

Internal Audit and Counter Fraud Quarter 1 Progress Report 2018/19

CONTENTS

- 1. Summary of Completed Audits**
- 2. Counter Fraud and Investigation Activities**
- 3. Action Tracking**
- 4. Amendments to the Audit Plan**
- 5. Internal Audit Performance**

1. Summary of Completed Audits

Preparedness for the General Data Protection Regulation

1.1 The European Parliament passed a new General Data Protection Regulation (GDPR) in April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data.

1.2 The objective of this audit was to ascertain whether the Council had carried out adequate preparation to comply with GDPR. In order to evaluate the adequacy and effectiveness of arrangements, we reviewed the scope and progress of the Council's GDPR project plan against the Information Commissioner's Office (ICO) 'Getting Ready for the GDPR' checklist.

1.3 Overall, we found that the Council had implemented effective arrangements to ensure compliance with GDPR and we were able to provide an opinion of **reasonable assurance** as a result. We found that there was a well-managed GDPR project and comprehensive action plan in place, together with strong governance arrangements, including regular reporting on progress to the Council's Information Strategy Board. We found clear similarities between the Council's GDPR action plan and the ICO's checklist, and significant progress had been made against the actions required to achieve conformance.

1.4 The scale of GDPR did, however, mean that, at the time of our review, a small number of required actions had not been fully implemented, including the ratification of all revised Council policies linked to data protection, compilation and completion of the Council's Information Asset Register and ensuring existing contracts with third parties included specific terms to ensure that data processing carried out by them meets all the requirements of GDPR. All of these areas were in progress and an action was agreed that regular reports on progress against outstanding GDPR requirements would continue to be presented to senior management. A follow up review will be carried out by Internal Audit during 2018/19 to assess compliance with the new requirements.

Contract Management – Management of Mobile Phone Contract

1.5 In March 2015, the Council awarded the contract for the supply of mobile phones and mobile network services to Telefonica O2 UK Ltd. The contract was for an initial period of three years and was due to end in February 2018, but it has now been extended to February 2019.

1.6 At the time of the audit fieldwork, the spend on mobile phone contracts in 2017/18 was £273,775, of which £222,636 related to rental charges, £5,958 in respect of call charges and £45,181 in respect of handset costs.

1.7 This audit was undertaken to review the contract management arrangements in place. It covered governance, provision of services in line with the contract, performance management, the payments process and change control procedures.

1.8 In completing this work, we were able to provide an opinion of **reasonable assurance** over the adequacy of controls in this area. We found that the essential elements of the contract are being delivered and that recent improvements in the management of the contract have meant that a number of historical issues have been resolved. Opportunities to improve contract management do, however, exist, including ensuring that:

- A Contract Service Board is established consisting of representatives from ESCC and the contractor, in accordance with the contract, to strengthen contract governance;
- Regular performance reports from the provider are reviewed and validated to maximise value for money;
- Proactive contract risk management takes place on a regular basis, and;
- Mobile phones are disconnected promptly for staff that have left Council employment.

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

Lease Management

1.10 East Sussex County Council owns a large portfolio of property and land. A proportion of this portfolio is leased outside the authority to various individuals, groups or companies; property is also leased in by the Council in order to fulfil its strategic objectives or service needs. Records held by the Estates Team showed that there are 66 active leases into the Council of land or property, whilst there are 148 active leases or licences of Council property or land to external individuals, groups or companies.

1.11 The purpose of this review was to provide assurance that:

- All income is received in full and on time in accordance with agreed terms;
- All new, or changes to, existing lease agreements are approved at an adequate level and meet the needs of the Council, and;
- Monitoring arrangements are effective in ensuring compliance with the terms of the lease.

1.12 In completing this work, we were able to provide an opinion of **reasonable assurance**. We found that invoicing processes are robust, supported by clear debt recovery procedures. A clear strategy has been developed that details the Council's objectives from its property portfolio and contracts are in place for all leases, which have been approved in accordance with departmental schemes of delegation.

All leases contain appropriate provision for monitoring arrangements, with the monitoring itself being carried out by the user departments.

1.13 However, there are some areas where management is (and already was) working to further strengthen processes and controls. These include:

- Ensuring all data relating to active leases is accurate and up-to-date, where some inconsistencies were found as part of our testing;
- The centralisation of invoicing, some of which is carried out by user departments, using the new property asset management system (PAMS), which will provide increased resilience and visibility to the team;
- Ensuring guidance covering roles and responsibilities for lease management is more comprehensive.

1.14 Actions to address these and other lower priority findings were agreed with management.

Internal Audit Pension Fund Strategy

1.15 ESCC has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of participating employers in East Sussex. The primary objective is to ensure assets held on behalf of the Pension 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 while minimising investment risk.

1.16 Orbis Internal Audit provide internal audit services to the ESPF. During quarter 1, we updated our Internal Audit Strategy for this work, based on the Local Authority Working Group Guidance on the Audit of Investment Managers (LAWGAIM) and the County Chief Auditors Network (CCAN) guidance 'Gaining Assurance over the Governance and Administration of Pension Funds, and Pension Fund Investment Management – A Guide for the Internal Auditor'.

