

Internal Audit and Counter Fraud Quarter 3 Progress Report 2018/19

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1. Summary of Completed Audits

Surveillance Cameras

1.1 The Protection of Freedoms Act 2012 introduced the regulation of public space surveillance cameras in England and Wales. As a result, a surveillance camera Code of Practice was issued by the Secretary of State through the Surveillance Camera Commissioner (SCC) to ensure that the use of cameras in public places is regulated and only used in pursuit of a specified purpose. The code came into force in August 2013 and seeks to balance the need for cameras in public places with individuals' rights to privacy.

1.2 Surveillance camera systems are defined under section 29 of the Protection of Freedoms Act 2012 to include: closed circuit television (CCTV), automatic number plate recognition (ANPR) systems, body worn cameras, drones and any other systems for recording or viewing visual images for surveillance purposes. The Council operates a number of surveillance camera systems in Council buildings to assist with public safety and security and to protect property.

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

- deployment of surveillance camera systems in public spaces is effective, proportionate and transparent;
- the use of new and existing surveillance camera systems complies with the Surveillance Camera Commissioner's code of practice; and
- personal information captured from surveillance camera systems is managed in accordance with the requirements of the General Data Protection Regulation (GDPR) and the Data Protection Act (DPA).

1.4 Whilst areas of good practice were identified during our work, we found a number of opportunities for improvement in control and we were, therefore, only able to provide an audit opinion of **partial assurance**.

1.5 The key areas for improvement were the need for:

- the Council to strengthen its awareness of the numbers of cameras deployed, and also to nominate an officer as a single point of contact to oversee all of its surveillance systems and ensure they comply with the Commissioner's Code of Practice and Council policies;
- a Privacy Impact Assessment to be carried out for all new and existing surveillance camera systems;
- camera systems to avoid recording conversations unless there is strong justification;

- a Public Space Surveillance (CCTV) Security Industry Authority (SIA) licence for Council officers who carry out licensable activities in respect of surveillance technology; and
- all surveillance camera systems to be configured to delete footage automatically after 14 days unless there is a justifiable reason to retain it.

1.6 Timely actions have been agreed with management to address these issues and a follow-up audit is scheduled for 2019/20 to assess the extent to which the agreed actions have been implemented.

SAP Application Controls

1.7 The SAP system is the Council's key software system for its financial management, budgeting and reporting functions, processing payments to employees, suppliers and the billing of revenue.

1.8 SAP is a mission critical system at the Council and there are risks that inaccuracy or lack of availability of SAP would prevent receipt and disbursement of cash, as well as producing inaccurate management information. There are in excess of 900 active users of the system.

1.9 Responsibility for technical SAP support rests with the Orbis Information Technology and Digital (IT&D) teams based in Kingston and Lewes.

1.10 The purpose of this audit was to provide assurance that:

- system access is restricted to appropriately authorised individuals and the permissions provided to those users are in line with job functions;
- data processed through interfaces is authorised, accurate, complete, securely processed and written to the appropriate file;
- outputs produced by the system are complete, accurate, reliable, distributed on time and with confidentiality where appropriate;
- system updates and enhancements are performed in a consistent manner and subject to sufficient testing and authorisation before implementation; and
- appropriate support arrangements are in place to manage changes within the system.

1.11 In completing this work, we were able to provide an opinion of **reasonable assurance**. We found that robust arrangements are in place to ensure the accuracy, completeness and validity of data transferring through interfaces and that system updates are introduced in a controlled manner.

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

- monitor and review users' access on a regular basis to reduce the risk of unauthorised or inappropriate access;
- strengthen and document the process for authorising access to restricted system roles to prevent users being assigned roles without prior approval; and
- document the change request process for SAP to reflect the transfer of responsibility for technical support to IT&D (from an external provider).

1.13 Appropriate actions to address the findings of this review have been agreed with management in a formal action plan.

HR/Payroll

1.14 HR/Payroll is a key financial system and is one of the largest areas of Council expenditure. The average gross monthly salary cost for ESCC for the 2017/18 financial year was £18.28 million, a reduction of £1.3m on the previous year.

