Summary of Key Audit Findings for Quarter 4 2014/15

HR/Payroll

HR/Payroll is one of the Council's key financial systems and as such is subject to at least key control testing annually. The control objectives of this review were to ensure that:

- All employees on the payroll are valid employees and employed by ESCC;
- Payments are made only for hours worked or allowable expenses;
- Gross payroll costs and material deductions are properly calculated and in accordance with approved pay rates or staff contracts;
- Payroll costs are properly accounted for in the main accounting system;
- Segregation of duties is in place between those making payments and those creating/amending payroll records;
- All job offers are subject to completion of satisfactory pre-employment checks prior to being employed by ESCC.

Based on the audit work undertaken, we have been able to provide an audit opinion of **substantial assurance** over the control environment, with a number of areas of good practice being identified. The main areas where further improvement could still be made relate to ensuring the completeness and accuracy of records, particularly on recruitment and contracts of employment.

All recommendations arising from the review have been agreed with management as part of a formal action plan and will be followed up as part of our repeat review in 2015/16.

General Ledger

The General Ledger is one of the Council's fundamental accounting systems and as such is subject to at least key control testing annually. The control objectives of this review were to ensure that:

- All direct journal inputs to the General Ledger are complete, accurate and properly authorised (in accordance with Council policies);
- 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.

In summary, we found that the general ledger continues to be appropriately managed and accurately maintained and were therefore able to provide **full assurance** over the system of controls. Some minor, low risk, recommendations for improvement were made and these have been agreed in full with management.

Accounts Payable and Procurement

Procurement and Accounts Payable are key financial systems for the Council and as such are subject to at least key control testing annually. Whilst our work resulted in a single audit covering both areas, separate audit opinions were provided in recognition that they are managed and controlled in different areas of the Business Services Department. The control objectives of the review were as follows:

- Only authorised staff can commit the organisation to expenditure by approving orders for goods and services;
- Orders are only raised with approved suppliers for transactions >£250;
- Invoices are only processed once they have been 'goods receipted';
- Only approved invoices are paid;
- There is adequate segregation of duties for the creation and maintenance of vendor master records, ordering and payment functions;
- All commitments, liabilities and payments are captured and accurately coded;
- Spend is effectively monitored against budgets as it is incurred;
- Commitments and liabilities are fully satisfied within time limits agreed.

Overall, based on the work undertaken we were able to provide **full assurance** over the accounts payable system and **substantial assurance** over procurement processes. Only a small number of recommendations were made and agreed with management, none of which were considered to be of a high risk nature.

On SAP Controls

The review of On-SAP Controls was carried out in order to test the key controls embedded within the SAP system and to try and identify any weaknesses which could be exploited by the systems users.

Whilst our testing as part of the audit did not identify any specific issues, enabling us to provide **substantial assurance** over the control environment within SAP, two purchase order approval related weaknesses came to light through other work which required urgent action to resolve. The Council has not suffered any financial loss as a result of these issues and, since they have been identified, ICT Services have been working with external specialists, to put in place appropriate controls to prevent reoccurrence.

Pension Fund Processes and Systems

The main purpose of this audit was to review the key controls in relation to the calculation and payment of pensions, transfers to and from the pension fund and the collection and recording of pension contributions (including contributions from other admitted bodies). The day to day management of the Fund administration has been undertaken by South East Shared Services (SESS) since April 2013.

Whilst the audit was able to confirm that the fundamental key controls are in place which, if adhered to, should ensure the scheme is managed effectively for the Council and its members, a number of areas for improvement were identified which has meant we have only been able to provide an opinion of **partial assurance**. These areas include:

- SESS needing to take urgent action to address backlogs in work, particularly in relation to deferred benefit activities;
- As part of this, the management of workloads and allocation of work with SESS needs to be improved to ensure key activities are undertaken promptly and future delays and backlogs are avoided;
- Strengthening access controls over the pensions administration system (Altair), including reviewing user access levels and use of system logging;
- Updating procedures manuals within SESS to help ensure compliance with key controls;
- Improving performance reporting to ensure key performance indicator data is reported completely and accurately to enable remedial action to be taken where weaknesses arise.

