

Internal Audit and Counter Fraud Quarter 2 Progress Report 2018/19

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1. Summary of Completed Audits

Orbis Budget Management

1.1. The Orbis Partnership is responsible for delivering services from a joint operating budget, which is shared by the three partnership authorities, in accordance with an Inter Authority Agreement (IAA).

1.2. We carried out an audit of the joint operating budget in 2016/17, when the partnership only included East Sussex County Council (ESCC) and Surrey County Council (SCC) and gave an opinion of substantial assurance; the second highest of the five opinions available at the time.

1.3. The gross Orbis joint operating budget for 2018/19 is £76.4m¹, with income budgeted at £13.8m, leaving a net budget of £62.6m. Each Council contributes to the net budget on a ratio of 55% (Surrey County Council (SCC), 24% East Sussex County Council (ESCC) and 21% Brighton and Hove City Council (BHCC)). This is the agreed contribution ratio (ACR), as defined by the IAA.

1.4. The purpose of this new audit was to provide assurance that:

- governance structures, including roles and responsibilities, are clearly defined, understood and effective;
- adequate and timely management information is available that facilitates effective decision making;
- budget management reports contain materially accurate and timely information to facilitate effective budget management;
- the operating costs of Orbis are identified and apportioned across the three Orbis partners on a consistent basis and are clearly understood. Mechanisms are in place to ensure that all income and expenditure is matched to the correct Orbis partner; and
- mechanisms are in place to ensure that changes to costs for one partner that are material can be measured and reflected fairly in the agreed contribution ratio.

1.5 In undertaking this work, whilst areas of good practice were identified, we found a number of opportunities for improvement in control and we were, therefore, only able to provide an audit opinion of **partial assurance**. The opinion has reduced because managers, who have been managing budgets on an Orbis-wide basis, have had less clarity in their budget reports. This has particularly been the case where their budgets combine both Orbis costs and costs that are managed by Orbis officers, but are specific to sovereign authorities².

¹ For the three partner authorities

² These costs are known as Managed on Behalf of (MOBO) and include, for example, buildings maintenance, where the budget is managed by Orbis, but belongs to the sovereign authorities, which own the assets.

1.6 The key areas for improvement identified were to ensure that:

- clearer information is available for budget managers who hold budgets allocated on an Orbis-wide basis;
- the new budget monitoring tool includes commitments for non-staffing spend in order to strengthen budget managers' understanding of the overall position; and
- a mechanism is implemented to measure the level of service provided to the constituent authorities which, in turn, will increase opportunities to demonstrate value for money being delivered to each sovereign authority.

1.7 Actions have been agreed with management to address these issues. Significant effort has been put into providing an integrated budget and a unified approach to budget monitoring across the Orbis partnership. With the integration of Brighton & Hove City Council budgets only coming into effect in April 2018, the combined budgets and use of the new monitoring tool are still in their infancy and it is expected that they will continue to develop and improve. A follow-up audit will be carried out in 2019/20 to ascertain that progress has been made.

Apprenticeship Levy

1.8 The Apprenticeship Levy is a Government scheme requiring all employers with annual salary costs of over £3m to pay a levy of 0.5% of the salary cost which is subsequently available to the organisation to spend on apprenticeship training. The government has set a target of 2.3% of the workforce to be apprentices. Current projections indicate 34% of the apprenticeship levy available to ESCC will have been spent by April 2019, with 111 apprenticeships already engaged in apprenticeship training (49% of the target). In line with many other organisations nationally, the Council has accepted that, where the available levy has not been spent, it will be lost. This is because of the cost and adverse impact on service delivery that recruiting more apprentices than we need may have.

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

- apprenticeship levy calculations and accounting arrangements are correct;
- stakeholder engagement and workforce planning arrangements maximise the value achieved from the scheme; and
- monitoring and reporting arrangements ensure Levy expenditure and performance meet organisational and scheme objectives.

1.10 In completing this work we were able to provide an opinion of **reasonable assurance**. We found that robust levy calculation and accounting arrangements are in place. A clear strategy has been developed to align workforce planning with the Council's approach to the Levy and this has been communicated to senior management and Members. Extensive communication and engagement has raised awareness of apprenticeship opportunities across the organisation, earning recognition from the

Local Government Association. Effective monitoring and reporting of levy expenditure and performance against targets ensure appropriate transparency and inform planning.

1.11 However, a small number of opportunities to improve the control environment were identified. These included the need to:

- record forecasting activity electronically to monitor expenditure and improve financial planning;
- update the communication and engagement plan to include measures to assess the impact of activity undertaken; and
- review access permissions to the digital apprenticeship account to prevent unauthorised access to data held.

