Internal Audit and Counter Fraud
Quarter 3 Progress Report 2025/26

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1. Summary of Completed Audits

Corporate Governance - Grievance Arrangements

1.1   Governance is the combination of processes and structures put in place by an organisation to inform, direct and monitor activities to achieve its objectives. This includes the ability for employees to raise grievances, and the framework around the expected handling of these.

1.2   Whilst it is expected that managers should seek to resolve issues raised by employees informally in the first instance, the Grievance Policy is in place to facilitate formal investigation of, and response to, grievances where informal processes and mediation have been unsuccessful. In the 2024/25 financial year, 27 grievances were brought by ESCC employees, including staff working in maintained schools.

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

- The Grievance Policy is up-to-date, appropriate and in line with legislative requirements, supporting compliance with regulations;
- Officers adhere to the Grievance Policy to support the appropriate resolution of grievances; and
- Regular review of grievances takes place to identify trends, and appropriate action is taken to mitigate these trends where required.

1.4   As a result of our work, we provided an opinion of **substantial assurance**. We found that an up-to-date Grievance Policy is in place, supported by appropriate guidance for managers, to promote a consistent approach across the Authority. The Policy is in line with the ACAS Code of Practice and is readily available on the Council's Intranet. We also found that grievances are dealt with in line with policy. Reviews take place to identify areas of commonality and senior management is briefed on significant grievance cases.

1.5   One action was agreed with management to address a single low risk finding.

Corporate Governance – Whistleblowing Arrangements

1.6   An important part of the Council's governance arrangements is the provision of a mechanism to allow employees and other stakeholders to raise concerns about potential wrongdoings, where the interests of the organisation or others are at risk. The Council's Whistleblowing Policy is designed to give employees the confidence to raise concerns without fear of repercussion, and to provide a framework for these concerns to be handled.

1.7   Over the last 10 years, the Council has recorded 28 allegations received as whistleblowing. During the financial year 2024/25, the Council received three whistleblowing allegations.

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

- The Whistleblowing Policy is appropriate and in line with legislative requirements, supporting compliance with regulations;
- Officers adhere to the Whistleblowing Policy to support the appropriate investigation and resolution of reported concerns; and

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- There is regular review of whistleblowing reports to identify trends, and appropriate action is taken to mitigate these trends where required.

1.9 As a result of our work, we were able to give an opinion of **substantial assurance** because there is a Whistleblowing Policy in place, accessible via both the Intranet and the Council's website, that provides clear instructions on how and where to raise a whistleblowing concern. The Policy is reviewed periodically to ensure it remains in accordance with legislative requirements and fit for purpose and is supported by guidance for managers, advising them how to handle cases of whistleblowing. We also found that whistleblowing allegations are dealt with in accordance with policy.

1.10 A minor action was agreed with management to improve the way whistleblowing cases are recorded, to improve the Council's ability to analyse these and to identify trends.

Pension Fund Investments

1.11 The East Sussex Pension Fund is part of the national Local Government Pension Scheme and provides retirement benefits for employees of East Sussex County Council (ESCC), as well as employees from 149 other employers.

1.12 Pension funds have long-term liabilities to pay pensioners, so the Fund's investment strategy must find a delicate balance between necessary risk-taking for growing the Fund, with the secure, sound investment needed to pay benefits. The Council, via the East Sussex Pension Committee, is responsible for setting the Fund's overall investment strategy and reviewing investment performance to ensure the Fund meets its return targets.

1.13 Valued at £5.1bn as of 30 June 2025, the Fund's investment portfolio is diversified across asset classes, including equities, Government bonds, property, and infrastructure. The Fund delegates investment decisions (the actual buying and selling of assets) to external investment fund managers, who operate to specific performance targets and benchmarks.

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

- The Fund's investments perform sufficiently well to meet the Fund's liabilities;
- Investment returns are received in full and in a timely manner; and
- Accounting of the Pension Fund is accurate.

1.15 We found that appropriate processes are in place to safeguard the Fund's assets and that funds are invested in only the asset classes permitted and within the maximum investment limits set by the Pension Committee. Independent assurances are obtained which confirm that the Fund Managers appointed by the Council comply with investment restrictions and that any investment errors or exceptions are identified and resolved.

1.16 The Fund's custodian, Northern Trust, ensures that all investment returns are received timeously and in full, and regular reconciliations take place to provide assurance that transactions are accurately reflected in the general ledger.

