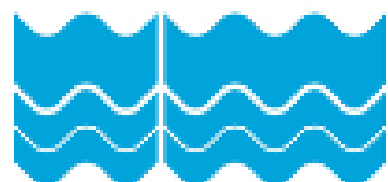


INTERNAL AUDIT ANNUAL REPORT & OPINION 2017/2018

East Sussex
County Council



1. Internal Control and the Role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Annually the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2017/18, a programme of audits was carried out covering all Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority. This has included responding to and investigating allegations of fraud and other irregularities.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit Committee as part of our periodic internal audit progress reports.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable assurance¹ that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2017 to 31 March 2018. Audit activity has confirmed that the majority of key controls examined are working in practice, with some specific exceptions.

3.2 Where improvements in controls are required, we have agreed appropriate remedial action with management.

¹ The use of the term 'reasonable assurance' reflects that the opinion has been reached based on the work set out in paragraph 4 below and that it is not possible or practicable to audit all activities of the County Council within a single year.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

- All audit work completed during 2017/18, planned and unplanned;
- Follow up of actions from previous audits;
- Management’s response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council’s systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service’s performance.

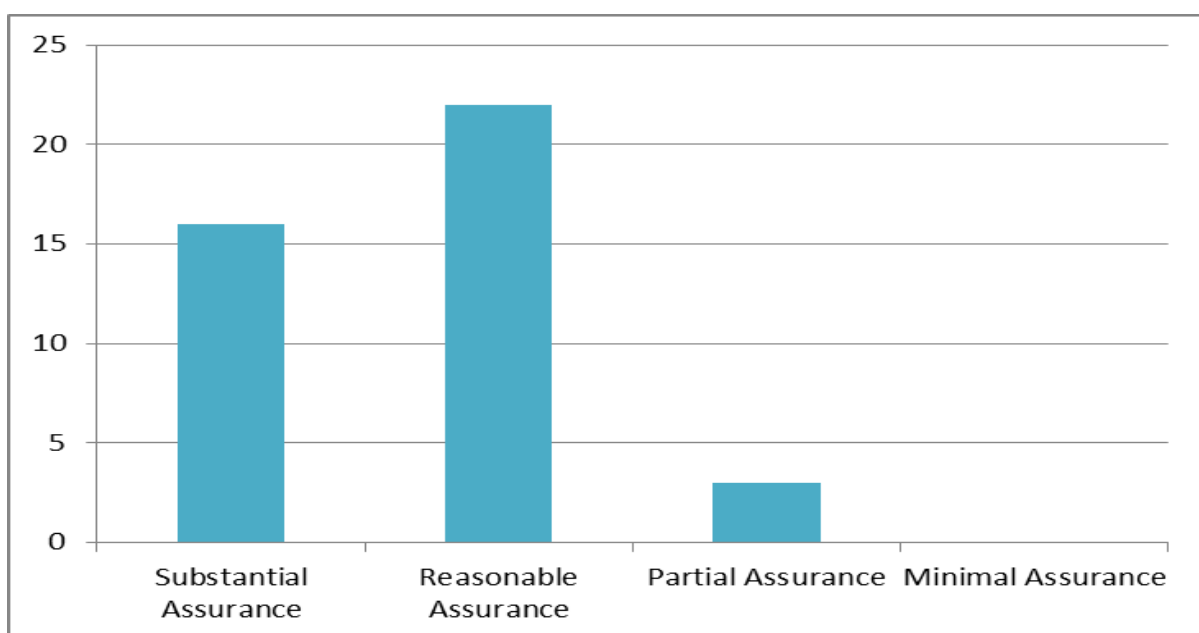
4.2 No limitations have been placed on the scope of Internal Audit during 2017/18.

