

Internal Audit and Counter Fraud Quarter 2 Progress Report 2019/20

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1. Summary of Completed Audits

HR/Payroll

1.1 One of the largest areas of expenditure for the Council is the payment of employees. The Council's Payroll department is responsible for paying employees accurately in accordance with established policies. The average gross monthly salary costs for ESCC for the 2018/19 financial year was £19.07 million, with the average net salary costs being £14.39 million. As at April 2019, there were 10,685 people (8,371 non-teaching and 2,314 teaching) employed by the Council.

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

- starters are properly approved, and pay is calculated and paid from the correct dates;
- leavers are removed from the payroll in a timely manner and paid correctly and accurately to the correct dates;
- permanent variations to pay are properly approved, calculated and paid from the correct dates;
- pay-runs and BACS transmissions are correct and authorised;
- payroll data is regularly reconciled to the General Ledger;
- temporary payments (including additional hours, expense claims and payment to casual staff) are correctly authorised prior to processing; and
- changes to standing data are reviewed, accurately input and authorised.

1.3 As a result of our work, we were able to provide an opinion of **reasonable 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.

1.4 However, some opportunities to strengthen controls further were identified. These included the need to:

- improve the recording of checks that confirm employees' eligibility to work;
- clarify the recording of VAT for relocation expenses;
- strengthen controls to confirm that reimbursements are only paid for *bona fide* expenses;
- improve the validation of data imported from schools into SAP to ensure the completeness of data transfer;
- ensure overtime is applied at the correct rates for claims by staff on higher grades; and
- ensure the timely closure of leavers' personnel records and network accounts.

1.5 A formal action plan has been agreed with management to address these issues.

LCS/ContrOCC

1.6 Liquid Logic Children's System (LCS) is the Council's case management and authorisation system for children, including looked after and adopted children. ContrOCC is the Council's contracts and budget management system for Children's social care clients. The system is also used to make payments to care providers and an automated interface allows LCS and ContrOCC to share key information.

1.7 In the period April 2018 to February 2019, payments of almost £12.5 million were made from the ContrOCC system to care providers.

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

- Access to the system is secure and strictly controlled, including any third party access;
- Service provision only takes place after appropriate approval has been received;
- Payments are complete, accurate and timely and are only made to *bona fide* providers of care in respect of approved services to ESCC care clients;
- Scheduled system processes are adequately controlled to ensure that automated interfaces between ContrOCC and SAP run complete and as expected.

1.9 Our testing found that payments were complete, accurate and timely and only made to genuine care providers in respect of approved services. Payment runs were found to have been reconciled correctly and satisfactory processes are in place for issuing invoices and collecting overpayments. As a result, we were able to provide an opinion of **reasonable assurance**.

1.10 However, we identified a number of areas for improvement and actions have, therefore, been agreed with management in the following areas:

- An automated alert will be developed to provide early notification of the end of care packages to reduce the risk of overpayments;
- Duplicate service user reports will be developed to highlight instances where service users are set up with more than one record in LCS, which may weaken the Council's ability to co-ordinate effective care packages; and
- LCS user accounts that have not been accessed for more than six weeks will be disabled to ensure that only current users can access client records.

1.11 These actions have been captured in a detailed management action plan.

Building Condition – Asset Management

1.12 This audit review was carried out to assess the adequacy of the arrangements that are in place to maintain the Council's properties and ensure that the property assets comply with the relevant health and safety regulations.

1.13 The Property Team has recently undertaken a major restructure that has seen a number of long-serving officers leave the authority with a corresponding reallocation of responsibilities, increasing the risk that key knowledge of the estate was lost. Moreover, the structure went live with a number of key posts remaining unfilled, reducing capacity at an already challenging time. This audit recognised the impact of the restructure and acknowledged the work undertaken by management to manage these risks.

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

- The Property Operations department have sufficient understanding of the condition of the Council's property portfolio and property requirements to allow them to maintain the estate to an acceptable standard;
- Preventative and reactive maintenance are effectively aligned to ensure that expenditure delivers value for money; and
- All maintenance work is completed to the required standard and in accordance with the requirements of the contract.

1.15 Whilst management had already recognised that a decision, taken nearly a decade ago, to stop the routine surveying of properties had made it more difficult to plan an effective maintenance programme, the effect of this was too recent to have secured the necessary improvements to controls. As a result, we were only able to provide an audit opinion of **partial assurance**, although throughout our review, we found that management was working to mitigate the effect that recent restructures, including the loss of a number of senior officers, had had on the department. It had also drafted a new property asset management plan and reinstated a modest programme of surveys to facilitate more effective targeting of its maintenance budget.

1.16 The key areas for improvement we identified were the need to:

- carry out a full programme of building condition surveys across the estate to facilitate an effective preventative maintenance programme; and
- consolidate property records held across a number of different platforms, which is currently making them more difficult to access.

1.17 Appropriate actions have been agreed with management to address these issues in a comprehensive action plan. A follow up audit will be undertaken in 2020/21 to ensure that the actions have been implemented.

