

Summary of Key Audit Findings for Quarter 4 2015/16

HR/Payroll

HR/Payroll is one of the Council's core financial systems and as such is subject to at least key control testing every year. The main purpose of this audit has been to seek assurance that:

- All employees on the payroll system 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 the individual being employed by ESCC.

Based on the work completed, we have been able to provide an opinion of **substantial assurance** over the control environment within the HR/Payroll system.

Some areas for further improvement were also identified, principally relating to:

- Strengthening controls over the movement and storage of personnel files, some of which could not be located during the course of our review;
- Increasing compliance with Council policies and procedures amongst line managers, especially with regard to:
 - Retention of key recruitment documentation;
 - Maintaining evidence of approval for changes in staff position and pay;
 - Proper authorisation of claim forms and supporting receipts.

All recommendations arising from the audit have been agreed with management and will be followed up by Internal Audit as part of our 2016/17 review.

Pension Fund Governance and Investments

This audit forms part of the Internal Audit Strategy for the Pension Fund and should be seen in context with the other audits of the Fund, which are:

- Processes and Systems; and
- External Control Assurance (see below).

ESCC has a statutory responsibility to administer and manage the Pension Fund. The scheme provides retirement benefits for County Council employees and also for employees of Brighton & Hove City Council, the five borough and district councils in East Sussex, together with various other scheduled and admitted bodies. Responsibility for the overall direction of the Fund's investment policy has previously

sat with the Pension Fund Investment Panel (PFIP). Day to day management of the investments has been delegated to external fund managers, who report to the PFIP quarterly on their activities.

The introduction of the Public Service Pensions Act 2013 saw changes to local government pension schemes' governance arrangements. From 1 April 2015, a Pension Board and Pension Committee have been in place and these replaced the PFIP and the Governance Committee role.

Our review examined a wide range of control objectives, including:

- All Pension Fund investments are completely, accurately and correctly recorded in the general ledger, including the proper segregation of ESCC and Pension Fund assets;
- Pension Fund and fund managers' performance are monitored, with appropriate action taken in the event of under-performance;
- All Pension Fund income is received promptly and completely.

Overall we have been able to provide an opinion of **full assurance** over internal controls with only a small number of recommendations being made, all of which have been deemed to be low risk.

Pension Fund External Control Assurance

The main purpose of this audit was to ensure that adequate assurance is provided on fund manager systems through statutory reporting from the relevant investment managers, custodians and property managers. The control objectives from our review were as follows:

- 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.

Based on the work carried out, we have been able to provide **full assurance** over the control environment in this area with only one low risk recommendation for improvement being made.

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. The control objectives of this 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.

Client Affairs – Follow Up

In March 2015, Internal Audit completed a review of Client Affairs which resulted in an audit opinion of partial assurance. The review found that the Council were holding excessively large sums on behalf of clients, insufficient evidence was being submitted by providers to support clients' expenditure and that floats were paid in advance to some providers.

ESCC has responsibility for the affairs of 262 clients. Of these, 63 are appointeeships, on whose behalf ESCC ensures that all state benefits are collected and are administered in their best interests. The remaining 199 clients are those who have other assets, including private income, and these are administered as deputyships, following an order from the Court of Protection.

Due to the control issues highlighted above and consequent audit opinion, a follow-up review has been undertaken during 2015/16 with the objective of assessing the extent to which the agreed actions from our previous audit report have been implemented.

Based on the follow up work undertaken, we are now able to provide an opinion of **substantial assurance** over the controls in this area. We have found evidence of activity to address the majority of recommendations made in our previous report with clear improvement being made in many areas.

There are however, still some lower risk areas where particular progress is required, specifically, ensuring that:

- Clients' income is reconciled to income due to ensure that they receive all income to which they are entitled;
- Management makes full use of the IT systems available and reduces its reliance on standalone spreadsheets.

All recommendations made, including those where we have highlighted the need to ensure full implementation of previous actions that are still work in progress, have been agreed within management.

SPOCC

SPOCC is the IT system used by the Supporting People Team to process payments to providers of housing related support services. In the financial year 2014/15, payments of approximately £9.3m were made through SPOCC. The key control objectives of this review were to ensure that:

- Access to the system is secure and data held is protected against loss or damage in accordance with the provisions of the Data Protection Act;
- System security is subject to appropriate review;
- System upgrades and minor software patches are tested and implemented in a controlled manner;
- Only authorised staff may commit the Council to expenditure;
- Payments are made correctly, within agreed timescales and only for services received by eligible service users;
- There is an adequate segregation of duties between payment and contracting functions;
- Data from SPOCC is transferred completely and accurately to SAP;
- All expenditure incurred is accurately and completely recorded.

