

### Audits Completed in Q3 (October to December)

#### Payroll

1.1. The Council's payroll team is responsible for paying employees accurate amounts, on time, in accordance with organisational and regulatory policies. As of 31 August 2020, there were 9,206 people (7,062 non-teaching staff and 2,144 teaching staff) employed by the County Council. Employees' salary payments account for a large proportion of the organisation's expenditure. The average gross salary payment for the Council, for the 2019/20 financial year, was £19.1m per month, with average net salary payments to employees of £14.4m per month.

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

- 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; and
- Temporary payments (including additional hours, expense claims and payment to casual staff) are correctly authorised prior to processing.

1.3. In completing this work, we were able to provide an audit opinion of **reasonable assurance**. We found that there is appropriate approval in key areas such as new starters and permanent variations to pay, pay is accurately calculated and implemented from the correct dates. Pay runs are subject to rigorous review and testing and payroll data is regularly reconciled to the general ledger. We also found that appropriate segregation of duties is in place throughout the payroll system to reduce the risk of fraud or error. However, some opportunities to strengthen controls further were identified. These included the need to ensure:

- There is appropriate confirmation from schools that the necessary safeguarding checks have been completed for new members of staff prior to setting them up on the payroll. Schools have been reminded to ensure they provide the Disclosure and Barring Service (DBS) certificate number to the payroll team;
- Manager's notify the payroll team of leavers in a timely manner to help prevent overpayments and to ensure network access is withdrawn promptly; and
- Claims for travel, expenses and hours are made in accordance with Council policy.

1.4 A formal action plan to address the findings of the review has been agreed with management.

## Business Operations Cultural Compliance Follow-Up

1.5 Business Operations deliver Human Resource (HR) and Finance transactional services on behalf of each of the Council's within the Orbis partnership. The teams within Business Operations consist of:

- Procure to Pay (P2P)
- Income Allocation
- Accounts Receivable
- Direct Payments
- ContrOCC Payments
- Employee Services
- Recruitment Support

1.6 A previous cultural compliance audit within Business Operations was undertaken in May 2018 which resulted in an opinion of partial assurance. The audit focussed on ensuring:

- Appropriate arrangements for monitoring the delivery of the service and assessing its performance and effectiveness are in place;
- Adequate budget setting and monitoring processes exist and appropriate measures are taken in a timely manner to address budget pressures;
- Expenditure is only incurred for legitimate Council business and is in line with the relevant procurement processes;
- Assets purchased are held securely and properly managed;
- For chargeable services, appropriate prices are set and regularly reviewed, and that all income attributable to the work undertaken by the service is invoiced correctly; and
- Effective staff supervision and performance monitoring is in place.

1.7 Our previous audit report contained ten actions agreed with management, including the need for staff to complete declarations of interest in line with the Code of Conduct and Conflict of Interest policy, ensuring all aspects of the corporate induction process are included as part of local induction procedures (including the completion of corporate e-learning), and obtaining receipts for purchases made through purchasing cards and for expense claims made.

1.8 The purpose of this subsequent audit was therefore to follow-up on the previously agreed actions to ensure that these had been implemented. In completing this work, we were able to provide an improved opinion of **substantial assurance**, with only one area not fully implemented. This related to the need for Business Operations' managers to ensure declarations of interest are completed for all staff and reviewed across the service on at least an annual basis. A further action has been agreed to address this.

## Pension Fund Compliance with Regulatory Requirements

1.9 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 to the rules of the Local Government Pension Scheme (LGPS), which are set out in the following regulations:

- 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.

1.10 The governance of the Fund is the responsibility of the East Sussex Pension Committee supported by the Pension Board, the ESCC Chief Finance Officer and the Pension Fund officer team. The day to day administration of the Fund is provided by the County Council.

1.11 The purpose of this audit was to provide assurance that controls are in place to ensure scheme governance, investment management and pension administration arrangements, meet regulatory requirements.