E-recruitment

1.18 On 1 April 2019, the three Orbis partners (East Sussex County Council, Surrey County Council and Brighton & Hove City Council) implemented a joint Applicant Tracking System (ATS) with an objective to converge recruitment service processes administered by Business Operations. The system implemented is known as TribePad and it replaced the three separate systems that the Orbis partners had previously.

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

- governance structures, including roles and responsibilities, are clearly defined, understood and effective;
- system access is restricted to appropriately authorised individuals and the permissions to those users are in line with job functions; and
- the recruitment process is fair, open and transparent and in accordance with Council policy and legislation.

1.20 Our testing found that appropriate governance structures were in place, with roles and responsibilities being clearly defined. We also found the existence of robust access controls and that the system allowed appropriate control over the approval of recruitment and the relevant pre-employment checks.

1.21 As some areas of the system were still in the process of implementation during our review, no audit opinion was given. However, a small number of areas for improvement were identified. These related to:

- the opportunity to consider whether the system could be strengthened to prevent job adverts being published without the knowledge of the Council's Recruitment Team;
- the need to take further action to ensure that the system becomes fully GDPR compliant; and
- the opportunity to clarify some roles once the system has been fully implemented.

1.22 A formal action plan has been agreed with management to address these issues.

Cyber Security

1.23 Cyber-attacks on the Council's IT systems and devices are a threat to the security of the Council's data, and could have an adverse impact on service delivery. We undertook an audit of the Authority's high-level arrangements for protecting its systems and services from cyber-attack; including arrangements for responding effectively to a cyber-attack should one occur.

1.24 We were able to provide **reasonable assurance** over the controls operating in this area because our work found that:

- defences are in place to protect the Council's systems, including firewall and anti-virus products and the blocking of potentially harmful emails;
- defences are regularly tested by external penetration testers;
- proactive measures are taken by relevant staff to keep informed of emerging cyber security threats and trends; and
- the Council shows a strong awareness of cyber security issues, with these documented on the strategic risk register. The Council has also achieved Cyber Essentials Plus accreditation, demonstrating its commitment to cyber security.

1.25 Some areas were, however, identified where arrangements could be further strengthened. These included:

- Maximising the detection, alerting and logging of unusual activity;
- Improving mechanisms for vulnerability detection;
- Introducing web filtering on mobile devices;
- Strengthening response plans specific to cyber security incidents.

1.26 We noted that the council has recently procured a security information and event management (SIEM) product which has been procured cross-Orbis. The system has not yet been fully configured for ESCC. However, if correctly configured, it will increase the Council's cyber-resilience and support effective management of the weaknesses identified within the audit.

1.27 Actions to address the above issues were agreed with management as part of a formal action plan.

Surveillance Cameras (Follow Up)

1.28 Local authorities are required to pay due regard to the surveillance camera code of practice (SC Code) where they operate surveillance cameras overtly in a public space (e.g. in town centres, municipal buildings, libraries, leisure centres, body worn videos worn by enforcement officers).

1.29 The SC code sets out 12 principles for the operation of surveillance camera systems. The Surveillance Camera Commissioner will be writing to Senior Responsible Officers (SRO) in all local authorities to conduct a survey of compliance with the Protection of Freedoms Act 2012 (PoFA) with the results of the survey to be included in the Commissioner's annual report to Parliament.

1.30 In anticipation of this exercise, this review was a follow-up of the previous audit undertaken in November 2018 which gave a partial assurance opinion on the use of Surveillance Camera Systems and compliance with the SC Code. The follow-up audit focused specifically on the implementation of actions agreed during the audit of November 2018.

1.31 We were able to provide **reasonable assurance** in relation to this work as a result of improvements made. Some areas still required further action, however, relating to the sign off of data Privacy Impact Assessments (PIA) (which are required to ensure the Council upholds individuals' rights in processing personal data and complies with relevant legislation); the sign off of technical risk assessments (which are required to demonstrate the use and deployment of surveillance technology is fit for purpose); and ensuring that CCTV images around the Council's buildings are routinely deleted within the Council's retention period.

1.32 Management has agreed a formal plan to ensure the timely implementation of these actions.

SAP Application Controls (Follow Up)

1.33 The SAP system is the Council's key software system for its financial management, budgeting and reporting functions. The system is also used for making payments to employees, suppliers and billing of revenue. 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 funds, as well as producing inaccurate management information.

1.34 An audit of SAP Application Controls was undertaken in 2018 resulting in a reasonable assurance opinion.

1.35 Whilst we would not ordinarily undertake a follow-up of a reasonable assurance audit, this review was undertaken at the request of the Chief Finance Officer, in response to the technical SAP audit undertaken by External Auditors (Grant Thornton), which identified concerns at a technical level, specifically in terms of permissions granted to key individuals.

1.36 In completing our work, we were able to provide a revised opinion of **substantial assurance** as a result of all but one of the agreed actions from the previous audit being implemented.

1.37 The one outstanding action related to required improvements to the template used to record change requests for updates and developments. Our review found that a new template had been designed but had yet to be fully implemented by the team. Action to implement fully the template was agreed.