1.12 Appropriate action to address the findings of this review was agreed with management within a formal action plan.

Orbis Policy Review

1.13 The nature of the Orbis partnership means that individuals working for Orbis may be employed by any one of the three founding partners and subject to their respective employers' policies. An inconsistent or contradictory policy framework may lead to issues such as confusion for staff and managers, 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.

1.14 Because there are likely to be areas where policies and procedures differ between partner organisations, it is important that these differences are clearly identified and understood, especially by staff working across the partnership.

1.15 Our review set out to identify and evaluate a range of key policy documents across partner organisations to identify any inconsistencies.

1.16 The review found that policies are broadly similar across all three authorities. However, there are some differences. The most significant of these relate to the Codes of Conduct, where there are clear differences in:

- how declarations and acceptance of gifts and hospitality and personal relationships are treated; and
- where the onus of responsibility to declare conflicts of interest lies, because East Sussex is the only authority to require all employees to make a declaration in the register of interests irrespective of whether one exists (i.e. nil returns required).

1.17 The aligning of existing arrangements across the partnership would strengthen employees' compliance with Code of Conduct policies and provide support to managers applying a consistent delivery of line management responsibilities in accordance with the "Joint Protocol for the Management of Staff in Orbis" policy.

1.18 Management has agreed to consider the issues highlighted in our review and in particular the implications for employees working across more than one partner. The main differences will be communicated to those affected to raise awareness and ensure that employees are following the relevant policies.

Pensions Processes and Systems

1.19 East Sussex County Council is the designated statutory administering authority for the East Sussex Pension Fund (the Fund). The Council has a statutory responsibility to administer and manage the Fund in accordance with the rules of the Local Government Pension Scheme.

1.20 As at 31 March 2018, the Fund comprised 132 scheme employers with approximately 70,000 members. The most recent actuarial valuation of the Fund was in October 2016 and found that the funding level has improved from 81% (in 2013) to 92%.

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

- Process controls in the system are effective and any transactions, data and outputs from the system are complete and accurate.
- The governance processes that are in place are both effective and clear and help the efficient running of the service. Performance of pensions administration by Orbis Business Operations is monitored.
- Deficits for the admitted bodies are fully supported by a bond or guarantee; and
- The employer portal (PensionWeb) is used in a secure environment.

1.22 We were able to provide **Reasonable Assurance** over controls operating within this area. Systems are in place to manage the accuracy of data entry to pension systems, the calculation of pension benefit entitlements and to ensure that income expected from employers is received intact. An actuarial assessment is undertaken for all new employers and performance targets, for the pension administration service provider, have been set and are monitored on a regular basis.

1.23 Whilst slippage was found in the Annual Benefit Statement production plan, the Administrator was working to a revised production plan at the time of the audit to help ensure that the statutory deadline of 31st of August was met. As a result, no formal management action in this area was raised within our review. It should be noted, however, that the deadline was subsequently not met following

an error in compiling the Statements, which was not identified until after the deadline had expired and the audit had been completed. Internal Audit has carried out additional work to ascertain the reason for this error and findings have been presented to management and appropriate mitigating actions agreed. This work will be reported upon in our quarter 3 progress report.

1.24 Although we gave an opinion of reasonable assurance, a number of opportunities for improvement were identified, relating to:

- the need to ensure data errors and warnings³ highlighted in a routine data cleansing exercise in December 2017 are investigated and, if necessary, corrected to reduce the likelihood of errors in actuarial valuations or the calculation of benefit entitlements;
- the need to supplement statutory data requirements with scheme-specific requirements to strengthen data quality;
- the provision of assurance that year-end activities are completed in a timely manner by developing a schedule of key activities; and
- the strengthening of system access controls, by carrying out an annual access review of the administration system, Altair.

1.25 A formal action plan incorporating the findings of our review was agreed with management.

Disaster Recovery

1.26 Disaster recovery is the process by which essential Council systems are brought back on line following a natural disaster or a technological failure. It involves the backing up of data, to enable its recovery, the provision of alternative locations and/or ICT infrastructure and appropriate policies and procedures.

1.27 The future migration of the St. Mary's disaster recovery site to the Orbis data centre will include an overhaul of current disaster recovery processes and documentation in line with Orbis standards. However, this review considered the current provision of disaster recovery prior to the migration, across the following three systems hosted by the Council:

- Exchange;
- Active Directory; and
- Liquid Logic.

1.28 The audit also considered the extent to which the recovery provision was understood and documented and the adequacy of staff training provided to support it.