5. Key Issues for 2017/18

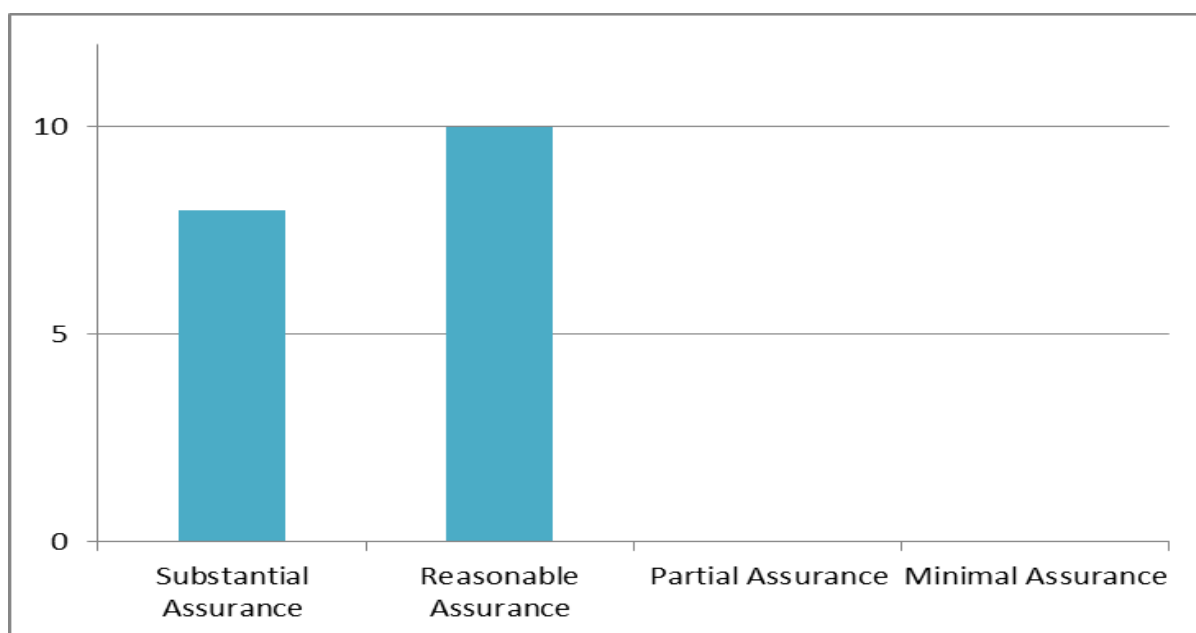
5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council’s Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graphs provide a summary of the outcomes from all non-school audits and school audits finalised during 2017/18 with standard audit opinions:

Non-Schools



Schools



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. Significantly, it is pleasing to report that none of the audits completed in the period have resulted in ‘minimal assurance’ opinions.

5.4 Included with the non-schools graph above are a total of four reviews where we have revisited areas which had previously received lower levels of assurance. For each of these (Contract Management - Agency Workers, Property Pre-Contract Checks, Management of Staff Transfers and Leavers, and Microsite Management), we have been able to issue revised, improved opinions of substantial assurance.

5.5 As well as conducting formal follow up reviews, we have in place arrangements to track the implementation of all high risk audit recommendations issued during the year. As at 31 March 2018, of the 13 high risk recommendations issued and due by the end of the 2017/18, it is pleasing to report that all had been implemented within the agreed timescales.

5.6 At the time of producing this report, a total of 6 planned reviews remained in progress, all of which will be completed during the first quarter of 2018/19. The finalisation of these reports will result in 100% completion of the 2017/18 internal audit plan.

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council’s key financial systems, both corporate and departmental. Of those completed during 2017/18, all of these have resulted in either substantial or reasonable assurance being provided over the control environment.

Schools

5.8 Throughout the year, a programme of assurance work in schools has been carried out in accordance with our agreed Schools' Internal Audit Strategy. During 2017/18, we carried out full audit visits to fifteen schools, and three follow-ups where opinions of minimal assurance had previously been given. The outcome of this work can be seen in the above 'schools' graph. In terms of the three follow-ups, clear improvements in control were found, resulting in improved audit opinions.

