1. Audits Completed in Q4 (January to March 2020)

Pension Fund Administration, People, Processes and Systems

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

For the year 2019/20, we introduced a revised Internal Audit Strategy for Pensions, which was approved by the Pension Committee in June 2019. This extended the scope of our testing and, because we were able to access to the Altair pension administration system for the first time, we were also able to carry out more in-depth testing.

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

- Transactions, data and outputs from the system are complete and accurate;
- Income due to the Fund is received in full and in a timely manner;
- Payments made to pensioners are correct and on time;
- The employer portal (PensionWeb) is secure and controlled in order to provide appropriate administration of the fund; and
- The funding level of new and existing employers is appropriate to meet their liabilities.

Our extended testing identified a number of areas where significant improvement is needed and, as a result, we had to provide an opinion of **minimal assurance**. Throughout our work, management was fully engaged with the process and responded positively to our findings. As result, a robust management action plan was agreed promptly to address our findings.

The main areas where controls needed strengthening included:

- restricting access to the file containing pension lump sums awaiting upload to the Council's accounting system (SAP), to reduce the risk of unauthorised or fraudulent amendments being made[1].
- configuring the administration system, Altair, to automate the calculation of all pension benefits to reduce the current level of manual intervention, which is inefficient and increases the risk of error;

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[1] It should be noted that we found no instances where this had actually happened.

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- returning the responsibility for carrying out a number of employer payroll calculations from staff in the Pensions Administration Team (PAT), back to ESCC. This practice arose as a result of PAT staff being co-located with payroll staff and having access to the ESCC payroll system;
- improving data processes to ensure that all members receive their Annual Benefit Statements each year by the deadline of 31 August;
- reviewing the large number of members currently held in administrative suspense accounts to ensure they receive the full level of service to which they are entitled;
- reviewing warnings relating to the quality of data held in Altair, correcting any missing or inaccurate data and improving procedures to maintain data quality;
- ensuring reports, presented to the Pension Board and Pension Committee on the standard of service provided by the PAT, are accurate, to enable the Fund to manage the administration service's performance effectively; and
- implementing in full the agreed actions from the previous audit, dated August 2018, which related to data cleansing, record keeping, an annual schedule of tasks and annual review of systems access.

These findings were presented in full to the Pension Board and Pension Committee, who are monitoring closely management's progress in implementing the agreed actions for improvement through a robust management action plan. A formal follow-up audit will be completed in 2020/21 to ascertain the extent to which these actions have been implemented.

Pension Fund – Compliance with Regulatory Requirements

The rules of the Local Government Pension Scheme (LGPS) are set out in the Local Government Pension Scheme Regulations 2013; the Local Government Pension Scheme Transitional Provisions, Savings and Amendment Regulations 2014; and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

This audit was carried out as part of our new Internal Audit Strategy for the Pension Fund. The purpose of the audit was to provide assurance that controls are in place to meet regulatory requirements in the following areas:

- Scheme governance arrangements;
- Investment management arrangements; and
- Pension administration arrangements.

Whilst evidence of good practice was identified, particularly in relation to investments, we found a number of control weaknesses that increased the risk of non-compliance with the Fund's statutory requirements. As a result, we were only able to provide an opinion of **partial assurance**. As part of an action plan to address these issues, management agreed to:

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- establish a service level agreement between the Fund and the Pensions Administration Team (PAT) to define the work that the PAT carries out for the Fund and, ultimately, to strengthen the Fund's oversight of the administration service;
- put controls in place to ensure that all potential breaches are recorded in the breaches log;
- ensure that the breaches log contains sufficient detail about the nature of each breach, including details of who made decisions to report or close breaches; and
- report breaches to the Pension Committee and, where appropriate, to the Pension Regulator.

A follow-up audit will be carried in 2020/21 to ascertain the extent to which these actions have been implemented by management.

Accounts Receivable 2019/20

The Accounts Receivable (AR) system is one of the Council's key financial systems. The aim of the AR function is to ensure that all income due to the Council is collected completely, banked promptly and is accounted for correctly.

The purpose of the audit was to provide assurance that:

- all income generating activities are identified and accurately raised to customers;
- a customer account maintenance process is in place and operating effectively;
- amendments to invoices are correct and authorised;
- collection and debt recovery is managed efficiently and effectively;
- writes-offs are processed accurately and correctly authorised;
- payments are received and recorded against the correct debtor account in a timely manner;
- reconciliations between the debtors system and the General Ledger are undertaken on a regular basis; and
- debt recovery performance is monitored and reported.

As a result of our work, we were able to provide **reasonable assurance** over the controls in place. We found that most controls were operating as expected and we did not identify any areas of high risk. We did, however, identify some opportunities to strengthen controls, as follows:

- There is a need for service areas to undertake more robust due diligence checks on new customers' credit-worthiness, before services are rendered or goods delivered, to reduce the risk of bad debt and resulting financial loss to the Council;
- Improved monitoring of debt write-offs would provide greater clarity over the process, which is currently a paper based (off-SAP) control; and
- Regular review of user permissions & approval levels in SAP would ensure that access rights to SAP remain appropriate.

