

Internal Audit and Counter Fraud Quarter 1 Progress Report 2019/20

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1. Summary of Completed Audits

Budget Setting

1.1 The continued savings agenda within local government means that the setting of realistic and properly informed budgets is ever more important. Where budgets are developed without using all relevant information, they are more likely to overspend, resulting in increased pressure on Council services.

1.2 This review appraised the process for the development of the Council's budget, how it was calculated and the evidence base available to support it, in order to provide assurance that:

- A sustainable budget is set that is clearly linked to the Council's priorities, and:
- Controls ensure that the budget is set based on all relevant information.

1.3 In providing an audit opinion of **substantial assurance**, we found that the Council's robust Reconciling Policy, Performance and Resources (RPPR) process and its Core Service Offer ensured a sustainable and balanced budget was set for 2019/20. There is sufficient challenge in both budget setting and budget monitoring activities to identify and investigate inefficiencies. Processes, including RPPR ensure that expenditure and the Council's priorities are aligned.

1.4 We identified no areas for improvement during the audit and there were consequently no findings in our report.

General Ledger

1.5 The Council's general ledger operates via the SAP accounting system. It aims to provide complete and accurate data for the production of the annual accounts and financial returns. Between 1 April 2018 and 31 March 2019, 210,738 individual line items were entered into SAP, amounting to 7,226 journals.

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

- Up to date and approved policy, regulations and supporting procedures, in line with statutory requirements and accounting standards, are in place.
- All direct journal input to the general ledger is complete, accurate and correctly authorised.
- Transactions posted from feeder systems into control accounts are complete and accurate.
- Unrecognised accounts or suspense balances are reviewed and cleared on a timely basis.
- Adequate bank reconciliation procedures are in place.

1.7 As a result of our work we were able to provide an opinion of **substantial assurance**. We found that the general ledger appears to be well controlled and accurate with appropriate review and authorisation processes in place. We also found that appropriate segregation of duties is in place in order to reduce the risk of fraud or error.

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

- include adequate and meaningful header text and narrative on all transactions (also recently raised by External Audit);
- review and update the ESCC Accounting Guidance document, and;
- improve the storage and organisation of reconciliation documents in relation to the Spydus (Libraries) feeder system.

1.9 Management has agreed appropriate action to address all of these issues.

Pension Fund Governance and Investments

1.10 East Sussex County Council (ESCC), in its capacity as the administering authority, administers and manages the East Sussex Pension Fund. The current value of the Fund's assets is £3.6bn. The Fund is made up of 136 employers, ranging from District and Borough Councils, Education Bodies, Admitted bodies which include Charitable Trusts, Housing Associations and Private Contractors, East Sussex Fire and Rescue Service and East Sussex County Council. There were 23,710 active members, 30,379 deferred members and 20,586 pensioners as at March 2018.

1.11 Since the last audit was carried out, in March 2018, the Fund achieved the Government's deadline to have LGPS Investment Pools operational by 1 April 2018. The East Sussex Pension Fund (ESPF) has joined with 10 other pension administering authorities to form the ACCESS Pool.

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

- All entries relating to the Fund have been accurately recorded in the general ledger in a timely manner;
- Monitoring arrangements over the Fund and fund managers are sufficiently robust;
- Investment returns are received in full in a timely manner;
- Governance arrangements provide effective strategic oversight for the management and investment of the Fund;
- The Fund is administered in accordance with best practice and legislative requirements, and;
- Risk management arrangements are suitably robust.

1.13 In providing an opinion of **substantial assurance**, we concluded that the Fund is being administered in accordance with best practice and effective risk management processes are in place. Measures are being introduced in order to meet the continuing changes in Pension Fund legislation and the rules in relation to investments.

1.14 Strategic oversight of the management and investment of the Fund is effective, with robust monitoring arrangements in place for the Fund and for fund managers. Investment returns are received in a timely manner and entries relating to the Fund are accurately recorded within the general ledger of the Council's accounting system.

1.15 Since the previous audit in this area was carried out, improvements in control have been made and the actions agreed in our report have been implemented. There were no required actions on this occasion.