1.17 The objective of the Internal Audit Strategy for the ESPF is to provide a consistent, risk based approach to determining an internal audit programme for the Pension Fund, which takes maximum advantage of the available sources of internal and external assurance.

1.18 The Strategy, reported to and approved by the Pension Board and Pension Committee in May and June 2018 respectively, covers the following areas:

- Governance, Investments and Strategy
- ACCESS Pool Arrangements (see below)
- Pension Processes and Systems
- Pension Fund External Control Assurance

1.19 The results of the above work will be reported to Pension Board and Audit Committee throughout the year.

Pension Fund Access Pool

1.20 Recent government reform has called for Local Government Pension Schemes (LGPS) to pool their assets in order to:

- Achieve benefits of scale;
- Provide strong governance and decision-making (investments should be managed appropriately by the pool with risk adequately assessed and managed);
- Reduce costs and improve value for money (pools need to deliver substantial savings in investment fees, both in the near term and over the next 15 years whilst at least maintaining investment performance), and;
- Improve capacity to invest in infrastructure.

1.21 The ESPF has chosen to pool funds with 10 others to create the ACCESS pool (a collaboration of central, eastern and southern shires). The ACCESS pool has assets of £41bn with the ESPF representing £3.4bn of these funds.

1.22 This review sought to provide assurance that the governance arrangements for the pool are transparent and that the Council retains input to strategic decisions with regard to the ESPF, particularly in terms of the investment strategy, where different risk appetites across the pool may result in higher risk investments being made, and potential financial loss.

1.23 In providing an opinion of **substantial assurance**, we concluded that:

- Adequate governance arrangements are already in place or being developed as the pool is established (the pool only went live in April 2018 and does not yet hold any ESPF funds), in compliance with the 'Local Government Pension Scheme: Investment Reform Criteria and Guidance'. We believe that the governance arrangements provided by the ACCESS Joint Committee will offer effective oversight;
- The ESPF will be able to exercise some control over its assets' allocation as it will be able to move investments between sub-funds in line with its own investment strategy;
- A formal plan is in place to further develop the pool and progress against the plan is regularly monitored, and;
- Reporting requirements continue to be developed in liaison with the participating schemes.

1.24 There were no actions arising from this review.

Care Leaver Payments and Grants

1.25 The Care Leaver Services Team provide information, help and support to those leaving care in order to help them make the transition to adult life successfully. This includes financial support towards accommodation, education and training costs with a budget of £790,400 for 2017/18.

1.26 The purpose of the audit was to provide assurance that:

- Governance arrangements ensure appropriate review and authorisation of payments and grants made to care leavers;
- Effective budget monitoring arrangements ensure payments and grants made to care leavers do not exceed available funds; and
- Funding agreements and monitoring arrangements ensure payments and grants are used appropriately for the purposes intended.

1.27 We were able to provide **reasonable assurance** over controls operating within this area. All payments to care leavers reviewed as part of the audit were found to be authorised appropriately and used for the purposes intended, with effective budget monitoring processes in place to manage the increasing demand faced by this service.

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

- Ensure adequate records are maintained of monies owing where the full weekly allowance is not paid to care leavers for reasons of safeguarding;
- Consider alternatives to payments by cash where it is more difficult to evidence that money has been received and used appropriately, and;
- Ensure that, where procurement cards are used to purchase items for care leavers, VAT receipts are obtained so that VAT can be reclaimed wherever possible.

1.29 These areas were discussed with management and actions for improvement agreed as part of a formal action plan.

LAS/Controcc

1.30 The LAS system is the Council's records management and authorisation system for client (adult) social care needs. The system was introduced in December 2015 to replace the Council's Carefirst system.

1.31 The Adult's ContrOCC system is the Council's contracts and budget management system for adult social care clients. It is used to calculate payments to care providers and to collect contributions from clients towards the cost of their care. An automated interface allows LAS and ContrOCC to share key information.

In the 2017/18 financial year, payments through the CONTROCC/LAS system amounted to approximately £140m.

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

- Robust system administration controls are in place, with access to the systems being secure and strictly controlled, including any third party access;
- Service provision only takes place after appropriate approval has been received. Where exceptions apply, sufficient documentation is maintained to support this;
- Payments are complete, accurate and timely and are only made to *bona fide* providers of care in respect of approved services they have provided to ESCC clients;
- Client contributions are received in full, in a timely manner and accurately recorded within the financial system;
- Scheduled system processes are adequately controlled to ensure that automated interfaces between ContrOCC and SAP run complete and as expected.

1.33 Overall, based on the audit work carried out as part of this review, we were able to provide an opinion of **reasonable assurance**. Whilst, in general, good controls were found to be in place and operating effectively, some opportunities for improvement were identified. These included the need to:

- monitor and close user accounts in LAS which are inactive to help prevent unauthorised access to sensitive and confidential data;
- implement a formal process for the management of provider payments once a provider enters into a novation process, in order to limit the possibility of overpayments being made.