5.9 Other audit initiatives undertaken during the year to help improve financial governance in schools have included:

- Continuing the work of the Schools Risk Review Group, made up of representatives from Internal Audit, Personnel and Training, Finance, and the Standards and Learning Effectiveness Service (which includes Governor Services), the primary aim of which is to ensure appropriate targeted support and intervention is provided to schools;
- Producing regular information bulletins for all school governors highlighting common themes and issues arising from audit work, encouraging Governors to increase scrutiny of the schools finances and financial position;
- Providing ad-hoc advice and guidance.

5.10 We also continue to consult with Headteachers, Business Managers and Governors about improving the effectiveness of how we provide information and advice to them. This includes considering the offer of alternative activities, such as self-assessment tools, so that schools are able to gain assurance over their control environment between formal audits.

Anti-Fraud and Corruption

5.11 During 2017/18, we logged 35 allegations under the Council's Anti-Fraud and Corruption Strategy, in all cases identified through the Council's confidential reporting hotline or notifications from departments. As a result of the allegations, 11 investigations were undertaken by Internal Audit, with the remainder being referred to local management, another local authority or assessed as requiring no further action. The following provides a summary of the investigation activity undertaken by Internal Audit in the last 12 months:

- Two investigations related to possible failures by Council staff to declare potential 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 governance arrangements in the associated service areas. Internal control improvements were agreed for both areas investigated.
- A further match identified through NFI Companies House data led to an investigation into a staff member failing to declare a conflict of interest and undertaking secondary employment during Council working hours. Our investigation established that the member of staff was a director of a profit making limited company that provided services to the Council which conflicted with their Council role. Through interviews with the officer and their line manager, it was established that the manager was aware of this and no attempt had been made to conceal it from them, but weaknesses were

identified in relation to declaring interests and staff line management. As such, there was no evidence of dishonesty or attempts to deceive by the employee; rather, a failure to follow the proper processes.

As a result of the investigation, both the member of staff and their line manager were subject to formal standard setting. The member of staff concerned was also instructed to resign, with immediate effect, from their position of director within the company.

Following the investigation, we produced an internal control report summarising the control weaknesses identified during the review. Actions to improve controls, particularly in relation to declaring interests and staff line management, were agreed with management.

- An investigation into a conflict of interest within Adult Social Care where an allegation was made that 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.
- One investigation was undertaken into the theft of cash from a residential children's home. Our work found that there was insufficient evidence to be able to identify who was responsible. We were, however, able to provide advice and guidance on improving internal controls in relation to cash handling.
- An investigation into the over-claiming of mileage and expenses by a member of staff identified serious irregularities in the amounts claimed. The officer was subject to disciplinary proceedings; however, they resigned before these proceedings could be concluded. In referring the matter to Sussex Police, the employee has now been charged.
- An investigation into an allegation relating to recruitment practices at a school, including allegations of favouritism and nepotism. The investigation found no evidence to substantiate the allegation and no further action was taken. However, Internal Audit identified the need for control improvements to strengthen governance arrangements and increase transparency in the management of conflicts of interest.
- Four further investigations remain ongoing at the time of writing this report.

5.12 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future internal audit activity.

5.13 As part of the Cabinet Office's National Fraud Initiative (NFI), the Council is required to provide a range of data in order to carry out a data matching exercise. Data matching involves comparing computer records held by one body against other computer records held by the same or another body for the purpose of identifying potential cases of error or fraud.

5.14 This data, covering a range of areas including payroll, pensions, creditors, residential care clients, concessionary travel passes, residents parking permits and clients in receipt of direct payments, has been investigated by the relevant teams within the Council and, to-date, £32,110 in errors have been identified which are in the process of being recovered.

5.15 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the Authority and in raising awareness amongst staff. During 2017/18, this has included data analysis activities along with a proactive review of grant payments made by the Council.

5.16 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risk of fraud. This includes working with local fraud hubs; the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to fraud.

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2017/18, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which have been independently assessed during 2017/18 by the South West Audit Partnership:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of this work found a high level of conformance with the Standards. Detailed findings are contained within a separate report on the agenda for this meeting.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 Significantly, we have completed 92.4% of the 2017/18 audit plan, exceeding our target of 90%. As reported in 5.6 above, a small number of outstanding reviews were nearing completion at year end, with all reports due to be finalised early in quarter 1 of 2018/19. We are currently exploring opportunities to improve the benchmarking arrangements for internal audit and will report on this in due course when further information becomes available.