Parking

1.38 Section 6 of the Traffic Management Act 2004 gives local authorities the power to introduce and enforce parking controls. ESCC operates civil parking enforcement schemes in the Eastbourne, Hasting and Lewes areas.

1.39 NSL Limited manages on-street parking on behalf of the Council. Enforcement of parking in controlled areas is carried out by Civil Enforcement Officers (CEOs) who are employed by NSL Limited. NSL has sub-contracted responsibility for collecting cash from pay and display machines. Collection of unpaid parking tickets is managed by bailiffs appointed by the Council. Gross income from parking, for the year 2018/19, was £4.632m.

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

- All parking activities comply with legislative requirements;
- All contracts for the provision of parking related services are subject to robust monitoring and reporting arrangements and payments are only made in compliance with the contract for services received;
- All income from parking is collected and accounted for accurately and promptly; and
- Penalty Charge Notice appeals are managed strictly in accordance with Council policy and procedures.

1.41 Overall, we found that appropriate contract arrangements were in place with NSL Ltd, supported by clear policies. Parking controls were generally compliant with statutory guidance. As a result of our work, we were able to give an opinion of **reasonable assurance**.

1.42 Some minor areas for improvement were, however, identified, including:

- the strengthening of reconciliation processes to provide assurance that all income due has been received intact; and

- seeking further assurance that NSL's Civil Enforcement Officers have the required level of Disclosure and Barring Service (DBS) check to enable them to work near schools.

1.43 Actions to address these issues have been agreed with management in a formal action plan.

Troubled Families

1.44 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 Ministry of Housing, Communities and Local Government (MHCLG), based on the level of engagement and evidence of appropriate progress and improvement.

1.45 Children's Services submit periodic claims to the MHCLG to claim grant funding under its 'payment by results' scheme. The MHCLG requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. During quarter 2, Children's Service submitted two tranches of claims and we undertook reviews of both. We reviewed 17 of the 168 families included in the April/July 2019 grant submission and 22 of the 215 families in the July/September submission.

1.46 In completing this work, we found that valid 'payment by results' (PBR) claims had been made and outcome plans had been achieved and evidenced in each case. 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.

Bus Services Operators' Grant

1.47 The Bus Service Operators' Grant (BSOG) is a discretionary grant paid to operators of eligible local bus services to help them recover some of their fuel costs. The amount each bus operator receives is based on the amount of fuel they use. BSOG aims to benefit passengers by helping operators keep fares down and to enable operators to run services that might otherwise be unprofitable.

1.48 To qualify for the grant, community transport services must be eligible services operated by non-profit making bodies on the basis of a permit issued under section 19 of the Transport Act 1985. During 2018/19, the Council received a grant payment for £442k. The purpose of our work was to confirm that expenditure had been used in accordance with the terms of the grant and that the figures stated in the annual return were correct. As a result of our work, we were able to confirm that use of the grant had met these terms and the annual declaration was signed and returned to the DfT by the required deadline of 30 September 2019.

Department for Transport Grant

1.49 The Council receives grant funding from the Department for Transport (DfT) to support capital investment in the local road infrastructure. The DfT lays down conditions for expenditure and the Council is required to confirm that its use of the grant was in accordance with the required conditions. For 2018/19, grant funding amounted to a total of £19.159m.

1.50 We reviewed the expenditure incurred under the terms of the grant and were able to confirm that it complied with the DfT's requirements. As a result, the Council was able to submit its return to the DfT by the required deadline of 30 September 2019.

School Audits

1.51 Our work in schools has continued in order to assess the adequacy of financial governance and to gauge the effectiveness of training to governors, headteachers and school business managers. In quarter 2, the following individual school reviews were completed:

School	Type	Location	2019/20 Budget £'000	Opinion
Heathfield Community College	Community	Heathfield	£6.221	Partial Assurance
Cradle Hill Community Primary School	Community	Seaford	£2.172	Reasonable Assurance

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 areas set out below.

National Fraud Initiative Exercise

2.2 The results from this 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 there is a robust and consistent approach to tackling fraud.

Fraud Risk Assessments

2.4 Fraud risk assessments have been consolidated and are regularly reviewed 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. This includes an increased emphasis on data analytics. The Fraud Response Plans set out the proactive work plan for Internal Audit in 2019/20. Areas identified include analysis in the following areas:

- 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 National Fraud Awareness Week in November.

Reactive Counter Fraud Work - Summary of Completed Investigations

Employee Misconduct

2.7 During the quarter we provided support to an HR investigation following a complaint that an employee was overstating their travel claims. Analysis was performed on mileage claimed against mileage permitted under the travel and expenses policy. The matter was passed back to management to progress with the support of HR as it was deemed to be an issue of workplace location rather than misconduct.

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 so far this year:

- Orbis Customer Access Portal - Lessons Learned from Procurement Exercise
- Broadband UK Grant Return
- Troubled Families
- Logotech Treasury Management System
- Home to School - Follow Up
- DfT Grant
- BSOG Grant
- Governance
- Risk Management
- Library Antiquarian Asset Management
- SAP Applications Control – Follow Up
- Buzz Active

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	52.8% 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 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	96.3% ¹

¹ Includes part-qualified staff and those in professional training

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.