1.15 The Council's HR/Payroll Department is responsible for ensuring that the service complies with all relevant statutory rules and regulations. Pay administration is a complex process governed by various acts, policies, directives and guidelines. Effective internal controls are necessary for this department to function effectively, efficiently and within the parameters set by management.

1.16 At the beginning of 2017/18, 11,120 staff were employed by the Council, including those at maintained schools.

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

- accurate payments are made in a timely manner to bona fide employees;
- duties for recording and processing transactions are clearly defined and segregated;
- all changes in establishment are properly authorised and controlled; and
- the payroll is verified for completeness and accuracy prior to payment, and payroll costs are accounted for correctly in the main payroll system.

1.18 As a result of our work, we were able to provide an opinion of **substantial assurance**. We found that salary payments, including the relevant statutory and voluntary (e.g. pension) deductions are made correctly and that appropriate reconciliations take place between control accounts and the general ledger to ensure the accuracy of payments and their recording in the accounting system. We also found

that appropriate segregation of duties is in place throughout the payroll system to reduce the risk of fraud or error.

1.19 A small number of opportunities to improve the control environment were, however, identified. These included the need to:

- reinforce the importance for staff to cross-check information on contract letters before they are issued to ensure that a high level of accuracy is maintained;
- strengthen the existing controls for evidencing Disclosure and Barring Service (DBS) checks before a new employee starts working in a role where safeguarding is an essential requirement (though we were able to confirm that the checks themselves are taking place); and
- improve consistency in the completion of checklists and task documentation to provide a clear audit trail supporting the accuracy of information held by the payroll system.

1.20 Management has agreed appropriate action to address these issues.

Cultural Compliance – Business Operations

1.21 Business Operations delivers HR and Finance transactional services on behalf of each of the councils within the Orbis partnership, including procure to pay, accounts receivable, recruitment support and pensions administration. The purpose of the audit was to provide assurance that:

- all key activities (including recruitment, staff pay and allowances, travel and expenses, leave, sickness absence, declarations of interest and gifts and hospitality) undertaken within Business Operations are conducted in accordance with policies and procedures and comply with basic internal controls; and
- robust management arrangements are in place and all members of staff are subject to appropriate management and supervision.

1.22 Whilst we found instances of good practice, we were only able to provide **partial assurance** owing to the fact that we found levels of non-compliance with Council policies and procedures in the majority of areas reviewed. This was of particular concern given that some staff within this service have more privileged access permissions within SAP, giving them greater opportunity to circumvent certain controls.

1.23 The main areas for improvement related to the need to ensure that:

- payments of additional allowances to members of staff in Business Operations are supported by appropriate documentation and evidence of approval, in the same way as all other council staff;

- all staff complete declarations in the register of interest in accordance with ESCC policy;
- newly appointed members of staff in Business Operations complete the compulsory induction training courses; and
- valid receipts are obtained and retained by Business Operations staff, for both P-card transactions and business mileage claims, in accordance with HMRC requirements.

1.24 A comprehensive action plan has been agreed with management to address these issues and a follow-up review will be undertaken in 2019/20.

Treasury Management

1.25 Treasury management is defined as ‘the management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

1.26 As at 30 June 2018, the Council had £248 million of investments and it is estimated that the investments will provide income of approximately £1.8 million during the financial year 2018/19. The majority of investments are fixed deposits with a variety of UK and foreign financial institutions under the guidance of the Council’s external treasury adviser (Link Asset Services).

1.27 The purpose of the audit was to provide assurance that controls are in place to ensure that:

- the aims and objectives of treasury management activities are formally approved in a Treasury Management Strategy and are aligned to the Council Plan;
- all treasury management transactions are approved in line with the Treasury Management Strategy, are recorded accurately in the accounts and documentation is retained to substantiate all lending and borrowing decisions;
- cash-flow is adequately planned so that there is sufficient cash to meet the Council’s financial obligations;
- funds are invested in only those counterparties that meet the Council’s creditworthiness criteria and comply with the maximum investment limits with any given counterparty. Monies are transferred only in accordance with approved policy and there is satisfactory internal control in the money transfer systems; and
- where financial institutions’ credit ratings fall below the agreed investment ratings within the Treasury Management Policy, action is taken to minimise loss on investments.