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1.17   As a result of our work, we were able to provide **substantial assurance** over the control environment. There was only one minor area where controls could be strengthened further, and an action was agreed with management to address this.

Oracle Implementation Phase 2 Follow-Up

1.18   As part of our work in supporting the Phase 2 implementation of Oracle, we highlighted areas of control weakness which we felt the Board needed to keep under review, particularly in terms of ensuring appropriate mitigations are in place. These included:

- Role Based Permissions – uncertainty in how user roles and permissions would work in the live system and how conflicts that exist between roles and permissions will be managed;
- Audit Logs – risks around the lack of audit logs and monitoring processes; and
- Interfaces and Reconciliations – risks in relation to the integration process at a business level where it was not yet clear what all the arrangements and controls for the system interfaces would be.

1.19   Following Phase 2 implementation, we have sought to revisit these areas, and our findings are set out below:

Role Based Permissions

1.20   The review confirmed robust system access controls are in place, managed by the Oracle Technical Support Team, to prevent unauthorised access and protect sensitive data. Internal access is synchronised with the Active Directory, while external accounts require manual creation and senior approval, with future automation of permissions in development.

1.21   However, we found that procedures for privileged access oversight are not fully documented, highlighting the need for a formal Privileged Access Management (PAM) policy and ongoing monitoring of support team capacity where there is no clear governance framework for how privileged access is granted, monitored, and reviewed. This increases the likelihood of inconsistent practices and gaps in accountability.

1.22   All account changes are tracked via support tickets with required managerial approval, ensuring permissions align with user roles.

Audit Logs

1.23   Audit logs are a critical detective and compensating control in an ERP system and provide a record of activities that allow for a comprehensive review of compliance and forensic investigation when issues arise. We found that audit logs are not enabled in the system for some high-risk areas, in particular, for logging changes to, and tasks completed by, privileged accounts. In addition, there is no documented evidence that business areas understand the audit log requirements, capabilities of what already exists in high-risk areas or that the risks associated with incomplete audit logs are understood and have been accepted. Without clear approval and governance, the Council faces increased risk that information is not available over what activity has been undertaken within the system and by whom.

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1.24   The control weaknesses previously identified in relation to the integration arrangements for the Accounts Receivable module remain, with a need to formalise the interface arrangements to manage the quality and integrity of the data in order to reduce the risk of fraud and/or misappropriation.

1.25   In other areas, based on the current arrangements, we were satisfied that there are reasonable controls in place, however, there is still some formalisation of the interface processes required, particularly in relation to ownership of this.

1.26   During our review, we found that functional support documentation and technical support documentation (FSD and TSD) needs to be updated to reflect the current working arrangements and to ensure the system can continue to function in a Business as Usual environment. However, it is positive to note that no incidents have been reported against the interfaces since the Phase 2 go-live.

1.27   All of our findings from this piece of work were presented to the Programme Board in the form of a position statement. In response, the Programme Board asked the Programme Management Office to make the necessary changes to address our findings through the programme's work allocation and risk management processes. We will continue to support the Programme Board and monitor the effectiveness of the controls in place to manage the risks identified.

Digital Literacy and Skills Training

1.28   With the Council being more reliant on information technology and data than ever before, it is important that the workforce understands the risks associated with the systems and data they use each day. In this environment, training becomes an integral preventive control to keep systems and data safe.

1.29   This audit sought to provide assurance that:

- The Council has a robust definition of what digital literacy and skills are required of officers;
- Training is current, easily accessible, and communicated frequently;
- Governance training and the IT Security Policy is supported by governance and practical digital literacy, and skills training link the two.

1.30   In completing the audit, we were able to provide **reasonable assurance**. We found that Council policies, such as the Data Protection & Information Security Policy, and mandatory Information Governance and Security training, clearly define the knowledge expectations for officers to safeguard Council IT assets, data, and systems. Policies are reinforced through accessible training modules, ensuring compliance with legislation and connecting policy with practical skills. Training is delivered through various formats, including eLearning, guidance documents, bespoke sessions, and in-person workshops. Much of this training is delivered by the Tech Advocates team. The Council has responded to emerging needs, such as training for new technologies like Copilot, and issuing targeted communications following cyber incidents.

1.31   Opportunities to improve the control environment were identified. The absence of a unified, Council-wide strategy for digital literacy and skills development may lead to inconsistent skill levels, fragmented initiatives, and missed opportunities for organisational efficiency and innovation. The fragmented nature of policies covering digital, data, and IT concepts means some areas, particularly

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device, data, and software security, are not comprehensively addressed through training, leading to potential cybersecurity vulnerabilities. Participation in available digital skills training is relatively low. The current training approach is reactive, based on issues that have arisen from new technologies and shifts in Council processes, rather than proactively increasing the skill level of users or developing greater technological efficiencies for Council processes.