A comprehensive action plan has been agreed with management to address the identified weaknesses, many of which have already been implemented. The remainder of the actions are due to be implemented within 2015 and will be subject to a follow up by internal audit as part of next year's audit plan.

Pension Fund Investments

This review examined controls over the administration of pension fund investments, including monitoring of fund manager performance and accounting arrangements. The work forms part of the Pension Fund Internal Audit Strategy which has been developed based on a risk assessment and in accordance with national best practice guidance. The control objectives of the review were to provide assurance that:

- All pension fund investments are completely, accurately and correctly recorded in the general ledger, including the proper segregation of ESCC and East Sussex Pension Fund assets;
- Pension fund and fund manager performance is monitored, with appropriate action taken in the event of under performance;
- Cash/short-term investments held by ESCC on behalf of the fund are accurately apportioned, with all income from interest and dividends received promptly and completely;
- All risks to the availability, integrity and security of data are adequately managed.

From the audit work undertaken we have been able to provide **substantial assurance** over the control environment, with only a small number of areas for improvement being identified. These related primarily to strengthening arrangements over the verification of private equity and infrastructure investment manager fees. All recommendations have been agreed with management and will be subject to confirmation as part of future pension fund audit work.

Pension Fund External Control Assurance

The main purpose of this review was to ensure that adequate internal control assurance is provided on fund manager systems through statutory reporting from investment managers, custodians and property managers. In particular that:

- The County Council has identified and receives all sources of external control assurance for the pension fund and such information is formally reviewed;
- The various sources of information regarding fund manager and custodian internal control provide the County Council, as administering authority for the pension fund, with adequate assurance. Where they do not, appropriate action is taken.

The review of external assurance from fund managers was completed by the Pension Team prior to our audit and based upon the testing carried out we have been able to provide an opinion of **full assurance**. Only one low risk recommendation was agreed with management which has now been implemented.

Health and Safety

As part of the agreed audit plan for 2014/15, internal audit commissioned an external specialist provider, The British Safety Council (BSC), to undertake a review of the County Council Health and Safety management arrangements.

The primary aim of the audit was to provide an independent assessment of the occupational health and safety management systems and arrangements developed by the Council and the effectiveness of their implementation. This included reviewing key documentation, interviewing a range of staff and visiting a sample of premises across the County.

The audit covered the following areas and was conducted using the BSC's numerical safety grading system:

- Policy and Organisation;
- Strategy and Planning;
- Implementation and Operation;
- Performance Measurement;
- Evaluation and Review.

Overall, the County Council achieved a cumulative score of 87.67%, resulting in an assessment of **four stars** ('Very Good') out of a possible five. Some recommendations for further improvement have been agreed with management, none which are considered to be of a high risk nature.

Business Continuity Planning

Business Continuity Planning (BCP) is a holistic management process that identifies potential threats to an organisation and the impacts to operations that those threats, if realised, might cause. BCP focuses on the actions taken within the Council to continue services following unforeseen events. Having BCP in place demonstrates a duty of care to the Council's customers and suppliers, and helps safeguard its reputation.

The objectives of this review were to provide assurance as to the adequacy and effectiveness of the Council's BCP arrangements. Overall, we were able to provide an opinion of **substantial assurance** in this area which showed a clear improvement in the direction of travel since the completion of the previous audit in 2007/08.

Some areas for further improvement were, however, noted, including the need for:

- Further business continuity training for critical service managers and their deputies to help ensure all necessary tasks are performed efficiently and effectively should an incident occur;
- The Communications Team to formally document the resource implications of ensuring its own service continuity, as well as its role in supporting the other departments in a crisis;
- The updating of business continuity plans, following testing exercises, for lessons learnt, particularly where issues are identified in relation to resource management, roles and responsibilities, communications and relations between departments and corporate structures.

Recommendations in all of these areas were agreed in full with management.

Information Governance Follow-Up

Information governance is a specific subset of corporate governance. It is both focused on the performance and risk management of information and the protection of data through all phases of the information lifecycle.

An information governance review was completed in 2013 which received an audit opinion of partial assurance, with a number of recommendations for improvement being made. This most recent review sought to assess progress on the implementation of previous recommendations whilst also examining internal and external data sharing controls and arrangements for the monitoring and reporting of information breaches.