1.28 As a result of our work, we were able to provide an opinion of **substantial assurance**. A Treasury Management Strategy is in place and is regularly monitored. Clear investment criteria have been set out and these are complied with. Cash-flow and performance is reviewed and monitored regularly and access to the Council's banking system is appropriately controlled.

1.29 Only one minor area for improvement was identified and this related to the need to strengthen records relating to treasury management transactions to improve the audit trail and evidence of appropriate checks being carried out.

Troubled Families

1.30 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.

1.31 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 21 of the 211 families included in the August/October 2018 grant.

1.32 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.

Transition of Young People into Adult Social Care

1.33 The Transition Service based in Adult Social Care (ASC) provides support and advice for young people with severe and enduring disabilities through the process of moving from children's to adult services. New joint working protocols between adult services, children's services and other agencies have recently been implemented to help ensure a smooth transition for all service users into adult social care. The main purpose of this audit was to seek assurance that:

- governance arrangements ensure statutory duties are met in accordance with the Care Act 2014, including Transition Assessments and the approval of care packages;

- joint planning, communication and working protocols ensure a smooth transition into adult social care for service users; and
- costs associated with care packages are identified and allow for effective financial monitoring and planning.

1.34 As a result of our work, we were able to provide an opinion of **reasonable assurance** over the key controls in place. Governance arrangements are effective in ensuring that key statutory duties are met. Planning, communication and working protocols between adult's and children's services and other agencies, including a recently implemented Transition Pathway, are effective to prioritise and manage caseloads, with annual reviews taking place to support the acceptance of new referrals into the service.

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

- utilise fully the functionality available in both the Children's and Adult's Social Care Information Systems (LCS/LAS);
- improve the monitoring of the Community Care Budget to allow management to have greater scrutiny over expenditure; and;
- improve processes for the audit of case files and client feedback.

1.36 All the findings arising from our review have been agreed with management in a formal action plan.

Procurement Controls

1.37 A number of investigations across the Orbis footprint have highlighted areas where more robust challenge from the Procurement Team, acting as gatekeeper for the procurement process, might have ensured a more compliant process was followed, delivered better value for money and reduced the risk of external challenge. We, therefore, took the opportunity to highlight these to each of the sovereign authorities and used the lessons learned to assist in driving improvement across the partnership.

1.38 It should be noted that the issues we found have been compiled from the three investigations that, by their nature, only dealt with tenders where problems had arisen; i.e. instances where officers had not complied with controls. As such, they should not be taken as representative of procurement activity as a whole and no formal audit opinion was therefore given.

1.39 The key opportunities for improvement related to:

- the need for the Procurement Team to be involved at the outset of tendering exercises and, if possible, to avoid changes to personnel in the middle of tenders (though this may be difficult to avoid if staff leave the authority);
- the use of more senior and experienced Procurement personnel to support tenders in some instances;
- the need to identify more consistently instances where procuring officers (i.e. client officers outside the Procurement Team) have a conflict of interest and to follow up and challenge any potential conflicts that have been declared more effectively;
- educating officers across the Council to promote compliance with Contract Standing Orders as well as promoting their existence and significance more broadly;
- improving the robustness with which tenders are evaluated and ensuring that any amendments to bids are managed consistently and fairly;
- ensuring all meetings with suppliers are documented to promote transparency and fairness; and
- highlighting the importance of maintaining good working relations with suppliers, managing bidders' expectations and, thereby, forestalling complaints by unsuccessful tenderers.

1.40 A detailed management action has been agreed across the partnership to resolve these issues and promote good procurement practice.

Pensions Administration – Annual Benefit Statements Regulatory Breach

1.41 Internal Audit was requested to review controls on the issuing of Pension Fund Annual Benefit Statements (ABS) to members of the East Sussex Pension Fund after it transpired that around 2,500 East Sussex Pension Fund members' ABS had not been sent out in accordance with statutory requirements in 2018. This was the fourth consecutive year that this regulation had been breached.

