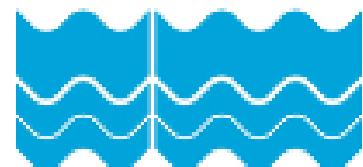


# INTERNAL AUDIT ANNUAL REPORT & OPINION 2018/2019



## **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 2018/19, 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 <sup>1</sup>assurance 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 2018 to 31 March 2019.

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<sup>1</sup> This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

3.2 Further information on the basis of this opinion is provided below but in summary, the results of internal audit activities during the year have been generally favourable, albeit with a small number of partial opinions issued. There have been no minimal assurance opinions. The instances of partial assurance opinions are not considered sufficiently significant in terms of overall organisation governance to impact on our reasonable assurance annual audit opinion.

3.3 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

#### **4. Basis of Opinion**

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

- All audit work completed during 2018/19, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to audit findings;
- 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.

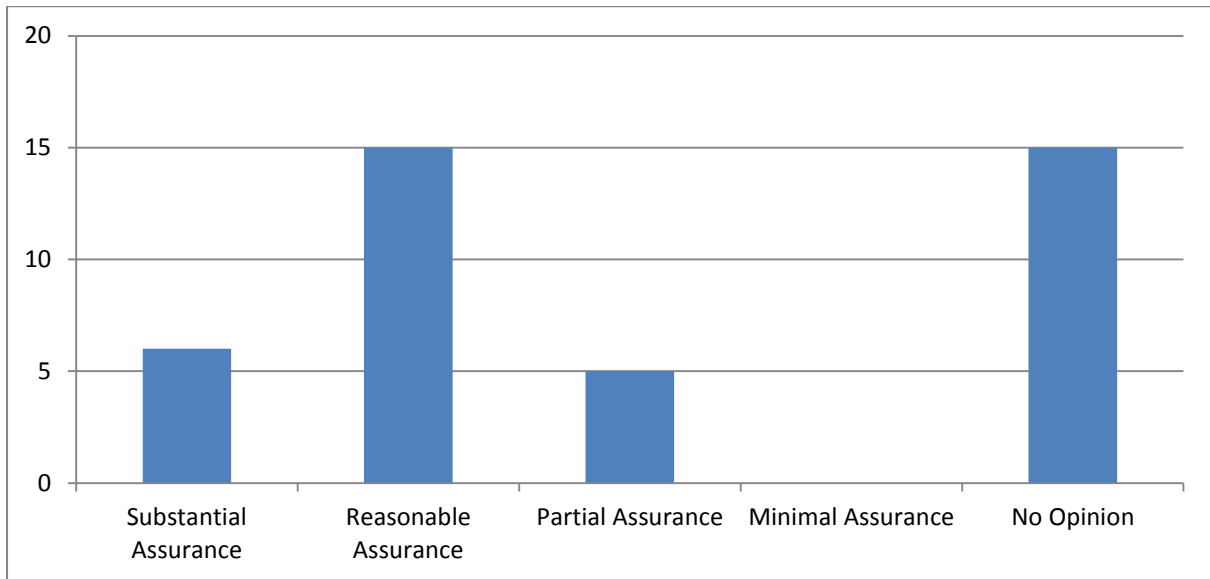
4.2 No limitations have been placed on the scope of Internal Audit during 2018/19.

#### **5. Key Internal Audit Issues for 2018/19**

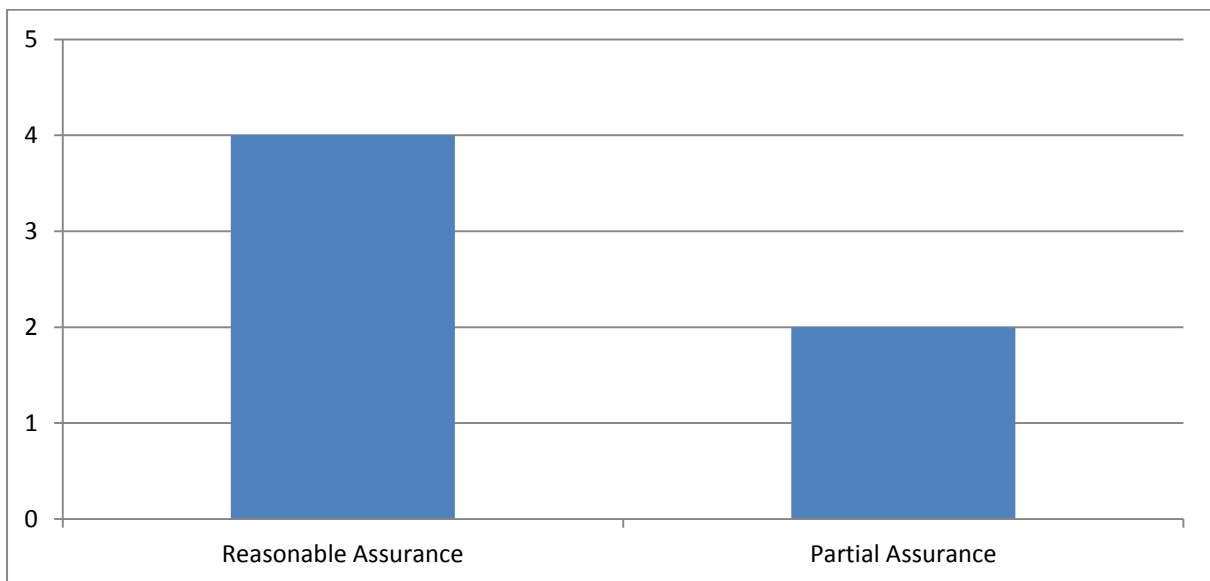
5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council's Annual Governance Statement.