Based on the audit work carried out, we found that significant progress had been made and were therefore able to provide an improved audit opinion of **substantial assurance** over the control environment.

Some areas for further improvement remained where the previous recommendations had only been partly implemented. These were all of a low risk nature and management have committed to ensuring they are fully implemented.

Appointee and Deputyship (Client Affairs)

When an individual loses the mental capacity to manage their own financial affairs, the Department for Works and Pensions can appoint a person to collect and administer the state benefits and pensions on the individual's behalf.

Where there is no one else to manage a client's finances, the Council may apply for 'corporate appointeeship'. If a client has savings, a private bank account and a private pension or other capital, the Council also has to apply to the Court of Protection for a Deputyship Court Order. This enables the Council's Appointee and Deputyship Team to administer and manage all of the client's finances and accounts.

The Appointee and Deputyship service is not a statutory Council function and cases are only taken on where the Council is the last resort and there is no-one else to help the client manage their finances.

This review of the Appointee and Deputyship system was carried out as part of the agreed annual audit plan for 2014/15 and sought to ensure that adequate controls are in place to effectively and efficiently manage all appointee and deputyship client accounts. The review also included a follow up on the issues raised in our last audit to assess progress against agreed recommendations.

From the audit work completed we have been able to provide **partial assurance** that there is a sound system of controls in place. The main reason for this opinion is that, whilst significant work has been undertaken by the Appointee and Deputyship Team (ADT) to improve the policies and procedures in relation to the managing of clients' financial affairs, these still remain to be finalised. Whilst procedures have now been comprehensively documented, some of them have yet to be put into practice.

Other opportunities to strengthen the control environment were also identified in relation to continuing to monitor high account balances to ensure excess funds are invested to best effect and ensuring that client expenditure claims are always supported by sufficient evidence and receipts. All recommendations have been agreed with management and will be subject to a follow up review during 2015/16.

Broadband

The 'e-sussex' project, led by East Sussex County Council in partnership with Brighton & Hove City Council, was launched to improve internet access for homes and businesses in East Sussex. The East Sussex and Brighton and Hove area has been allocated £10.64m by Broadband Delivery UK (BDUK). This amount is supposed to cover 90% roll out and must be matched locally. ESCC has provision in its capital programme of £15m and this will contribute to the Council's strategic priority of driving economic growth.

Following an OJEU tendering process, BT was appointed to deliver the project over three years. The contract with BT was signed in May 2013 and work commenced in November 2013.

Our review covered the management of the contract, including contractor performance, payments, variations, budget monitoring and returns to BDUK.

In providing an opinion of **full assurance** over the control environment, we found that:

- Appropriate contractual documentation, that clearly describes the requirements in relation to project delivery and roles and responsibilities of key stakeholders is in place;
- Project governance, including risk management, is effective;
- Project progress and performance is well managed;
- Adequate controls are in place over payments and budget management;
- Robust arrangements exist to ensure grant returns to BDUK comply with requirements.

Only one minor recommendation was made which was agreed with management.

Registration Service

This review of the Council's Registration Service, based on sample testing of controls at the Eastbourne and Hastings' offices, covered the following control objectives:

- All data is accurately captured and recorded;
- All chargeable services provided and goods despatched are identified and billed at the correct amount;
- All income due is invoiced (if applicable), received and correctly recorded;
- VAT is accounted for correctly and charged for when due;
- All income received is reconciled to supporting records and banked intact;
- All Council assets are adequately protected; and,
- Staff payments are authorised appropriately.

Based on the audit work carried out, we have been able to provide **substantial assurance** over the control environment, with only a small number of low risk recommendations being made. All of these have been agreed with management and are due to have been implemented by the end of April 2015.

Cultural Compliance – Communication Team

This audit was carried out as part of a wider and ongoing review of cultural compliance within teams across all departments of the County Council. Individual reports are produced for each team along with a periodic overall report summarising key themes arising from our work.

The main purpose of the audit was to ensure that the service is delivered in compliance with the appropriate Council policies and procedures. Overall, based on work carried out, we have been able to provide **substantial assurance** over the controls in place.

