreed to create a terms of reference setting out the key principles and expected collaborative behaviour required to ensure effective governance and administration of the Pension Fund. This will be overseen by the Pension Fund's Section 151 Officer and the Head of Accounts and Pensions, who will also receive regular reports concerning the delivery of key administrative tasks.

Pension Fund Processes and Systems

As stated above, ESCC is the administering authority for the East Sussex Pension Fund on behalf of all participating employers and members of the fund.

The scope of the audit was to review the adequacy of the key controls in relation to the following control objectives:

- Process controls in the system are effective and any transactions, data and outputs are complete and accurate;
- The governance processes that are in place for the pension administration function are both effective and clear.

Overall, we were able to provide an opinion of **reasonable assurance** in this area. Our testing found that controls are generally operating satisfactorily. We did, however, find some areas that required improvement, including the need to develop written procedures to identify the work needed to support the production of the Annual Benefit Statements (see also Pension Fund Governance and Investments above) and the approval process to issue these. Actions to address this and other, lower priority findings were agreed with management.

Pension Fund External Control Assurance

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

Property Pre-Contract Checks Follow-Up

In order to protect the Council from financial loss, checks should be carried out on contractors to confirm that they have adequate public liability insurance and, where appropriate, professional indemnity insurance. When the values of Council buildings are increased as a result of building works, it is expected that these values are correctly reflected in the Council's own insurance levels. There is also an expectation that contract arrangements protect the Council from inadequate workmanship or contractors failing to complete works.

A previous audit in this area was undertaken in 2016, with a resulting audit opinion of partial assurance. A follow-up review has therefore been undertaken to assess whether the agreed actions from the original audit have been implemented.

In completing this work, we found that the majority of agreed actions had been fully or partially implemented, representing an improvement in control. We were therefore able to provide a revised opinion of **reasonable assurance**. Only a small number of actions remained outstanding, including the need to ensure that, for major projects, the financial stability of contractors is checked prior to contracts being signed and to ensure officers are clear on their roles and responsibilities in relation to checking arrangements. The outstanding issues were discussed with management and action agreed to resolve these.

Personal Service Companies and Use of Consultants

Legislation passed by the government in April 2017 placed the onus on public sector bodies to determine the 'IR35' tax status of all off-payroll workers engaged by the organisation. IR35 is a set of tax rules which require people, contracted to work for a client through an intermediary (usually their own personal service company) to pay tax and national insurance contributions on any salary or wages received.

The purpose of the audit was to provide assurance that controls are in place to manage key risks associated with the appointment of personal service companies and consultants, including liability for uncollected taxes, by ensuring the following objectives are achieved:

- All personal service companies and consultants engaged by the Council are identifiable and engaged in compliance with IR35 legislation;
- Relevant pre-employment checks are completed for individuals engaged as personal service companies or consultants; and
- Value for money is delivered from personal service companies and consultants.

In completing this review, we found that there was no complete record of all personal service companies and consultants engaged by the organisation and, therefore, no overall visibility over whether or not appropriate IR35 assessments or pre-employment checks had been undertaken in all cases. Due to the lack of records, it is also not possible to fully analyse whether or not value for money is being achieved in using these individuals. We were therefore only able to provide an opinion of **partial assurance** as a result. A comprehensive action plan was subsequently agreed with management to make the necessary improvements required, and this area will be subject to follow-up audit activity in 2018/19.

Some evidence of good practice was identified, however, including pro-active engagement to raise awareness of IR35 requirements across the organisation.

Debt Management within Deferred Payment Agreements

The Care Act 2014 introduced a framework for the recovery of debts that may have accrued as a result of the local authority meeting a person's eligible support and care needs. The framework outlined the principles that local authorities should undertake when approaching the recovery of debts in relation to these needs. The Act also made it mandatory to consider putting a charge (Deferred Payment Agreement) against a person's property for help towards the cost of their care. If eligible, the Council will pay a person's care home bills on their behalf with debt accruing against the person's home, until such time that it is sold.

When a Deferred Payment Agreement (DPA) is terminated, a redemption statement which sets out the exact amount of the debt owing, including any accrued fees and interest due, is required by Orbis Public Law (OPL) before a request for repayment can be issued to the client and/or their representative.