Pension Fund External Control Assurance

1.16 In addition to the Pension Fund Governance and Investments audit summarised above, a separate review was conducted to ensure independent external control assurance is obtained on pension fund managers' administrative and accounting procedures. **Substantial assurance** was provided in this area as controls were found to be in place and operating effectively, including the receipt and evidence of appropriate review, by Council officers, of independent external assurance reports obtained from all investment fund managers on an annual basis. No actions were raised as a result of this audit.

Purchase to Pay

1.17 Purchase to Pay is the end to end process from procurement of services to the payment of the supplier. The central Accounts Payable team is responsible for the processing of payments to suppliers using SAP, the Council's main financial system.

1.18 The objective of the audit was to provide assurance that:

- Orders are raised for goods, works and services in accordance with standard financial procedures and the needs of the Council;
- All payments are subject to review and approval to ensure they are valid and that goods, works or services have been received and are correctly processed;
- Payment runs are subject to appropriate review and authorisation;
- Only vendors that meet the needs of the Council and that do not already exist within SAP are set-up. All vendor's details are maintained accurately in SAP, and;
- Transactions in the accounts payable system are completely and accurately transferred to (or reflected in) the general ledger.

1.19 In providing an opinion of **substantial assurance**, our limited sample testing indicated that the purchase to pay system is operating effectively with all necessary key controls found to be in place. Only two relatively minor opportunities for improvement were found and appropriate action was agreed with management to address these.

Capital

1.20 The Capital Programme sets out the Council's investment plans to support its core services in the delivery of priority outcomes. It provides provision for essential school places, investment in roads and transport infrastructure, enhancing the life of existing assets and ensuring they are fit for purpose, and supporting invest to save schemes.

1.21 The current programme, which runs to 2022/23, includes planned gross expenditure of £363.2m which will be financed through a range of funding streams.

1.22 In reviewing nine individual capital projects, the purpose of the audit was to provide assurance that:

- Governance arrangements ensure that all capital projects are supported by robust plans covering timescales and cost and are aligned with Council objectives;
- Capital projects are monitored, controlled and reported in a timely and effective manner in terms of cost, timescales, quality and outcome, and;
- Any potential variations in delivery of individual capital projects in terms of time and budget are identified through the project management process and are reported to stakeholders in sufficient time to allow effective decision-making.

1.23 Overall, we found that the majority of the projects we reviewed had appropriate governance arrangements in place in order to make key decisions and to give clear direction. In addition, projects were generally supported by clear plans, mitigating actions had been identified to minimise identified risk, and progress and budgets were being monitored regularly and reported to project boards. We were therefore able to give an opinion of **reasonable assurance**.

1.24 Some areas for improvement were, however, identified, including in relation to one project where a project board and project initiation document had not been established when the audit commenced. In addition, in two cases, the basis upon which the original costings for the projects were developed and on which the budgets were approved had been underestimated and, as a result, the projects had identified budget shortfalls.

1.25 In addressing the findings of our review, management agreed to ensure that Project Managers are reminded of the necessity to critically review and challenge their understanding of project requirements and scope in order to develop a fully funded solution and to ensure effective project governance arrangements are in place.

BACS Payments

1.26 BACS transactions are processed by the Income and Banking team at Surrey County Council (SCC) on behalf of East Sussex County Council (ESCC). Transactions processed relate to payroll, debtors and creditors.

1.27 This audit concentrated on the use of the BACS system for processing payments, with the purpose of the audit to provide assurance that:

- BACS files can only be created by authorised officers and are subject to appropriate validation;
- The transfer of BACS files is subject to robust controls, and that;
- Processed BACS files are subject to verification and validation.

1.28 In completing this work, we were able to provide an opinion of **reasonable assurance**. We found that BACS files are subject to validation and submission by authorised officers, BACS payment files from the ESCC SAP system are subject to secure and robust practices and there are appropriate separation of duties in place throughout the process.