Some areas for improvement were, however, identified, none of which have been deemed high risk. The main areas for action include:

- Ensuring all employees complete conflict of interest declaration forms and, where positive declarations are made, management respond appropriately;
- Ensuring that all supporting documentation for P-Card transactions is retained for the required period;
- Maintaining appropriate inventory records for locally procured assets and ensuring these are properly security marked;
- Improving the quality of records for some staff in support of working hours and annual leave.

Further cultural compliance reviews will be completed as part of the 2015/16 internal audit plan.

Highways Programme and Budget Management

This review sought to provide assurance over arrangements for delivering the programme of highways improvements works during 2014/15 and over the adequacy and effectiveness of associated budget management. It covered the following control objectives:

- All payments are made within the terms and conditions of the May Gurney contract;
- Orders are raised for all highway maintenance works in accordance with Financial Regulations;
- Adequate controls exist over the variation process in line with Contract Standing Orders;
- All payments made are accurate and approved in accordance with Financial Regulations;
- Adequate financial budgetary monitoring arrangements are in place.

From the audit work completed we have been able to provide **substantial assurance**. It is apparent that work has been undertaken since our previous audit to improve the systems and information available to management to ensure more accurate monitoring of the budget and to negate any overspends where possible. Only two recommendations for further improvement were made and agreed with management, relating to increased checking over schedules of rates and further staff training to help ensure business continuity.

Internet and Firewall

The corporate firewall and internet platforms provide the fundamental communication solutions that support the delivery of the Council's primary business communication and web based applications. Any failure to establish and maintain a secure and robust firewall and internet management environment increases the risk of the loss and manipulation of sensitive data due to unauthorised access or denial of service attacks, impacting on the availability of core ICT services.

This review, carried out by external specialist ICT auditors, examined the firewall and internet management control framework by evaluating the systems and procedures applied in the following areas:

- Internet and firewall governance roles and responsibilities;
- Internet Security Policy;
- Web Browser Security;
- Internet Use and Activity Reporting;
- Firewall Management and Administration;
- Firewall Architecture and Resilience;
- Firewall Security Penetration Testing; and
- Firewall Activity and Intruder Detection Alert Logs.

Based on the work carried out, an opinion of **substantial assurance** over the control environment has been provided. A total of four recommendations for improvement were agreed with ICT Services management, none of which were of a high risk nature.

Individual School Audits

During the quarter, we have continued to conduct visits to schools in the County, with the individual schools selected through the Schools Risk Review Group (made up of representatives from Internal Audit, Personnel and Training, Finance and the Standards and Learning Effectiveness Service) on the basis of risk. Follow-up reviews have also been completed where appropriate. In all cases, recommendations arising from our work have been formally agreed with school management, with copies of all audit reports now sent directly to all members of each school's governing body. We also prepare a summary of the report for the relevant local Member where the audit opinion is below partial assurance. This is in addition to the quarterly bulletins we provide to governors which highlight common themes and issues arising from our work which we recommend they seek assurance on within their own schools.

The following school audits have been completed in the quarter.

School	Opinion	Key Findings
Chyngton School Follow-Up	Substantial Assurance	Our follow-up review found that significant improvement had been made against the previous opinion of minimal assurance. A small number of required improvements remained, including the need to ensure: • Virement (the transfer of funds between budget headings) thresholds are reviewed and virements are clearly reported and minuted at the Strategic Organisation Committee meetings; • Letting agreements are authorised in accordance with the school's Lettings Policy.
Bodiam Primary School Follow-Up	Substantial Assurance	Significant improvement on the previous opinion of minimal assurance. Only a few areas for further improvement remained, including the need to: • Improve separation of duties within the purchasing and payroll process;