The purpose of the audit was to provide assurance that controls exist to meet the following objectives:

- There are robust procedures in place that comply with the Care Act 2014;
- There are clear roles and responsibilities in place with regards to the debt management process, and;
- Robust controls are in place to minimise the extent of debt and provide prompt follow-up of overdue accounts.

In completing this work, we were able to provide an opinion of **reasonable assurance** over the adequacy of controls in this area. A number of areas of good practice were identified, including in relation to roles and responsibilities over the debt management process being clearly defined, and debt recovery processes being documented and approved.

Some opportunities for improvement were, however, identified, including ensuring that redemption amounts for debts owing are correct, where inaccuracies had previously been identified, including one client being undercharged. Whilst these had subsequently been corrected, it highlighted the need to ensure all redemption statements are accurate and complete. Actions to address this and other weaknesses identified (that were considered low priority in nature) were agreed in full with management.

East Sussex Better Together (ESBT) Integrated Commissioning Arrangements

East Sussex Better Together (ESBT) is a transformation programme that aims to fully integrate health & social care across the ESBT Alliance (i.e. the Council and NHS partner organisations) footprint. In July 2017, Cabinet approved a recommendation to strengthen the Alliance by developing an integrated commissioning function designed to operate under a single point of leadership for strategic commissioning.

The purpose of the audit was to ensure that controls are in place and operating effectively to achieve the following objectives:

- Governance arrangements ensure effective leadership and oversight of the integrated commissioning function;
- Strategic commissioning is delivered effectively and in compliance with the regulatory requirements of all partners;
- Cultural differences between partners are understood and managed effectively; and
- The integrated commissioning function is sufficiently resourced.

We were able to provide **reasonable assurance** over the controls in place to support the integrated commissioning function due to a comprehensive governance structure providing effective strategic leadership and oversight of continued ESBT integration. The planning, delivery and resourcing of strategic commissioning is also well coordinated through a dedicated Integrated Strategic Planning Group.

Some areas of improvement were identified, including the need for a more systematic approach to risk management and continued efforts to overcome cultural differences amongst partner organisations. A small number of actions were agreed with management to address these.

East Sussex Better Together (ESBT) Integrated Commissioning Fund

As part of the East Sussex Better Together (ESBT) transformation programme, the Council and NHS partner organisations have aligned their respective commissioning budgets to take a whole-systems approach to the planning and delivery of health and social care. The Integrated Commissioning Fund (ICF) is the sum of this collective resource which currently stands in the region of £860 million. The purpose of the audit was to ensure that controls are in place in the following areas:

- Governance arrangements provide effective stewardship and oversight of the ICF;
- The financial structure of the ICF is sufficiently robust;
- Risk sharing arrangements protect the Council from financial loss; and
- Accounting arrangements comply with regulatory requirements.

We were able to provide **reasonable assurance** over the controls in place to support the ICF due to evidence of effective stewardship and oversight of the ICF and a comprehensive Financial Framework setting out the terms on which partners have agreed to collaborate, including risk share arrangements.

Two actions were agreed with management to improve the overall control environment; these being to formally approve the Financial Framework and to reflect new roles and responsibilities in key governance documents.

School Registration Arrangements

The Education (Pupil Registration) (England) (Amendment) Regulations 2016 seek to provide a framework for schools to manage the risks associated with child protection, particularly in relation to the whereabouts and safety of children. The regulations also provide a framework to ensure schools and academies do not remove pupils from the roll to manipulate school performance.

East Sussex County Council has one of the lowest levels of attendance within the UK. The Council has attempted to engage with stakeholders to highlight this issue and the negative effect this can have on a child's development, including through the recent 'Get a Grip Campaign'.

As part of this audit, reviews of the registration arrangements at a sample of schools were undertaken jointly by Internal Audit and the Education Support, Behaviour and Attendance Service (ESBAS). The purpose of the audit was to provide assurance that controls are in place to ensure:

- Schools maintain and keep an accurate and up to date register of students as outlined in statute;
- Schools provide data, including overall and persistent absence, to the Local Authority in a timely manner;
- Schools have a policy for intervening early and effectively for poor low attendance;
- Department of Education and local guidance is followed when off-rolling a student, and;
- There are physical checks in place throughout the day to ensure students are at school and robust processes in place in the event that children are unaccounted for.