6.6 Internal Audit will continue to liaise with the Council's external auditors (now Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, CMT and the Audit Committee will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.

Internal Audit Performance Indicators 2017/18

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit Committee on 22 March 2018
	Annual Audit Report and Opinion	By end July	G	2017/18 annual report approved by Audit Committee on 14 July 2017
	Customer Satisfaction Levels	90% satisfied	G	100% satisfied
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	92.4%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	G	100%
Our staff	Professionally Qualified/Accredited	80%	G	86% ²

² Includes 3 part-qualified staff and those working towards completing their professional examinations

Summary of Opinions for Internal Audit Reports Issued During 2017/18

Substantial Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
Budget Management	Corporate
Key Financial System - HR/Payroll	BSD
Key Financial System - Accounts Receivable	BSD
Key Financial System - Accounts Payable	BSD
Pension Fund External Control Assurance	BSD
Property Pre-Contract Checks Follow-Up	BSD
Contract Management – Managed Service Provider for Temporary Agency Workers Follow-Up	BSD
Microsite Management Follow-Up	BSD
Management of Staff Transfers and Leavers Follow-Up	BSD
Storage Area Network	BSD
Public Health: Sexual Health Open Access	ASC
LAS/Controcc	ASC
Unaccompanied Asylum Seeking Children	ASC
Schools Funding Formula	CSD
Waste Affordability Model	CET
Waste Pricing Model	CET

Reasonable Assurance:

Audit Title	Department
Proactive Counter Fraud Review of Grant Payments	Corporate
Key Financial System – Pension Fund Processes and Systems	BSD
Pension Fund Governance and Investments	BSD
Recruitment and Induction	BSD
Procurement Cards	BSD
Bankline	BSD
Ordinary Residence	ASC
Contract Management – Integrated Community Equipment Service	ASC
LCS/Controcc	ASC
Direct Payments	ASC
Social Care Non-Attendance and Deaths	ASC
East Sussex Better Together Integrated Commissioning Arrangements	ASC
East Sussex Better Together Integrated Commissioning Fund	ASC
Debt Management within Deferred Payment Agreements	ASC
Home to School Transport Eligibility	CSD
SEND Budget Management	CSD
Academy Transition Arrangements	CSD
Education Improvement Partnerships	CSD
Schools Registration Arrangements	CSD

Audit Title	Department
Highways Contract Management	CET
Sustainable Drainage Systems	CET
Transport for the South East	CET

Partial Assurance:

Audit Title	Department
Contract Management – Managed Service Provider for Temporary Agency Workers	BSD
Personal Service Companies and Use of Consultants	BSD
Powers of Entry	CET

Other Audit Activity Undertaken During 2017/18 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Data Centre Move	BSD
Orbis – Comparison of Personnel Policies	BSD
Proactive Counter Fraud Risks – P Card Data Analytics	Corporate
Proactive Counter Fraud Risks – Grant Payments	Corporate
Proactive Counter Fraud Risks – ICT Email Fraud	Corporate
Atrium – Works Delivery Module	BSD
ASC Payment and Income Processes	ASC
Child Protection Information Sharing	CSD
Troubled Families	CSD
Broadband – Review of Annual Return to BDUK	CET

Schools

Substantial Assurance:

Name of School
Buxted C.E. Primary School
Harbour Primary School (Follow-Up)
Harlands Primary School
Motcombe Community School
Peacehaven Community School (Follow-Up)
Plumpton Primary School
Willingdon Primary School
Wivelsfield Primary School

Reasonable Assurance:

Name of School
All Saints' & St. Richards' C.E. Primary School
Barcombe C.E. Primary School
Cross In Hand C.E. Primary School
Grovelands Community School
Hankham Primary School
Holy Cross C.E. Primary School
Langney Primary School (Follow-Up)
Newick C.E Primary School
St. Mary Star of the Sea Catholic Primary School
West Rise Junior School

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.