³ These may include data that is correct but that falls outside expected ranges, or potentially empty data fields.

1.29 As a result of our work, we were able to provide **Reasonable Assurance** that controls were operating as intended. A small number of areas for improvement were identified. These include the need to:

- remove inconsistencies in formal documentation and definition of the overarching and individual disaster recovery processes;
- review and update policies and overarching documents that support the council's critical systems and disaster recovery to reflect changes to critical requirements of the authority; and
- strengthen the documentation of risks and event responses to reduce the risk of error or loss of critical data, when recovering key systems, and the speed at which recovery can occur.

1.30 These areas have been discussed with management and a formal action plan agreed to address them.

Atrium - Accounts Payable and Accounts Receivable Modules

1.31 In 2013, a business case was submitted for the procurement of a new property asset management system (PAMS) as the system then in use was no longer considered to be fit for purpose. The option selected was the procurement of an integrated PAMS through the South-East 7 partnership and the Atrium system was subsequently procured. This system has separate modules to control orders and payments for planned and reactive maintenance, capital works, rental income and expenditure, and disposals and acquisitions.

1.32 Following the implementation previously of the Works Delivery module of the Atrium system, the Property Division within the Business Services Department is looking to implement a further two modules covering property rental payments (the Accounts Payable module) and the receipt of property rental income (the Accounts Receivable module).

1.33 The purpose of our work in this area was to provide assurance on whether risks associated with key aspects of the implementation of these two modules were being properly managed, prior to any go-live decision being made by the project board. Our work focussed on:

- System controls
- User acceptance testing
- Interface (with SAP) controls

1.34 In completing this work, we identified a number of areas where controls required strengthening prior to the system going live. These included the need to:

- Ensure lease data is accurate and up-to-date, including improving controls over the input of data to the system;

- Document procedural guidance in relation to the use of the AP and AR modules to ensure consistency in how tasks are carried-out within the system;
- Ensure adequate training has been provided to all relevant staff;
- Perform adequate user acceptance testing, with the appropriate oversight of the project board; and
- Confirm and document roles and responsibilities in relation to the reconciliation of interface files between Atrium and SAP to ensure appropriate scrutiny of payments.

1.35 All of the findings of our review were discussed with the project team and subsequently with the project board which is committed to ensuring appropriate controls are in place prior to go-live.

Troubled Families

1.36 The Troubled Families (TF2) programme has been running in East Sussex since January 2015 and is an extension of the original TF1 scheme that began 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.

1.37 Children's Services submit periodic claims to the DCLG to claim grant funding under its 'payment by results' scheme. The DCLG requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. We therefore reviewed 27 of the 267 families included in the April/July 2018 grant.

1.38 In completing this work, we found that valid 'payment by results' (PBR) claims had been made and outcome plans had been achieved and evidenced. All of the families in the sample of claims reviewed had firstly 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.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 A programme of proactive counter fraud work remains ongoing with updates provided to members as part of separate reports.

Summary of Completed Investigations

Conflicts of Interest

2.2 An audit investigation was undertaken following an anonymous allegation that a manager within the Council had friendships with contractors that he was responsible for employing and had personally benefited from using their services.

2.3 Our investigation confirmed the existence of personal relationships with contractors that went beyond that considered appropriate by an officer in this role, including socialising and receipt of hospitality. The manager had not declared this in accordance with the Council's Code of Conduct and Conflict of Interest policy, despite regular reminders to do so, and therefore no measures to manage the conflict had been put in place. In addition, the manager had also not declared hospitality received from a potential contractor relating to a large contract due to be let by the Council.

2.4 During the course of this investigation, the officer concerned left the Council. In response to these issues, an internal control review has been undertaken to learn lessons from this issue and ensure that appropriate management controls are put in place to help avoid future repetition. In addition, management are undertaking a review of the relevant contracts in this area to ensure robust and transparent arrangements are in place.

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 2, 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:

- Cultural Compliance – Business Operations
- Property Disposals
- Pension – Annual benefit Statements
- Non-Household Waste Charging Scheme
- Surveillance Cameras
- Orbis Customer Access Portal
- Pension Annual Benefit Statements
- Pension Fund Strategy
- Purchase To Pay Change Programme
- Procurement - Lessons Learned from Investigations
- SAP Upgrade

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

4.3 Given the additional audit work above, we are currently reviewing the remainder of the audit plan to assess the impact of this.

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	59% completed to draft report stage by end of Q2 (against a Q2 target of 45%)
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% ⁴

⁴ 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.