In completing this work, we were able to provide an opinion of **substantial assurance**. A small number of recommendations were made, none of which were deemed high risk, including the need to ensure:

- Upgrades to the SPOCC system are properly tested and approved before being introduced into the live environment;
- User accounts are properly deleted when an employee leaves Council employment.

All of the recommendations made in this review and timescales for their implementation have been agreed with management.

Troubled Families Programme

The Troubled Families Programme (TFP) was first introduced in 2012/13 and later developed into an amended scheme in 2015/16, aimed at engaging with and achieving successful outcomes for families with problems in two or more of the following areas:

- crime and anti-social behaviour;
- children missing education;
- children needing targeted help;
- worklessness or financial exclusion;
- domestic violence; and
- mental & physical health issues.

The programme involves the Council working with a range of external partners with funding being received from the Department of Communities and Local Government (DCLG). To claim this funding, known as Payment by Results (PbR), periodic

returns have to be made to the DCLG that demonstrate adequate progress and are supported by appropriate evidence. It is a requirement that at least 10% of each of these claims is reviewed by Internal Audit.

The main focus of this review was to examine a sample of 31 claims from the September 2015 return to DCLG to confirm that robust controls are in place to ensure that all data reported in support of the application was correct and supported by sufficient documentary evidence.

Overall, we have found that there is scope for improvement in the PbR claim system and, as a result, have only been able to provide **partial assurance** that controls are operating satisfactorily. Some PbR claims were found not to have been supported by robust evidence, with a general lack of understanding of PbR among keyworkers and managers contributing to many of the weaknesses found.

In addition to the six main recommendations agreed with management as part of our audit, a more detailed report has been compiled by management within Children's Services, addressing specific instances of poor Family Keywork practice on a service by service basis.

All recommendations made will be subject to formal follow up as part of our work auditing future Troubled Families PbR claims.

Shared Care Information System (SCIS)

The Shared Care Information System (SCIS) programme is changing the way all records (or cases) in Adult Social Care (ASC) and Children's Services (CSD) are created and monitored. The Council has implemented LAS (Liquidlogic Adults System) and LCS (Liquidlogic Children's System) to replace CareFirst as the client information and case management system. The current social care finance system for ASC, Controcc, has been incorporated for both systems to provide care and finance information in one place.

The main purpose of our work in relation to the SCIS programme, agreed with the SCIS Programme Board, was to provide an opinion on whether risks associated with five key aspects of the system implementation were properly managed. The main focus areas were:

- Business process re-engineering across ASC, CSD and Finance;
- Data quality and migration;
- Testing arrangements;
- System security and administration, and;
- System interfaces and reconciliation.

As previously reported, we provided regular updates to the Board and the ASC Departmental Management Team (DMT) for the LAS implementation. This culminated in a report for their go-live decision in November that summarised our work and provided a commentary on issues that could impact their decision. DMT subsequently received sufficient assurance from programme management to enable them to make the decision to go-live with LAS with effect from 1 December 2015.

Using the same approach to assurance, we then focussed on the LCS implementation, which had a planned go-live date of 23 February 2016. Our work identified a small number of areas where controls required strengthening, including ensuring that:

- Assistant Director approval is obtained in all cases when a child is about to become looked after;
- There is an adequate separation of duties between the setting-up of looked after children payments and the approval of these;
- Adequate reconciliation checks are completed when transferring active payment data into LCS Controcc;
- The Controcc to SAP interface is properly tested and unresolved issues are addressed before full implementation;
- User acceptance testing is fully completed and properly recorded, and;
- All users are appropriately trained.

Having obtained assurance that these and other areas raised by the programme team were satisfactorily addressed, the Board made the decision to go-live on the 23 February as planned.

We will be undertaking full system reviews of both LAS and LCS as part of our 2016/17 audit plan.