1.42 We found that that a number of errors in data had prevented ABS being produced for the 2,500 members. Our work highlighted the need to ensure that:

- all data errors are investigated and resolved;
- staff responsible for the administration of ABS are adequately supervised;
- ABS actually sent out are reconciled to the number expected to be sent out; and
- an appropriate management sign-off should be in place to confirm that the task has been satisfactorily completed.

1.43 Our findings in this area were reported to management and action is being taken to ensure that the above lessons learnt are properly acted upon to ensure there is no repetition. We will review the arrangements for issuing ABS to Pension Fund members as part of our 2019/20 internal audit work in relation to the Pension Fund. We also understand that ABS have now been sent out to all members for 2018.

Non-Household Waste Charging Scheme

1.44 Under the Environmental Protection Act 1990, the Council is required to provide residents with reasonably accessible Household Waste and Recycling Sites (HWRS) for the free disposal of household waste. However, the Council is not required to accept and dispose of waste that is classified as industrial waste (construction, improvement, repair, alteration or demolition works, including preparatory works) for free although, in recognition that residents often create these non-household wastes (i.e. rubble and soil, plasterboard, asbestos) as a by-product of landscaping, repair or building projects etc. the Council has decided to continue to offer a service, but to levy a charge to cover the cost of disposal.

1.45 Cabinet approval was obtained to introduce these disposal charges, and from the 1 October 2018, the Council has been able to charge for the disposal of rubble and soil, plasterboard, asbestos and tyres at all HWRS. It is anticipated that the introduction of the charges will generate cost savings of approximately £420k per year for the Council.

1.46 The purpose of this review was to provide independent assurance over:

- the pricing model used to inform the cost of disposing of non-household waste to the public; and
- the adequacy of controls in place for managing the key risks associated with charging for the disposal of non-household waste.

1.47 In providing an audit opinion of **reasonable assurance**, we found that the pricing model had been appropriately configured to cover relevant operational and disposal costs of industrial waste delivered by residents to HWRS. Assumptions made in the model were found to be based on reasonable data and the charges set had received appropriate approval.

1.48 Some areas for improvement in control were, however, identified, including opportunities to:

- Complete an annual review of charges to ensure that pricing remains appropriate; and
- Undertake checks of monthly income received and investigate discrepancies.

1.49 Actions to address the above areas were agreed with management.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, along with specific specialisms. A key strand of the structure was the formation of a counter fraud team that would deliver both reactive and proactive counter fraud services across the partnership. Work to date has focused on the following areas:

National Fraud Initiative Exercise

2.2 The results from this exercise were received on 31 January 2018 and will be prioritised for review over the coming months. Periodic updates on the outcomes from this work will be provided as part of future internal audit progress reports.

Counter Fraud Policies

2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. The Counter Fraud Team is in the process of reviewing the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. As a priority, the Anti Money Laundering policies have recently been reviewed and updated to reflect recent changes in legislation.

Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified.

Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These are being reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will include an increased emphasis on data analytics. The Fraud Response Plans will set out the proactive work plan for the team in 2019/20.

Fraud Awareness

2.6 The team has been rolling out fraud awareness sessions to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. Sessions in Adult Social Care and Children's Services are planned for Quarter 4.

Summary of Completed Investigations

Conflicts of Interest at a School

2.7 An audit investigation was undertaken following an allegation of conflict of interest within one of the County's schools, specifically in relation to the appointment and subsequent management of family members. The investigation confirmed that clear conflicts of interest existed and that these were neither properly declared nor effectively managed.

2.8 As part of the investigation, a range of governance weaknesses were identified resulting in suspension of the school's delegated budget and the replacement of the governing body with an Interim Executive Board, run directly by the local authority. This school will now be subject to a full internal audit review during 2019/20 to confirm that a robust control environment is now in place and the issues arising from this investigation have been suitably addressed.

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 3, 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:

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

4.2 In order to allow these additional audits to take place, 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. These

changes are made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- Parking
- Connecting 4 You
- General Ledger
- Supply Chain Management
- IT and Digital Project Management
- Property Investment
- Buzz Active

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 of 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	75.4% completed to draft report stage by end of Q3 (against a Q3 target of 67.5%)
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.