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A number of minor areas were also identified where improvements could be made. A comprehensive and robust action plan has been agreed with management to strengthen controls in all the areas we identified.

Supply Chain Management 2019/20

Supply chain management is "the oversight of materials, information and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. Supply chain management involves co-ordinating and integrating these flows both within and among companies." Performance of the supply chain has a significant impact on contractors' ability to provide services to their customers and create added value.

For this review, we assessed how supply chains were managed in a sample of contracts drawn across the Council and sought to provide assurance that:

- effective contract monitoring ensures that the agreed service level/quality of goods and services is received;
- contracts and contract management arrangements are effective in managing supply chain risks, including fraud and collusion;
- effective Business Continuity Planning mitigates the effects of any supply chain failures; and
- market and industry intelligence is sufficient to allow the early enough identification of suppliers or market sectors at risk of failing and to enable appropriate steps to be taken.

As a result of our work, we were able to give an opinion of **reasonable assurance** over the controls operating in the area under review. We found that the Council has effective arrangements in place for supply chain management and, in particular, adequate arrangements for risk management and mitigation were found to be in place. Areas of good practice included:

- the presence of legally binding contracts to support contract management;
- regular meetings being held with suppliers throughout contracts' terms; and
- an established process to ensure that suppliers have the capacity, from the outset and throughout the contractual term, to meet fluctuating demand needs.

However, we also identified opportunities to improve some aspects of supply chain management and actions were agreed with management to:

- document and approve decisions to accept lower levels of public liability insurance than those stipulated in Procurement and Contract Standing Orders, which, for some contracts, was not always recorded clearly;
- strengthen controls for business continuity arrangements with our suppliers to ensure continued service delivery in the event of an interruption to activities or a failure in the supply chain at a critical point;

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- clarify roles and responsibilities for the management of procurement frameworks (including those operated by the Council and those operated by other public bodies) to ensure that appropriate due diligence checks continue to take place;
- strengthen arrangements for Brexit planning, particularly where reliance is placed heavily on labour from EU countries; and
- improve guidance to ensure that contract managers understand the type of due diligence checks we would expect contractors to undertake on their supply chains.

Treasury Management 2019/20

Treasury management is 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.

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The County Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the service in compliance with this code.

The purpose of this audit was to provide assurance that:

- the Council has established an appropriate Treasury Management Policy & Investment Strategy;
- all lending and borrowing decisions are based on robust cash flow forecasting over the short, medium and long term;
- investments are made with approved counterparties within approved limits, are correctly paid, authorised and are repaid by counterparties with the correct amount of interest;
- borrowings are made only from approved organisations, are correctly authorised and repaid to counterparties with the correct amount of interest;
- there is regular and independent reconciliation between the treasury management record, the bank account and the general ledger; and
- officers and elected Members receive regular and informative training and performance monitoring information.

In completing our work, we found that robust controls were in place and we were able to provide an opinion of **substantial assurance**. A single low-risk finding was made and an action was agreed with management to move from paper to electronic systems for the approval of transactions.

Support to the MBOS Programme

The Modernising Back Office Systems (MBOS) Programme has been established to enable the Council to go to market for a replacement to the Council's current Enterprise Resource Planning (ERP) tool - SAP.

The MBOS Programme is seeking to implement a new system or systems that better meet the current and future needs of the Council and which provides optimal return on its investment.

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The current SAP ERP system was implemented in 2004 and will no longer be supported beyond 2025.

The MBOS programme is expected to run until August 2024 with the new system(s) expected to be implemented in August 2023. The overall cost of the programme is expected to be circa £25m.

In addition to providing independent support, advice and assurance to the Programme Board and working group meetings, we have identified a number of key focus areas to support the programme. At this early stage these include:

- programme governance/risk management;
- business processes (both on and off system);
- system security;
- user access, authentication and authorisations;
- testing arrangements;
- data cleansing and migration;
- interfaces and reconciliation;
- disaster recovery and business continuity; and
- training.

We will continue to work with the Programme Board to agree the timing and formal terms of reference for each specific aspect of our audit work. Additional focus areas may also be added based on risk, as the programme progresses.

Business Continuity 2019/20

The Civil Contingencies Act 2004 places a statutory duty on local authorities to develop, maintain and test business continuity plans. Effective business continuity planning (BCP) provides a controlled resumption of prioritised services within expected timescales, ensuring an organisation can deliver a satisfactory, pre-defined, level of business operations in response to a disruption to business as usual.

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

- Adequate governance arrangements are in place in relation to BCP;
- A business impact assessment (risk assessment) has been completed across the Council to prioritise service continuation;
- Adequate and effective continuity plans have been developed, maintained, kept up-to-date and tested for all services within the BCP Framework; and
- BCP for partner organisations is adequate and up-to-date.

As a result of our work, we were able to provide **reasonable assurance** over the controls operating in this area, with of a number of areas of good practice being identified, which include:

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- adequate arrangements for the identification of the Council's critical activities that feed into business continuity management;
- the accessibility of all business continuity information and documentation; and
- effective controls and processes to ensure continued service delivery, where third parties provide the most strategically important and/or critical activities on behalf of the Council.