1.12 As a result of our work, we were able to provide an improved opinion of **substantial assurance** in this area. This is a significant improvement on the 'partial' assurance opinion given on the same audit last year and reflects the improvement work undertaken since. We found that investments are well controlled, with appropriate advice taken where required to ensure regulatory compliance. There is an Investment Strategy Statement which outlines the investment types and target allocations for each investment type that the Fund wishes to pursue, and this is reviewed regularly, as per the Investment Regulations (2016). A Business Plan has been developed, outlining the key objectives and activities of the Fund for the 2020/21 financial year.

1.13 In addition, there is a new Breaches Policy in place which has been approved by the Pension Board and Committee, outlining the requirements in relation to reporting breaches, as required by the Pensions Regulator. A Compliance and Local Improvement Partner has been appointed to aid compliance with regulatory requirements, and a number of projects are underway to improve controls in this area.

1.14 No agreed actions were outstanding from the previous audit, although there were a small number of areas where further improvement could be made. These included making sure all officers working within the Pension Fund have completed a declaration in the register of interests in order to promote transparency and help ensure any conflicts are appropriately managed, and that Pension Fund policies and strategies are regularly reviewed and updated where necessary. Management has agreed a formal plan to ensure the timely implementation of these actions.

## **Covid-19 Process Changes**

1.15 In response to Covid-19, services within the Council have made changes to their processes and systems to ensure continued service delivery and efficiency at a time when many people were, and continue to be, remote working. As we have previously reported, we provided advice and support across the Council on risk and control issues associated with these changes. During quarters 2 and 3, we have begun to revisit these to understand if they are to continue or if there are plans to revert to previous ways of working, and to again provide advice and support on any related risk and control issues. This work is continuing, and we will summarise the outcomes in our next progress report.

## **Modernising Back Office Systems**

1.16 The Modernising Back Office Systems Programme (MBOS) was approved by the Corporate Management Team (CMT) in September 2019 to enable the Council to go to market for a replacement to its current Enterprise Resource Planning (ERP) tool - SAP. The MBOS Programme will look to implement a new system(s), that better meets the current and future needs of the Council and which provides optimal return on its investment. The current SAP ERP system was implemented in 2004 and will no longer be supported beyond 2025.

1.17 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 system expected to be circa £25m.

1.18 Whilst we have not undertaken any specific audit work in this quarter, we continue to support the programme through attendance at the Programme Board and Working Groups where we provide ad-hoc advice, challenge and support.

1.19 A program of audit work has been agreed with the Board to support the programme going forward and work currently in progress includes providing assurance over data quality and archiving, as well as revisiting and re-reviewing governance arrangements as the programme prepares to move into the post-procurement stage.

## **Property Asset Management System (PAMS)**

1.20 The current PAMS, Atrium, will no longer be supported from 2021. The system is used to hold asset management data on all Council property and operates as a works order management system for repair and maintenance. It also interfaces with the Council's current SAP ERP system.

1.21 The PAMS project sits under MBOS and is governed by the MBOS Board. The PAMS project is focussed on transferring all functions carried out on Atrium onto a new asset management system. In addition, it will ensure that all property functions required to achieve a full holistic property management process are integrated and interfaced with the eventual SAP replacement.

1.22 The PAMS project is expected to run until April 2021 with the expected cost of implementation to be in the range of £435,000. Annual licence fees for the new system are expected to be between £35,000 to £55,000.

1.23 Whilst we have not undertaken any specific audit work in this quarter, we continue to support the programme through attendance at the Programme Board and Working Groups and the provision of ad-hoc advice, challenge and support. A program of audit work has been agreed with the Programme Board to support the programme going forward and work currently in progress includes providing assurance over data quality and archiving.

### **Troubled Families**

1.24 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.

1.25 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. We therefore reviewed 12 of the 125 families included in the October/December 2020 grant cohort.

1.26 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 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 Internal Audit coordinated the recent submission of Council datasets to the biennial NFI exercise. Results from the data matching were provided to the Council on 31 January 2021. Internal Audit will liaise with the relevant departments to ensure that flagged matches are investigated and actioned

appropriately. Results from the exercise will be shared with CMT and the Audit Committee in future progress updates.