Management of Staff Transfers and Leavers Follow-Up

Previous audits have been completed in this area to establish whether the processes for managing staff transfers and leavers are efficient and effective and to assess the adequacy of controls for removing access to network folders, systems, Council buildings and assets once an employee has left, or transferred to a different part of the organisation. Due to the weaknesses identified, only partial assurance audit opinions have been given, mainly as a result of ineffective and inefficient arrangements for controlling access to Council network folders and IT systems. This resulted in security risks for the organisation, with the potential for confidential data being vulnerable to unauthorised access after employees had left or transferred into new roles.

Given the previous opinions of partial assurance, we have now completed a further follow-up review; the main purpose of which was to assess the extent to which the outstanding recommendations from the previous report had been implemented. The scope of the audit was also extended to incorporate a data matching exercise between SAP (the Council's main financial system) and Active Directory (a database of users and access rights) to identify active users who should not hold active user accounts.

In undertaking this work, we found that, although progress and improvements had been made, further improvements were still necessary. We were not therefore able to improve upon our opinion of **partial assurance**, although it should be noted that this was mainly due to the additional work undertaken, and also because considerable complexities had been identified in addressing some of the remaining risk areas.

A comprehensive action plan was agreed with management who, we understand, are fully committed to addressing the outstanding issues and have taken robust action to address these. We also understand that the complexities referred to above have now been overcome. A further follow-up review will be completed in 2016/17 where we anticipate that the necessary control improvements will have been made.

ESCC Microsites

Microsites are Council owned or managed websites, with some having links from the main corporate website and others being independent. One of the key benefits of microsites is the ability to have additional functions and aesthetics which the current corporate website is not able to provide. However, development of separate microsites can be costly and resource intensive and the sites themselves are harder to maintain and may not necessarily comply with security standards, increasing the risk of unauthorised access and modification.

The current arrangements within the Council for managing microsites are devolved to departments, with the Communications Team and ICT Services only able to provide advice and support where they are aware of such sites being created.

This review, undertaken by Mazars, looked at the effectiveness of controls in relation to:

- Microsite Strategy;
- Microsite Content Management, Compliance and Security;
- Microsite Change and Content Accuracy Control;
- Microsite Usage Monitoring; and Stakeholder Needs.

Whilst some areas of good practice were identified during the review, an audit opinion of **minimal assurance** could only be provided over the control environment, mainly as a result of there not being any formal governance arrangements or clear policies/procedures in place in relation to the development and maintenance of microsites. This could potentially mean that microsites are implemented which do not comply with security standards, are not subject to robust change control procedures and may not comply with legislation (including the Data Protection Act and Disability Discrimination Act).

In working closely with management, a number of opportunities for improvement were identified, including the need to have:

- Formal governance arrangements over the creation and maintenance of microsites;
- An approval gateway for all new sites and changes to existing provision;
- Corporate microsite policy and guidance;
- A comprehensive review and risk gap analysis of existing sites.

A summary of the main findings from this review was presented to the Information Strategy Board (ISB) and strategies for improvement have been agreed with management who are committed to ensuring that these are properly addressed. It should be noted that the subject of microsites is a corporate issue and that, whilst

the ICT and Communications Teams have roles within this, the effectiveness of these is dependent on departmental leadership working within the governance arrangements that are being established.

A follow-up review will be undertaken later in 2016/17.

Social Media

Social media is defined as using Internet-based applications or broadcast capabilities to disseminate and/or collaborate on information. This is different than traditional advertising and marketing channels due to the populist nature of social media, in which anyone with an Internet-attached device can, with near anonymity and without accountability, participate in public or private information or disinformation sharing, depending on access privileges to a social media web site.

The Council is continually looking to improve how it communicates, reaches out and interacts with the residents and the communities it serves by making the best use of all available technology. By developing use of social media, the Council is responding to a clear customer demand. A growing number of Council residents use social media and expect to engage in this way.

This review, completed by Mazars, evaluated the adequacy and effectiveness of key controls relating to the use of social media within the Council. The main areas reviewed were:

- Strategy and Governance – Policies and Frameworks;
- People – Training and Awareness;
- Processes;
- Technology.

In all of the above areas, the Council was found to have a robust framework in place for managing its social media presence and an opinion of **substantial assurance** was therefore provided. One recommendation, relating to the need to further strengthen password parameters on the Council's social media management software, was agreed with management.

Schools - Senior Leadership Salaries (Themed Review)

In 2014, to assess the extent to which senior staff in East Sussex schools are paid in line with the appropriate guidelines, we examined a sample of senior leadership team salaries, discretionary and other salary related payments across a sample of schools. Due to the level of non-compliance with a number of key controls, we were only able to provide an audit opinion of minimal assurance and noted that a failure to have in place robust pay and reward structures could lead to reputational damage to both the Council and schools.