School	Opinion	Key Findings
		• Ensure purchase orders are always raised at the time goods, works or services are ordered from a supplier.
Churchwood Community Primary School	Partial Assurance	Areas for improvement included the need for: • All governors to formally complete a declaration of interests; • An independent review of reconciliations of the school's accounting system data to the County Council's main accounting system; • Budget monitoring reports presented to Governors to be formally reconciled to the school's accounting system; • A separation of duties in the processing of payroll claims for additional hours and supply teaching. • The School Fund to be audited and presented to the Governing Body annually.
Park Mead Follow-Up	Partial Assurance	This was a follow up review and the school had made improvements on the previous audit opinion of minimal assurance. Further areas of improvement remained, however, including the need: • For the Governing Body to approve key documents and policies, including the Scheme of Delegation and Local Financial Procedures; • To ensure purchase orders are always raised at the time goods, works or services are ordered from a supplier; • To ensure no payments are made in advance for goods, works or services; • For expense claims to be signed by the claimant and to be authorised by an appropriate person.
Westfield School Follow-Up	Partial Assurance	Although the school had made a number of improvements since the previous review, which received an audit opinion of minimal assurance, areas for improvement remained, including the need to ensure that: • The Governing Body approve key documents and policies such as the School Development Plan and Local Financial Procedures; • Declared conflicts of interest by Governors and staff are appropriately managed; • Contracts entered into with suppliers are approved in accordance with the School's Scheme of Delegation; • An annual physical check of the school's inventory/asset register is undertaken.
Willingdon Community School	Partial Assurance	In providing an opinion of partial assurance, areas for improvement included the need to ensure that: • Approval limits set within the Scheme of Delegation are periodically reviewed; • Purchase orders are always raised at the time goods, works or services are ordered from a supplier; • There is an adequate separation of duties in the purchasing process; • The School Fund and Budget Share are accounted for separately; • Small suppliers have appropriate levels of public liability insurance.

School	Opinion	Key Findings
		• Staff expenses are authorised by a line manager; • There is an adequate asset management system within the school.
Shinewater Primary School	Minimal Assurance	A number of areas for improvement were identified, including the need to ensure that: • All governors and staff complete a declaration in the Register of Interests, and that positive declarations are appropriately managed; • Payments to individuals are reviewed to ensure that the school is compliant with HMRC requirements; • Payments to reimburse staff are supported by a claim form signed by the claimant and approved by a line manager; • Competitive quotations for goods and services procured are obtained where appropriate; • Accounts for all School Funds (voluntary funds) are independently audited, reviewed and approved by the Governing Body; • Promotion of teachers to the upper pay scale is supported with evidence of meeting clear performance objectives and/or increased responsibilities; • All portable media and laptops are encrypted to secure data.
The Causeway School	Minimal Assurance	In providing an audit opinion of minimal assurance, we identified a number of areas for improvement, including the need for: • Approval of key documents and policies by the Full Governing Body such as the Scheme of Delegation and the annual budget; • Formal service level agreements to be in place for services provided by other schools; • Purchase orders to be raised at the time goods, works or services are ordered from a supplier; • An adequate separation of duties in the purchasing process; • All payments to staff to be processed through the payroll system so that appropriate HMRC deductions can be made; • All income received to be banked intact; • An appropriate asset management system that records the purchase and disposal of assets.
Ditchling (St Margaret's) CE Primary School	Minimal Assurance	Areas for improvement included the need to ensure that: • All agenda's, minutes and reports for Governing Body meetings are available for stakeholders to view; • The budget is formally approved by the Full Governing Body; • Regular budget monitoring takes place; • All expenditure is appropriate to the needs of the school; • All payments to suppliers are supported by an invoice or proper account; • Purchase orders are always raised at the time goods, works or services are ordered from a supplier;

School	Opinion	Key Findings
		- Competitive quotations are obtained for goods and services procured where appropriate; - The School Fund and Budget Share are accounted for separately; - Working Time Regulations are complied with.

Additional Audit Reviews

Through discussions with management, the following reviews have been added to the audit plan during the course of the year on the basis of risk:

- Lease Cars;
- Chyngton Primary School ICT Services;
- Annual Governance Statement;
- Bus Services Operators Grant;
- Procurement Cards;
- E-Recruitment iGrasp Replacement;
- On-SAP Controls.

The following audits, originally scheduled for 2014/15, have been removed from the plan, primarily because they are either project work which has not progressed sufficiently, or to allow resources to be focussed on emerging higher risk areas and unplanned investigations. Where appropriate, the work has been rescheduled for delivery within the 2015/16 audit plan. In all cases, these changes have been agreed with both the Chief Finance Officer and senior departmental managers:

- Procurement Shared Services;
- Procurement Standing Orders;
- Direct Payment Pre-Paid Cards;
- Integrated Waste Management Services Contract.