### **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 have reviewed the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. These were approved by Audit Committee on 10 July 2020.

### **Fraud Risk Assessments**

2.4 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats as a result of the COVID19 pandemic. This includes potential threats to payroll, staff frauds relating to home working and cyber frauds.

### **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. The Fraud Response Plans include a pilot data analytics programme for key financial systems. Work on the key financial data analytics that includes creditors, debtors and payroll commenced in quarter three.

### **Fraud Awareness**

2.6 The team have published fraud bulletins raising awareness to emerging threats, in particular recent risks from the Covid pandemic. These were published on the intranet and shared with high risk service areas. In addition, the team continuing to monitor intelligence alerts and work closely with neighbouring Councils to share intelligence and best practice.

### **Reactive Counter Fraud Work - Summary of Completed Investigations**

#### **Highways Subcontractor**

2.7 Following receipt of a whistleblowing report alleging overcharging by a Highways subcontractor, we undertook a review of a sample of works to confirm that they complied with job specifications and cost schedules. The investigation found no case to answer.

## Misuse of Council Vehicles

2.8 We investigated an anonymous allegation of misuse of a Council vehicle. The investigation reviewed the use of the vehicle and associated record keeping. The review did not identify any misconduct but did identify a number of control improvements to strengthen record keeping and compliance with corporate policy.

## 3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. There were two high-priority actions due during quarter 3, both of which were implemented.

## 4. Amendments to the Audit Plan

4.1 As previously reported, a significant proportion of our planned work for 2020/21 was paused in response to Covid-19 and we prepared a revised audit plan which was agreed by Audit Committee in November 2020. Whilst we are continuing to deliver this work wherever possible, it was determined that, given the continued pressures on services because of Covid-19, Internal Audit activity other than the highest priority activities identified as key risk areas, would be paused. We have therefore reprioritised our work to focus on areas of core assurance, such as key financial systems, and other contracted work which we are obliged to complete, including in relation to the East Sussex Pension Fund. This has meant the following audits from the revised audit plan have been postponed and will be considered for inclusion in the 2021/22 audit plan:

- Annual Governance Statement
- Adoption South East
- Health and Safety
- Children's Safeguarding Data Handling

### Follow-Up Audits (all of which will be completed in 21/22):

- Buzz Active
- Libraries Asset Management
- Contract Management Group Cultural Compliance
- Building Condition Asset Management
- Atrium
- Social Value in Procurement

4.2 Additional areas of work have been added since the revised audit plan was developed and agreed, as follows:

- MBOS Programme Governance – Phase 2
- Robertsbridge Capital Project
- Pension Fund Audit Strategy
- Roselands and Stafford Schools
- Building Security
- Covid-19 Emergency Active Travel Grant
- Travel Demand Management Grant.

## 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	<b>G</b>	Plan prepared for April approval, but formal reporting to Committee delayed due to Covid-19. Agreed by Committee on 13 May 2020.
	Annual Audit Report and Opinion	By end July	<b>G</b>	2019/20 Annual Report and Opinion approved by Audit Committee on 10 July 2020.
	Customer Satisfaction Levels	90% satisfied	<b>G</b>	100%.
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	<b>N/A</b>	During the Covid-19 pandemic, the 2020/21 audit plan was suspended to allow the internal audit service to support the organisation’s response. A revised audit plan was developed from September. Given the continuing changes to our work throughout the year, we are not currently monitoring progress against delivery of the audit plan.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	<b>G</b>	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
				June 2020 - internal self-assessment completed – no major areas of non-compliance with PSIAS identified. Internal quality review also completed – no major areas of non-compliance with our own processes identified.
	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>	Two high risk actions became due in quarter 3 and both of these were implemented.
Our staff	Professionally Qualified/Accredited	80%	<b>G</b>	91% <sup>1</sup>

<sup>1</sup> Includes part-qualified staff and those undertaking professional training

## 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.