1.32   To mitigate these risks, actions have been agreed to maintain current training resources, adopt a comprehensive digital skills strategy, and regularly review content gaps to better equip the workforce.

Neighbourhood Support Team (Hastings and Rother) Cultural Compliance

1.33   The Neighbourhood Support Team (NST) – Hastings & Rother, is an assessment and care management team within the Council's Adult Social Care department. The NST supports adults whose primary presenting need relates to physical health conditions and disabilities, neurological conditions and disabilities, age-related disability, end of life care, mild or moderate mental health issues, mild or moderate learning difficulties or disabilities, autism and associated conditions, physical disability with substance misuse as a secondary element, and acquired brain injury.

1.34   The objective of this audit was to provide assurance over compliance with corporate policies and procedures within the NST. In completing this work, we were only able to provide an opinion of **partial assurance** having identified areas where improvement was required, including the need to ensure that:

- An action plan to address the forecast (at the time of the audit) budget overspend for 2025/26 of £130k is developed;
- All staff involved in recruitment have completed the necessary training to help ensure compliance with policy and guidance;
- Staff expenditure claims are completed correctly and subject to appropriate review;
- Staff management processes are conducted in compliance with Council policy, including in relation to induction, probation, e-learning, supervision and annual leave; and
- Client personal information is held securely.

1.35   Actions for improvement were agreed with management in these areas as part of a formal management action plan, and a follow-up review will be undertaken to assess the extent to which the agreed actions have been implemented.

Section 17 Payments

1.36   Under Section 17 of the Children Act (1989), local authorities have a statutory duty to:

a) safeguard and promote the welfare of children within their area who are in need; and
b) so far as is consistent with that duty, promote the upbringing of such children by their families, by providing a range and level of services appropriate to those children's needs.

1.37   Section 17 budgets for the 2024/25 financial year totalled £1.7m, with total expenditure exceeding £2.5m, an overspend of almost £900k (52%).

1.38   East Sussex Children's Services, in line with many other local authorities, has experienced a significant increase in Section 17 expenditure due to a combination of interrelated pressures. Rising

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demand for support is being driven by escalating child and family poverty, the cost-of-living crisis, and a sharp increase in families living in temporary accommodation.

1.39   At the same time, diminished capacity and resources within partner agencies, including the voluntary and community sector, have impacted on vital preventative support, leaving the Council to meet more acute needs. The complexity of cases has grown, with overlapping issues such as poor parental mental health, substance misuse, and housing instability now commonplace.

1.40   The overall objective of our audit was to review the adequacy of key controls and procedures in relation to Section 17 Payments, including that:

- Payments are only made in line with expectations of the Children Act (1989);
- Processes in relation to Section 17 payments are applied equitably by individuals and teams, ensuring all families have the same opportunities;
- The process for review and approval of Section 17 payments is robust and clearly defined;
- Evidence in relation to the use of Section 17 payments is robust, allowing for review of payments and trends; and
- Budget management processes are robust and clearly defined, reducing the risk of overspends and ensuring that sufficient funds remain to support families as appropriate.

1.41   In completing this work, we were only able to provide an opinion of **partial assurance**. We found that there are no defined policies, procedures or training arrangements in place covering Section 17 payments and the situations in which they are appropriate. This is important to provide consistent guidance to staff across multiple social work teams which administer the payments. In addition, payments, to the value of approximately £456k annually, are being made to support Looked After Children (LAC), despite the purpose of Section 17 payments being to "promote the upbringing of children in need by their families". Making payments in respect of LAC may not always be appropriate and there is no Council policy covering whether payments should be made in respect of LAC, and, if so, in what circumstances.

1.42   We also found instances of staff involved in making Section 17 payments not completing declarations of interest, therefore increasing the risk that payments are not made fairly and without bias.

1.43   We were, however, pleased to note that, apart from those relating to LAC, payments made under Section 17 were appropriate, in line with legislation, and were subject to management approval. Despite the 2024/25 overspend, which was caused, principally, by an increase in demand, appropriate budget management processes were found to be in place.

1.44   A robust action plan to address the issues identified was agreed with management. A follow-up audit will be undertaken to assess the extent to which the agreed actions for improvement have been implemented.