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

- develop detective controls to detect any manipulation of BACS files that are transferred via email, and;
- ensure that records of those officers who are able to authorise payments remain up-to-date and are reviewed regularly.

1.30 Appropriate actions to address the findings of this review were agreed with management in a formal action plan.

General Data Protection Regulation (GDPR) Compliance

1.31 In April 2016, the European Union introduced the GDPR. This Regulation is intended to strengthen data protection rights for individuals within the EU and came into effect on 25th May 2018. Failure to comply with the GDPR could result in substantial fines by the Information Commissioner's Office and reputational damage.

1.32 The purpose of this review was to provide assurance that ESCC has sufficient processes and controls in place to comply with the GDPR and to provide assurance over the GDPR governance framework. The scope of the audit was also to follow-up progress made in implementing the actions agreed in the preceding 'Preparedness for GDPR' review which received an audit opinion of reasonable assurance.

1.33 Mazars LLP conducted this piece of work on our behalf and were able to provide an opinion of **reasonable assurance** as to the Council's compliance with GDPR. Many aspects of the Information Commissioner's Office (ICO) '12 Steps towards GDPR compliance' were found to have been achieved, with only a small number of opportunities for improvement, none of which were considered high priority in nature. These included ensuring that:

- a process to check staff understanding of their GDPR obligations is established;
- there is adequate version control for the Data Protection and Information Security Policy, and;
- ESCC's Record of Processing Activities (ROPA) is fully complete with all required information as per the ICO's ROPA template.

1.34 Actions to address the findings of the review were agreed with management.

Home Care Contract Management

1.35 Homecare is vital for people with care and support needs who wish to remain at home, yet it is a particularly fragile part of the social care market. Whilst some providers are running sustainable businesses, others are on the verge of collapse or have already ceased trading. Commissioners, providers and regulators are all concerned about the strength of the social care market, and there is increasing public awareness of the pressures on the homecare sector through the national media.

1.36 Apex Prime Care Ltd is one of the Council's top seven providers of homecare services. It provides homecare for the elderly and specialist support for anyone who cannot wholly look after themselves. Clients vary from the frail elderly to younger people with physical and/or mental disabilities who have chosen to live in their own homes. Apex Prime Care Ltd is responsible for ensuring that the homecare service provided meets the Council's needs, including compliance with safeguarding requirements.

1.37 The Apex Prime Care Ltd contract commenced on 25 October 2014 and is due to run until 26 October 2021. The contract is valued at £13,454,220 over its seven-year lifetime. £4.23m has been spent with Apex Prime Care Ltd since June 2016. The service is demand led and the actual level of spend is therefore subject to change.

1.38 Key areas of contract management were reviewed as part of this audit, including governance and performance management arrangements, payment and change control processes, and contingency/business continuity arrangements.

1.39 Throughout the review, it was evident that the contract manager and his team were focussed on the relationship with the supplier to ensure that a continuing level of good quality care is provided to service users. However, in acknowledging the difficulties the Council is currently facing, as with others, in this challenging marketplace, our work highlighted a number of areas where improvement is needed and we were only able to provide an opinion of **partial assurance** as a result. Management recognised the need to stimulate the market to encourage the introduction of new providers and to work closely with existing ones to maintain good working relationships. This has contributed, with other factors, to a blurring of the roles of commissioning, procurement and contract management. This lack of clarity has weakened the management of the contract.

1.40 Key areas for required improvement included the need to:

- Ensure roles and responsibilities for governance, commissioning and contract management are clearly defined;
- Develop a contract management plan to help ensure that management of the contract is consistent and effective;
- Define and agree clear key performance indicators to enable effective monitoring of the contract performance and to ensure complete and accurate performance data is provided by the contractor and validated by officers;
- Strengthen risk management, business continuity and financial vetting arrangements.

1.41 The findings from our review were discussed with management and appropriate actions agreed to address these through a formal management action plan. A follow-up review will be undertaken later in the year to confirm that the agreed actions have been implemented.