In the course of our work, we found:

- Instances where Headteachers' pay was more than the top of the Individual School Range (a band, known as the ISR, that corresponds to the size of the

school), sometimes by as much as 50%, without sufficient evidence to support the reasons for these payments;

- A lack of evidence that salary increases were properly approved by Governing Bodies;
- Inconsistencies in the way Headteacher's pay is centrally processed when they assume a temporary Executive Headteacher or Local Leader of Education role;
- Inconsistencies in the way senior staff are paid for the different roles and responsibilities they perform outside of their normal day-to-day activities, including Ofsted inspections.

We have now completed a follow-up review of this work. Since the previous audit, we found that a number of improvements had been made to the system, with some of the recommendations no longer relevant due to changes to teachers' pay and conditions. However, one key area for improvement remained, relating to the need for the ESCC Personnel Support Unit to obtain and retain evidence to support performance related salary increases within schools, principally in order to ensure these have been properly approved. Consequently, we were only able to provide an opinion of **partial assurance**. In addressing the one outstanding finding, we understand that management have reminded staff of the necessity to seek confirmation and supporting documentation for school senior leadership team pay reviews. In addition, supporting evidence is being obtained retrospectively for a number of pay increases.

Individual School Audits

We are continuing our schools work in two main areas:

- Audits in a sample of higher risk schools and follow-ups where poorer audit opinions have been given. This work is delivered by our own Internal Audit team, and;
- A wider programme of audits of randomly selected schools, delivered through Mazars Public Sector Internal Audit.

As reported previously, the purpose of this wider sample of school work is to assess financial governance in more schools, not just those deemed to be higher risk, and to gauge the effectiveness of a new training programme recently delivered to governors, headteachers and school business managers. A summary of the results of opinions arising from this work in the final quarter is set out in the following table:

Higher Risk and Follow Up Audits (Delivered in house)	Location	Type	2016/17 Budget £'000	Opinion
Ditchling (St Margarets) CE Primary – Follow up (still draft)	Ditchling	Voluntary Controlled	560	Substantial Assurance
The Causeway Secondary School – Follow up	Eastbourne	Community	3,712	Partial Assurance
St Marks CE Primary School	Hadlow Down	Voluntary Aided	393	Minimal Assurance
Ocklynge Junior School	Eastbourne	Community	2,720	Minimal Assurance

Randomly Selected Audits (Delivered by Mazars)	Location	Type	2015/16 Budget £'000	Opinion
Brede Primary School	Rye	Community	553	Substantial Assurance
Stonegate CE primary School	Wadhurst	Voluntary Controlled	462	Substantial Assurance
Little Common School	Bexhill	Community	2,002	Partial Assurance
Roselands Infant School*	Eastbourne	Community	1,003	Partial Assurance
Battle and Langton CE Primary school	Battle	Voluntary Controlled	1,536	Partial Assurance
Guestling Bradshaw CE Primary School	Guestling, Hastings	Voluntary Aided	801	Partial Assurance
St Thomas CE Primary School	Winchelsea	Voluntary Aided	596	Partial Assurance
Tollgate Community Junior School	Eastbourne	Community	1,414	Partial Assurance
Maynards Green Community School, Horam	Horam, Maynards Green	Community	760	Partial Assurance
St Thomas a Beckett Junior School	Eastbourne	Voluntary Aided	927	Minimal Assurance

* Federated with Stafford

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:

- Client Affairs
- General Ledger
- Social Care Assessment and Planning Team – Sorrell Drive
- Senior Leadership Team Salaries – Follow-Up
- E-Invoicing
- Insurance and Other Pre-Contract Checks for Property Works
- Adult Social Care Procurement
- High Weald Area of Outstanding Natural Beauty
- Department for Transport Capital Block Funding Claim
- Broadband Annual Return
- Contracted Car User Status

The following audits, originally scheduled for 2015/16, 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 2016/17 audit plan. In all cases, these changes have been agreed with both the Chief Finance Officer and senior departmental managers:

- Care Act
- Orbis
- Contract Management
- Capital Programme
- Impact of Savings Activity
- Safeguarding
- Waste
- ICT Service Developments and Change
- Storage Area Network