Overall, we were able to provide an opinion of **reasonable assurance**, with controls in the above areas generally found to be in place and operating effectively. Two areas for improvement were, however, identified, relating to:

- The need to work further with academies to ensure timely and robust information is provided so that the Council can fulfil its statutory obligations, and;
- Ensuring that all schools are aware of their legal responsibilities and the correct processes to follow when a child is removed from the roll, to ensure consistency of data held by schools and the Council, and to reduce the risk of the Council being unaware that a child is missing education and the associated safeguarding concerns.

In terms of the above opportunities for improvement, actions were agreed with management to help ensure academies are aware of the law, local processes and expected practice around attendance management and the provision of information, and to ensure schools are aware of the correct practices to follow when a child is removed from the roll.

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 8 of the 80 families included in the November to March 2018 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.

Home to School Transport - Eligibility

The Department for Education has issued statutory guidance to Local Authorities to provide home to school transport (HTST) for eligible children within the authority's area in order to facilitate attendance at school. ESCC's school transport policies set out the qualifying criteria for the provision of HTST and the types of transport assistance provided. Eligibility for HTST is determined within Children's Services Department (CSD) whilst service delivery is administered by Communities, Economy and Transport (CET). The cost of service provision is recharged by CET to CSD on a quarterly basis.

The 2017/18 budget for HTST was approximately £12m, of which £7.6m (63%) is allocated to special needs children who have more complex needs and support requirements. The budget is supported by a financial model which is managed within CET.

This review focused on the application of eligibility criteria within CSD to determine whether children receive the right level of assistance in accordance with statutory obligations and Council policies. We also assessed whether a robust process is in place to consider parent appeals and complaints.

In completing our work, we were able to provide an opinion of **reasonable assurance** and, overall, an adequate system of control was found to be in place. In particular, we found that the Council's eligibility criteria for receiving free home to school transport were found to be compliant with statutory guidance and audit testing in this area confirmed that the Council's policy on HTST is being applied correctly.

Some weaknesses in control were, however, identified, particularly in relation to the use of the Synergy system (the system within CSD that is used to maintain a record of children eligible for HTST) where there is a need to ensure that:

- Staff who have left their employment with the Council or move to a different role have their access to the system removed;
- Appropriate contingency and disaster recovery arrangements are in place to ensure continuity of service in the event of a disaster or other loss of system availability;

- Adequate processes are in place to delete personal data when it is no longer required, in line with data protection laws.

In addition, we also found that a 'Sustainable Modes of Travel Strategy', as required within statutory guidance, needed to be developed and published on the Council's website.

All of our findings were discussed with management and actions to address these were agreed.

Transport for the South East

ESCC is a partner in Transport for the South East (TfSE) – a new Sub-National Transport Body (STB) being created to improve the transport network and grow the economy of the whole South East area; from the English Channel to the border of London, and from the Kent coast to Berkshire, Hampshire and the Isle of Wight. The aim of TfSE is to support and grow this economy by choosing the right strategic transport priorities for investment.

The establishment of TfSE as an STB requires approval from Government and a Statutory Instrument must be agreed by Parliament. Therefore, TfSE is currently operating as a shadow body until its statutory status as an STB is approved. By obtaining statutory status, TfSE will become a statutory partner of the Government and have a say in the transport priorities in both road and rail investment.

During the shadow period, TfSE does not have the statutory standing that it will have once formally constituted by the Secretary of State. Consequently, an inter authority agreement is in place between the partner organisations, and ESCC has been appointed as the Lead Authority to coordinate and manage the process of establishing TfSE as a statutory body and procure necessary services on behalf of TfSE during the shadow phase.

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

- The shadow body's constitution and inter authority agreement are robust, clear and cover key items such as objectives/aims/outcomes and ensuring that associated cost and risk is shared;
- An adequate and appropriate governance framework is in place for the shadow period (e.g. governance structure, reporting and scrutiny lines etc.), and;
- Sound financial and budget management is in place to ensure that contributions from member organisations held by ESCC are used for the intended purposes.