2.   Counter Fraud and Investigation Activities

Counter Fraud Activities

2.1   The team continue to monitor intel alerts and share information with relevant services when appropriate.

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2.2   In addition, we are continuing to review matches released as part of the National Fraud Initiative (NFI). High risk matches will be prioritised for investigation and support provided to services reviewing the reports.

3. Action Tracking

3.1   All high priority actions agreed with management as part of individual audit reviews are subject to action tracking, whereby we seek written confirmation from services that these have been implemented. As at the end of quarter 1, it was confirmed that 6 of the 6 (100%) high-risk actions due to be implemented on a 12-month rolling basis had been actioned.

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:

Review	Rationale for Addition
Exceat Bridge	Reported in Q1 progress report.
Cherwell Replacement Project – Governance Arrangements Healthcheck	Added to the plan in response to a request from the service for additional assurance over a large and complex project.
Core Growth Hub Grant	Reported in Q1 progress report.
Cyber Security Programme Support	This assignment has been added to provide ad-hoc advice, governance, and support regarding risk, control, and probity for a recently launched programme aimed at enhancing the Council's cybersecurity arrangements.
Cyber Security in Schools	In response to emerging risks around cybersecurity responsibilities and vulnerabilities within schools.

4.2   To-date, the following audits have been removed from the audit plan:

Planned Audit	Rationale for Removal
Supporting Families programme	The Supporting Families programme ended on 31 March 2025. No further work is required from us at this time.
Cyber Security and Data Loss Risks in Third Party Supply Contracts and Cloud Services	Cancelled to allow resources to support broader programme activities. Nevertheless, key findings from work already completed in this area have been conveyed to the cybersecurity programme for further action.
Shadow IT Governance Arrangements	Contribution to the in-year reduction in audit plan days (see 4.3 below) and to support additional priority work within IT&D.

4.3   As a result of maternity leave and staff resignations during the year (which we have so far been unable to recruit against), we have had to reduce the audit plan by 76 days. This has been achieved through a combination of the removal of audits (as above) and unused contingency time. Fortunately,

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through the benefits of sharing resource across the Orbis Internal Audit partnership, we have been able to mitigate the impact of this reduction and will still be able to deliver sufficient work to provide an audit opinion at year-end.

4.4   The following audit work is currently in progress at the time of writing this report (including those at draft report stage, as indicated):

- Surveillance Cameras (draft report)
- Oracle Transition from Hypercare into Business as Usual (draft report)
- External Funding Follow Up (draft report)
- Deprivation of Liberty Safeguards (draft report)
- Pension Fund Administration of Pension Benefits (draft report)
- Online Safety Act – Compliance (draft report)
- Pension Fund Preparedness for Pooling Reforms
- HR Recruitment
- Revenue Budgetary Control
- General Ledger
- Children's Services Liquidlogic (LCS) and Controcc Systems
- Adult Social Care and Health Liquidlogic (LAS) and Controcc Systems
- Schools – various
- Cherwell Replacement Project
- Add Your Own Device
- Artificial Intelligence Tools
- General Data Protection Regulations Compliance – Covert Recording
- Cyber Security Programme Support
- Cyber Security in Schools

5.   Internal Audit Performance

5.1   Public Sector Internal Audit Standards (PSIAS), replaced on 1 April 2025 by new Global Internal Audit Standards (GIAS), required the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The results of our most recent self-assessment are included in the table below.

5.2   Our latest quality review exercise in December 2025 identified no major areas of non-conformance, with only minor improvements necessary relating to internal record keeping within the service.

5.3   In addition to our periodic self-assessments of effectiveness, 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:

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Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	2025/26 Internal Audit Strategy and Annual Audit Plan endorsed by Audit Committee on 28 March 2025.
	Annual Audit Report and Opinion	By end July	G	2024/25 Internal Audit Annual Report and Audit Opinion noted by Audit Committee on 4 July 2024.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	75.4% achieved by the end of Q3, against a Q3 target of 67.5%.
	Percentage of audit plan days delivered	90%	A	64.1% achieved by the end of Q3, against a Q3 target of 67.5%.
Compliance with Professional Standards	Global Internal Audit Standards	Conforms	G	April 2025 - Self Assessment against the Global Internal Audit Standards (GIAS) completed. No major areas of non-conformance identified. Some areas to ensure full compliance identified, including the update of the Audit Charter.
	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	97% for high priority agreed actions	G	100% - see section 3.1 above.

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Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	G	80%*

*Includes part-qualified staff and those undertaking professional training.

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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.

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