Broadband UK

1.42 The 'e-Sussex' project, led by ESCC 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.

1.43 During 2018/19, the Council received £17,265 as the final instalment of the £3m grant funding for the second phase of the programme. Under the first phase, the Council received £10.7m. 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.

1.44 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.

Making Tax Digital

1.45 HMRC has introduced new rules for submitting VAT returns which they refer to as 'Making Tax Digital for VAT' (MTD).

1.46 MTD requires VAT registered businesses with a taxable turnover above the VAT threshold (currently £85k) to keep records in digital form and to file VAT returns using software. Currently, VAT data is entered manually via an HMRC webpage.

1.47 MTD is being implemented in two stages. In the first stage, which HMRC regard as a soft landing period, businesses will be required to submit VAT information digitally via the API platform. However, HMRC will accept the use of 'cut and paste' or 'copy and paste' as being a digital link between systems for these VAT periods. In the second stage, which commences from the first VAT return on or after 1 April 2020, all businesses must have digital links in place so that, once approved, the information flows between source systems and HMRC's system without human intervention.

1.48 We reviewed the adequacy of arrangements relating to the first phase of the Council's preparedness for the compulsory introduction of digital tax-keeping records. Our work was undertaken whilst these preparations were taking place and has therefore been restricted to interviews with key personnel to understand how it was being progressed. Based on our work, we found that the solution for phase 1 would ensure HMRC requirements are met and we found that adequate controls were in place to ensure the accuracy of transfer of data.

1.49 Some areas for improvement were, however, identified, including improving the governance arrangements of the project for the more complex second phase, particularly in relation to the:

- Development of a more formal project plan;
- Regular review, update and reporting of the risk and issues log;
- Need to consider and agree the resources required for the second phase, and;
- Documenting of the solutions for both the first and the second phase.

1.50 All of the above actions were agreed with management. We will assess the robustness of the preparations for MTD phase 2 later in the year.

Logotech Treasury Management System

1.51 The Treasury Management function at ESCC and Surrey County Council (SCC) has historically used Excel spreadsheets to record financial information such as the authorities' cash flow, investments and forecasted returns. Brighton and Hove City Council (BHCC) have been using a treasury management system from Logotech for this purpose for a number of years, running a locally installed application. Recently, an updated version of Logotech's system has been procured cross-Orbis. This is an up-to-date, cloud based version of the software currently in use at BHCC.

1.52 As of June 2019, ESCC had been using the Logotech system for a short period of time, following a period of parallel operation where both this and the previously used spreadsheets were maintained.

1.53 In completing a piece of work to provide assurance over the adequacy of controls within the Logotech system, we deemed these to be sufficient. We found that the system had actually increased controls and efficiency when compared with previous processes and had served to help standardise treasury management practice across Orbis.

Orbis Customer Access Platform Procurement

1.54 Internal Audit was requested to review the procurement of the Orbis Customer Access Platform (OCAP), which had suffered a number of delays which nearly resulted in the supplier withdrawing from the procurement exercise. The purpose of the review was to determine whether the procurement process was efficient and to identify any areas where bottlenecks had occurred.

1.55 We found that the status, though not accuracy, of legal advice was not clearly understood by its recipients. There is a need to establish a distinction between advice given to provide the basis for a decision by management and the provision of mandatory guidance on compliance; e.g. advising that a proposed course of action does not meet legal requirements. There is a need to separate and clarify the role of compliance enforcement from commercial decision-making and, therefore, managed risk-taking.

1.56 The project was complicated by the changing responsibilities throughout its life. The lead authority, and therefore contract owner, was switched from Surrey County Council to East Sussex County Council shortly after the procurement commenced and there were also changes to key personnel. These changes resulted in breaks in continuity, which may have affected the consistency of approach applied by the Council.

1.57 There were complexities arising from the making of a direct award to a 'reseller' on a framework, which then sourced a solution-provider (Cherwell) with which we ultimately had a direct contract in addition to the contractual arrangement through the framework.

1.58 These were magnified by the raising of legal queries about contract terms at a late stage in the process and the lengthy period over which they were raised. It was not clear whether these issues could have been identified (or anticipated) and addressed earlier in the procurement process.