Overall, we were able to provide an audit opinion of **reasonable assurance** in this area. We found that:

- The aims and objectives of the shadow phase have been clearly documented and agreed by TfSE's Partnership Board;
- The constitution and the inter authority agreement that govern the running of the shadow body, and the governance structure and arrangements to steer TfSE through its shadow phase, were found to be adequate;
- The Council, in its role as lead authority, has adequate controls in place to ensure that contributions from members are being spent on intended TfSE purposes, and;
- The Council adopts best practice in procuring goods/services on behalf of TfSE.

A small number of weaknesses in arrangements were, however, identified; the main one relating to the need to ensure that Cabinet are kept informed of progress and additional costs/risks in view of the delays encountered in TfSE obtaining statutory status, which we understand will now take place in 2020 as opposed to the end of 2018.

Appropriate action to address the findings of this audit has been agreed with management within a formal action plan.

Enforcement Powers (within Communities, Economy and Transport Department)

A power of entry is a right for a person (usually police officers, local authority trading standards officers, or, the enforcement staff of a regulatory body) to legally enter land or other premises to enable investigation of alleged offences and allow for the necessary enforcement of regulations. Often, a power of entry is accompanied by what are known as 'associated powers', which set out what an official is allowed to do once they have entered the premises.

Given the volume of powers and variation across them, the Secretary of State (under section 48 of the Protection of Freedoms Act 2012) (the Act) has developed a code of practice to govern the exercise of powers of entry and associated powers. Council officers, as 'relevant persons' under section 51 of the Act, must have regard to the code of practice when exercising power of entry and associated powers.

The purpose of the audit was to provide assurance that controls within the Communities, Economy and Transport Department (CET) are in place to meet the following objectives:

- There is adequate compliance with the code of practice to govern the exercise of powers of entry, and the Council's internal processes in this area;
- Relevant safeguards are attached to powers of entry and associated powers to protect individuals and businesses from intrusion;
- Evidence gathered whilst exercising of powers of entry is seized and retained in accordance with statutory requirements and/or the code of practice, and;
- Adequate training and guidance has been provided to all CET officers who exercise powers of entry or associated powers.

In completing our work, we were only able to provide an opinion of **partial assurance**. Whilst evidence of good practice was identified, we found a number of areas that required improvement, including:

- Ensuring the Secretary of State's Code of Practice is adopted for powers of entry;
- The need to develop a proper process of approval for the exercise of powers of entry;
- Ensuring that authorised officers have suitable ID cards, and ID cards should cite all the relevant statutory powers that staff can exercise, and;
- Determining the mandatory training requirement for officers who use powers of entry or associated powers and ensuring that relevant officers complete the mandatory training and/or refresher training where necessary.

These areas were discussed with management and actions for improvement agreed. A follow-up audit in this area will be undertaken later this financial year.

Individual School Audits

During quarter 4 of 2017/18, we have completed the following individual school audits:

School Name	Location	Type	2017/18 Budget £'000	Opinion
Buxted C.E. Primary School	Uckfield	Voluntary Controlled	£710,958	Substantial Assurance
Harlands Primary School	Uckfield	Community	£865,103	Substantial Assurance
Plumpton Primary School	Lewes	Community	£470,114	Substantial Assurance
Willingdon Primary School	Eastbourne	Community	£1,577,781	Substantial Assurance
Wivelsfield Primary School	Haywards Heath	Community	£683,480	Substantial Assurance
Harbour Primary School Follow-Up	Newhaven	Community	£1,826,995	Substantial Assurance
Barcombe C.E. Primary School	Lewes	Voluntary Controlled	£542,029	Reasonable Assurance
Grovelands Community Primary School	Hailsham	Foundation	£2,087,929	Reasonable Assurance
Holy Cross C.E. Primary School	Uckfield	Voluntary Aided	£503,576	Reasonable Assurance
Langney Primary School Follow-Up	Eastbourne	Community	£1,907,245	Reasonable Assurance