However, there are opportunities to improve aspects of business continuity within the Council, particularly in relation to ensuring that:

- key business continuity documentation is subject to regular review and approval;
- document ownership is clearly defined to facilitate effective action in response to a business continuity incident;
- roles and responsibilities in the business continuity framework remain relevant following a large turnover of staff and training records are maintained to ensure that resulting gaps can be identified;
- roles and responsibilities are fully defined, at service level to match that at corporate and departmental levels, to ensure that business continuity issues are escalated in a sufficiently timely manner to allow their effective resolution; and
- business continuity plans are tested regularly, to reduce the risk that incident responses become outdated or ineffective.

A comprehensive action plan was agreed with management to address our findings and make the necessary improvements.

Adult Social Care Liquidlogic (LAS) and ContrOCC 2019/20

The Liquid Logic Adult's System (LAS) is the Council's record management and authorisation system for Adult Social Care (ASC) client needs. ContrOCC is the Council's contract and budget management system for ASC clients. The two systems facilitate payments and the collection of client contributions via an automated link between them.

The purpose of the audit was to provide assurance that:

- service provision only takes place after approval has been given and documented in LAS;
- payments to providers are complete, accurate, timely and are made only after approved services have been delivered to ESCC clients; and
- client contributions are correctly calculated, received in full, and recorded accurately in ContrOCC.

On completing this work, we found that robust processes and controls were in place and we were able to provide an opinion of **substantial assurance**. Only one minor area for improvement was identified and an action to address this was agreed with management.

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Liquid Logic (LAS) Application Controls Audit 2019/20

The LiquidLogic Adult's Social Care System (LAS) is a key system within the Council, used for recording and processing information relating to adult social care client care needs. This includes the management of contacts, referrals and support plans as well as safeguarding issues. The information held within LAS is high value and particularly sensitive, including that which falls under the definition of special category data. The system currently has over 1,500 users, including external NHS employees.

This audit evaluated the adequacy and effectiveness of the key configuration settings and access restriction mechanisms to a variety of sensitive processes in LAS, where there are risks associated with inappropriate and unauthorised access and processing.

We were able to provide **reasonable assurance** over the controls operating within the area under review, as these were generally operating well. We found that:

- administrator access to the system is well-controlled and monitored, with access being restricted to appropriate officers;
- roles and responsibilities in relation to LAS are clearly defined and well-understood, including the division of these between IT&D and Adult Social Care teams;
- there are effective controls in place to check for the accuracy, completeness and validity of data within and exported from the system, including data that is transported through interfaces;
- system updates and other changes are introduced in a controlled manner, and sufficiently tested and documented. Downtime as a result of these is clearly communicated to users, and where necessary, advice and support in relation to changes is also available; and
- business continuity and disaster recovery processes are present, with documented testing exercises taking place to ensure that there would be minimised disruption to service provision in the event of partial or total loss of IT services.

We did, however, agree some actions with management to strengthen controls further; primarily in relation to formally documenting sign-off of smaller system changes, and the introduction of various system reports and proactive monitoring techniques.

Business Operations Improvements - E-Pay

During the period, Business Operations proposed some changes to the E-Pay system (used by employees to access payslips) to make the system more user friendly. Use of Adobe Sign, which allows users to sign documents electronically, was also proposed, in relation to employees notifying HR and Payroll of certain changes.

We therefore provided advice in relation to the proposed changes to the E-Pay system. No major issues were identified, and the changes have now been implemented.

Advice and support regarding the implementation of Adobe Sign was also provided, and discussions are continuing in relation to its usage and any associated risks.

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ISEND P2P

The Purchase to Pay Team (P2P) made proposals to change the way in which ISEND payments are processed; namely by removing the requirement for Purchase Orders (POs) and, instead, using a form of vendor upload.

We therefore assessed the adequacy of the proposed arrangements from a risk and control perspective, comparing these to the process currently in place.

We concluded that the proposed system would not have a material effect on the control environment and may provide some efficiency in terms of management time. We provided guidance on how the proposed system could best be implemented and understand that the proposals by the P2P Team are being considered by management.

Troubled Families Grant Q4 - 2019/20

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.

Children's Services submit periodic claims to the MHCLG to claim grant funding under its 'payment by results' (PBR) scheme. The MHCLG requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. We therefore reviewed 27 of the 273 claims included in the January to March 2020 grant.

In completing this work, we found that valid 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 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.

Schools

During the quarter, one school audit was completed, in which we reviewed the adequacy of arrangements in place in the following areas:

- Governance and decision-making;
- Budget management;
- School security;
- Payments to staff;
- Expenditure;
- Income; and

- The security of assets.

Name of School	Audit Opinion	Areas Requiring Improvement
Telscombe Cliffs Primary School	Reasonable Assurance	The school needs to ensure that: - The Scheme of Financial Delegation reflects the management structure of the school; - The full range of pre-engagement checks are carried out on contractors, including their employment status under IR35; - Purchase orders are raised before orders for goods, works or services are placed with suppliers.

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