1.34 Action to address these and other lower priority actions were agreed in full with management.

LCS/ContrOCC

1.35 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 calculate payments to care providers. An automated interface allows LCS and ContrOCC to share key information.

1.36 In the period April 2017 to December 2017, payments totalling £8.3million were made from the ContrOCC system to 658 different care providers.

1.37 The scope of the audit was to review the adequacy of controls within LCS and the Children's version of ContrOCC, covering generally the same areas as in the LAS/ContrOCC review above.

1.38 Overall, we were able to provide **reasonable assurance** over the adequacy of controls in place. Whilst areas of good practice were identified, a number of opportunities to further improve controls were identified; the majority of which were deemed low priority. Only one medium priority action was identified, relating to the need to introduce a routine monitoring process to identify dormant LCS user accounts so that these can be closed, where appropriate, to reduce the risk of unauthorised access.

1.39 A formal action plan incorporating all of the findings from our review was agreed with management.

Broadband UK

1.40 The 'e-sussex' project, led by East Sussex County Council in partnership with Brighton & Hove City Council, was launched to improve internet access for homes and businesses in East Sussex. The project is overseen by Broadband Delivery UK (BDUK), part of the Department for Digital, Culture, Media and Sport.

1.41 During 2017/18, the Council received £1,874,749 in grant funding and the purpose of our work was to confirm that expenditure had been incurred in accordance with the terms of the grant and that the figures stated in the annual return were correct.

1.42 No formal audit opinion is given with this work, but we were able to sign the annual return as correct. There were no findings arising and therefore no actions for improvement were needed.

School Audits

1.43 Our work in schools has continued in order to assess the adequacy of financial governance and to gauge the effectiveness of training to governors, headteachers and school business managers. In quarter 1, the following individual school reviews were completed:

School	Type	Location	2017/18 Budget £'000	Opinion
Polegate Primary School	Community	Polegate	£1,667,951	Reasonable Assurance
Seddlescombe CE Primary School	C of E Voluntary Controlled	Seddlescombe	£896,305	Reasonable Assurance
St. Mary the Virgin CE Primary School Follow-Up	C of E Voluntary Aided	Hartfield	£415,466	Reasonable Assurance
Wallands Community Primary School	Community	Lewes	£1,718,778	Reasonable Assurance
Southover CE Primary School	C of E Voluntary Controlled	Lewes	£1,155,581	Partial Assurance
Denton Community School	Community	Newhaven	£973,595	Partial Assurance

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 Following the establishment of the Orbis Counter Fraud Team in April 2018, focus in the first quarter has been on aligning investigative practices and procedures to ensure a consistent approach is adopted across the Orbis partnership in line with best practice and relevant guidance. Quarter 2 will see the implementation of an integrated Fighting Fraud Plan across Orbis partners that will strengthen our ability to prevent and detect fraud.

2.2 A report to outline the proactive work being undertaken to detect and prevent fraud, fraud risk assessment and the Counter Fraud Strategy is on the November Audit Committee agenda.

Summary of Completed Investigations

Public Health Overpayment

2.3 A joint investigation was undertaken with TIAA (the organisation responsible for investigating fraud within Clinical Commissioning Groups (CCG's) in the NHS) regarding an allegation that a GP practice was inflating its figures on quarterly returns to the Council in respect of sexual health services, which are funded by Public Health. The investigation found that an over-payment of approximately £38,000 had been made to the GP practice as a result of the template they used to record services being designed incorrectly.

2.4 However, we were unable to establish any evidence that the template had been designed in this way deliberately in order to defraud Public Health. Following the investigation, a number of internal control improvements were put in place by Public Health, including the issuing of a standard template for all GP practices to use.

2.5 The overpayment is in the process of being recovered.

Overclaiming Business Mileage

2.6 An allegation was received regarding a member of staff within Adult Social Care consistently over-claiming business mileage. In investigating this, we found a clear lack of understanding with regards to how business mileage should be calculated. It was agreed that the individual would pay back the over-claimed mileage and be subject to formal standard setting, and support would be provided in terms of completing future claims.

Conflict of Interest

2.7 We provided support and advice to a management investigation following receipt of an anonymous allegation that raised concerns about a member of staff initiating the setting-up of a business which conflicted with their role within the Council. The investigation determined that there was no evidence of fraud or deliberate attempts to conceal information; rather a lack of awareness of policy. In conjunction with Human Resources, management determined that the employee should be subject to formal standard setting on this occasion.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter 1, 100% of high priority actions due had been implemented.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan during the year:

- Internal Audit Pension Fund Strategy
- Broadband Delivery UK Grant Return
- Surveillance Camera Systems
- Orbis Customer Access Portal

4.2 Through the same process, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2019/20 plan as part of the overall risk assessment completed during the annual audit planning process:

- Debt Management within Deferred Payment Arrangements

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set up agreed key performance indicators as set out in the following table:

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	2018/19 Annual Report and Opinion approved by Audit Committee on 13 July 2018
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	33.9% completed to draft report stage by end of Q1 (against a Q1 target of 22.5%)

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – 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	85% ¹

¹ Includes part-qualified staff

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.