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 audits finalised during 2018/19 with standard audit opinions:

### Non-Schools Audit Opinions



### Schools Audit Opinions



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. The results of all audit work completed is reported to the Corporate Management Team (CMT) and Audit Committee throughout the year.

5.4 A total of 5 non-school audits received partial assurance opinions within the year and there were no minimal assurance opinions. This compares with 3 partial assurance and no minimal assurance opinions in 2017/18. The 5 non-school audits that received partial assurance this year were:

- Home to School Transport
- Staff Travel and Expenses
- Orbis Integrated Budget Management
- Business Operations Cultural Compliance
- Surveillance Cameras

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control. As at 31 March 2019, of the 30 high risk agreed actions due by the end of 2018/19, 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 12 reviews (including unplanned reviews) remained in progress; the majority of which are at draft report stage. All of these will be completed during the first quarter of 2019/20. The finalisation of these reports will result in 100% completion of the 2018/19 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 2018/19, all have resulted in either substantial or reasonable assurance being provided over the control environment.

5.8 During the year, the organisation undertook considerable work to upgrade SAP. This had the potential to create significant risk exposure if not completed in a properly controlled manner. We therefore provided focussed support on specific areas of the upgrade, including in relation to project governance, the control environment within the upgraded system, system testing, data integrity and interfaces. The upgrade was successfully completed in March 2019. Further information on our work in this area can be found in Annexe B.

### Other Internal Audit Activity

5.9 In addition, Internal Audit have continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Statutory Officers Group – to consider current risk and governance issues facing the authority with a view to ensuring appropriate management/response arrangements are in place;
- Business Continuity Response Team - to consider the adequacy and effectiveness of business continuity arrangements across the Council;
- Orbis Customer Access Portal (OCAP) - to support the development of the OCAP project (to deliver a new integrated customer service platform) through attendance at steering and working group meetings, providing independent advice, support and guidance;
- Procurement Controls - highlighting areas arising from recent audit investigations to drive improvement in procurement across the Orbis partnership; and

- Pension Fund Annual Benefit Statements (ABS) - to review the controls around the issuing of ABS to members of the Pension Fund.

### Anti-Fraud and Corruption

5.10 The Orbis IA structure came into effect from 1st April 2018. The integrated structure was designed to deliver resilience, flexibility and quality, specialisms and sustain a strong sovereign focus. A key strand of the structure was the formation of a counter fraud team that would deliver specialist fraud resource across the partnership.

5.11 The service continues to cover a wide range of fraud and corruption related risks. During 2018/19, we logged 18 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, 5 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:

- 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. However, we were unable to establish any evidence that the template had been deliberately designed in this way 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. The overpayment was subsequently recovered.
- An allegation was received regarding a member of staff within Adult Social Care consistently over-claiming business mileage. In investigating this, we found that, rather than any deliberate attempt to defraud the Council, the individual demonstrated a lack of understanding with regards to how business mileage should be calculated. It was therefore agreed that they would pay back the over-claimed mileage and be subject to formal standard setting on this occasion, and support would be provided in terms of completing future claims.
- 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.

- 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. 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. During the course of the investigation, the officer concerned left the Council. In response to these issues, an internal control review was undertaken to ensure that appropriate management controls were put in place to help avoid future repetition. In addition, management initiated a review of the relevant contracts in this area to ensure the existence of robust and transparent arrangements.
- 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. 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 in place and the issues arising from this investigation have been suitably addressed.

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 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 2018/19, this has also involved the review and alignment of policies and procedures to ensure the Counter Fraud Team deliver a consistent standard of service across the Orbis partners. Progress over the last 12 months is outlined below:

Priority	Progress to date
<b>Reactive Investigations</b>	The counter fraud team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording investigations.