1.59 The lack of a consolidated position from which to begin negotiations with Cherwell may have weakened the Council's negotiating position. On a number of occasions, officers believed that contract agreement was near, only for further queries to be raised by both parties, including as a result of ambiguities arising from the presence of multiple versions of key documents. The length of time and the intermittent nature of the dialogue, together with the uncertainty it created, led to a deterioration of the relationship with, and nearly the loss of, the supplier.

1.60 This was an additional piece of work to identify the cause of known issues and, therefore, no opinion was given. We are now working with management to agree the most appropriate way to address these issues, including informing future audit work.

Waivers

1.61 As a result of a number of delays and the late receipt of waiver applications received by senior officers, we were asked to review the waiver process to ascertain where delays may be occurring. The waiver process is used on rare occasions when compliance with Procurement Standing Orders cannot be achieved. The waiver process provides a mechanism to manage and record such instances.

1.62 Following a high-level review of the waiver process, we found waivers are sometimes used to extend contracts beyond their agreed terms for tactical reasons; e.g. because an opportunity to improve value for money through combining contracts has been identified. In these cases, the negotiations that support the extensions may take longer than expected, resulting in the waivers being presented late for approval.

1.63 Waivers are sometimes completed when there is an urgent need for action to be taken for reasons of safeguarding. In these cases, it may help to ensure that senior officers are advised in advance that a waiver is being prepared. There is also evidence that there are instances of departments requesting waivers because budget uncertainty has led them to defer tendering until a point at which too little time remains.

1.64 We found that there are a number of areas where controls could be strengthened. These related to:

- The need to ensure that all contracts are recorded on the contract management system, In-Tend, to improve the Procurement Team's ability to initiate re-procurement activity in a timely manner; and

- Strengthening the understanding of the waiver process, and the time it can take, across the Council so that requests are initiated in good time.

1.65 No opinion was given as a result of this work, but results are being used to support further work in this area. We also expect that the requirement for forward procurement planning introduced in the recently revised Procurement and Contract Standing Orders will improve performance.

Troubled Families

1.66 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.

1.67 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 17 of the 167 families included in the April/July 2019 grant.

1.68 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 Internal Audit deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

2.2 The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The council is required to submit data every two years, and matches are sent back to the Council for investigation. The results from the 2018 exercise were received on 31 January 2019 and have been prioritised for review over the coming months. Periodic updates on any 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. Internal Audit are in the process of reviewing the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. A refreshed Counter Fraud Strategy will be reported to Audit Committee in November.

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 results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. These include an increased emphasis on data analytics. The Fraud Response Plans will set out the proactive work plan for Internal Audit in 2019/20. Areas identified include:

- Conflict of Interest
- Gifts and Hospitality
- Payments to GPs and Pharmacies
- Purchasing and Fuel Cards

Fraud Awareness

2.6 The team has been refreshing eLearning content to provide engaging and current material available to the whole organisation. This will be run in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures. An awareness campaign is planned to coincide with Internal Fraud Awareness Week in November.

Reactive Counter Fraud Work - Summary of Completed Investigations

Employee Misconduct

2.7 Internal Audit provided support to a management investigation following concerns that an employee had submitted duplicate overtime claims. Following conclusion of the investigation, it was found that there was no intent to deceive by submitting duplicate claims and the employee was provided with appropriate guidance and training to ensure future accuracy.

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 so far this year:

- Orbis Customer Access Portal - Lessons Learned from Procurement Exercise
- Waivers
- Broadband UK Grant Return
- Troubled Families
- Logotech Treasury Management System

4.2 In order to allow these additional audits to take place, to-date the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in the 2020/21 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:

- IT&D Project Management

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 25 March 2019
	Annual Audit Report and Opinion	By end July	G	2018/19 Annual Report and Opinion approved by Audit Committee on 12 July 2019
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	28.6% completed to draft report stage by end of Q1 (against a Q1 target of 22.5%)
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 June 2019 - internal self-assessment completed
	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%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
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.