Priority	Progress to date
	During the 12 month period to date, there have been several investigations across the partnership which have been resourced through a mixture of the counter fraud team and sovereign audit teams, supported by advice and direction from the counter fraud team.
<b>National Fraud Initiative (NFI) Exercise</b>	<p>The counter fraud team have taken on responsibility for the coordination and submission of datasets at each authority. The NFI Key Contacts are members of the counter fraud team to ensure a consistent approach is followed and good practice is shared across all partners.</p> <p>Results from the matching exercise were received in Spring 2019 and the counter fraud team is liaising with partner authorities to review, prioritise and investigate flagged matches.</p>
<b>Counter Fraud Policies</b>	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 reviewing the sovereign strategies and aligning with best practice to ensure a robust and consistent approach to tackling fraud. As a priority, the Anti-Money Laundering policies have been reviewed and updated to reflect recent changes in legislation.
<b>Fraud Risk Assessments</b>	Fraud risk assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified.
<b>Fraud Response Plans</b>	The Fraud Response Plans take into consideration the fraud risk assessments and emerging trends across the public sector and provide a proactive counter fraud programme. These have been reviewed and aligned to deliver an efficient and effective programme of work across the Orbis partners. This will form the basis of planned proactive work for 2019/20 and include an increased emphasis on data analytics.
<b>Fraud Awareness</b>	The team have been rolling out a programme of fraud awareness workshops to help services identify the risk of fraud and vulnerabilities in their process and procedures. Workshops have been delivered to several teams across the partners from a mix of services.

5.14 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.



## Amendments to the Audit Plan

5.15 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

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

5.16 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 future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been 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
- LAS/Controcc

## 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 2018/19, 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 were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2019:

- 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 the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

## 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 93.4% of the 2018/19 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 in quarter 1 of 2019/20.

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, the Corporate Management Team (CMT) and 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 2018/19

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	<b>G</b>	Approved by Audit Committee on 25 March 2019
	Annual Audit Report and Opinion	By end July	<b>G</b>	Approved by Audit Committee on 13 July 2018
	Customer Satisfaction Levels	90% satisfied	<b>G</b>	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	<b>G</b>	93.4%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	Last independent external assessment awarded highest level of conformance. Confirmed in most recent self-assessment
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	<b>G</b>	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	<b>G</b>	100%
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	87%

## Summary of Opinions for Internal Audit Reports Issued During 2018/19

**Substantial Assurance:***(Explanation of assurance levels provided at the bottom of this document)*

<b>Audit Title</b>	<b>Department</b>
Community Infrastructure Levy	CET
HR Payroll	BSD
Pension Fund External Control Assurance	BSD
Pension Fund ACCESS Pool	BSD
Treasury Management	BSD
Risk Based Budget Monitoring	Corporate

**Reasonable Assurance:**

<b>Audit Title</b>	<b>Department</b>
ESBT Information Governance	ASC
Transition of Young People into Adult Social Care	ASC
Pension Fund Processes and Systems	BSD
LAS and Controcc	ASC
LCS and Controcc	CSD
Contract Management – Mobile Phones	BSD
Apprenticeship Levy	BSD
SAP Application Controls	BSD
Third Party Services	BSD
Disaster Recovery	Corporate
Preparedness for the General Data Protection Regulation	Corporate
Lease Management	BSD
Care Leaver Payments and Grants	ASC
Non-Household Waste Charging Scheme	CET
Safeguarding in Schools	CSD
Polegate Primary School	CSD
Sedlescombe CE Primary School	CSD
St. Mary the Virgin CE Primary School Follow-Up	CSD
Wallands Community Primary School	CSD

**Partial Assurance:**

<b>Audit Title</b>	<b>Department</b>
Home to School Transport	CET
Staff Travel and Expenses	BSD
Orbis Integrated Budget Management	BSD
Business Operations Cultural Compliance	BSD
Surveillance Cameras	BSD
Denton Community School	CSD
Southover CE Primary School	CSD

**Other Audit Activity Undertaken During 2018/19 (including direct support for projects and new system initiatives and grant audits):**

<b>Audit Title</b>	<b>Department</b>
Ongoing Support for Procurement Transformation	BSD
Orbis Policy Review	Corporate
Atrium	BSD
Troubled Families	CSD
Procurement Controls	BSD
Pensions Administration – Annual Benefit Statements Regulatory Breach	BSD
Property Disposals	BSD
SAP Upgrade	BSD
Procure to Pay Change Programme	BSD
OCAP Advice	BSD
Pension Fund Strategy	BSD
Bus Subsidy Grant	CET
National Fraud Initiative	BSD
DFT Grant	CET
Broadband UK	CET

## Audit Opinions and Definitions

Opinion	Definition
<b>Substantial Assurance</b>	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Reasonable Assurance</b>	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
<b>Partial Assurance</b>	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.
<b>Minimal Assurance</b>	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.