

ANNEXE A

**INTERNAL AUDIT SERVICES
ANNUAL REPORT AND OPINION
2015/2016**



1. Internal control and the role of Internal Audit

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter and Terms of Reference.

1.2 It is a management responsibility to establish and maintain internal control systems and to ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

1.3 Internal audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies, as well as processes for internal management review, which can also provide assurance and these are set out in the Council's Local Code of Corporate Governance and its Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The County Council's Internal Audit Strategy and Plan is updated each year based on a combination of management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. The process of producing the plan involves extensive consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered.

2.2 In accordance with the audit plan for 2015/16, a programme of audits was carried out covering all Council departments and, in accordance with best practice; this programme was reviewed during the year and revised to reflect changes in risk and priority.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to Corporate Management Team (CMT) and Audit, Best Value and Community Services Scrutiny Committee (ABVCSSC) as part of our quarterly internal audit progress reports.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Head of Assurance (as the Council's Head of Internal Audit) can provide reasonable assurance¹ that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2015 to 31 March 2016. Audit testing has confirmed that the majority of key controls examined are working in practice, with some specific exceptions.

¹ The use of term 'reasonable assurance' reflects that the opinion has been reached based on the work set out in paragraph 4 below and that it is not possible or practicable to audit all activities of the County Council within a single year.

3.2 Where improvements in controls are required, we have agreed appropriate remedial action with management. It should, however, be noted that three instances have been identified during the year where insufficient action has been taken to improve internal controls in areas where we were previously only able to provide 'partial' or 'limited' assurance' opinions. These are commented on in more detail below and will be subject to further review by Internal Audit in due course.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

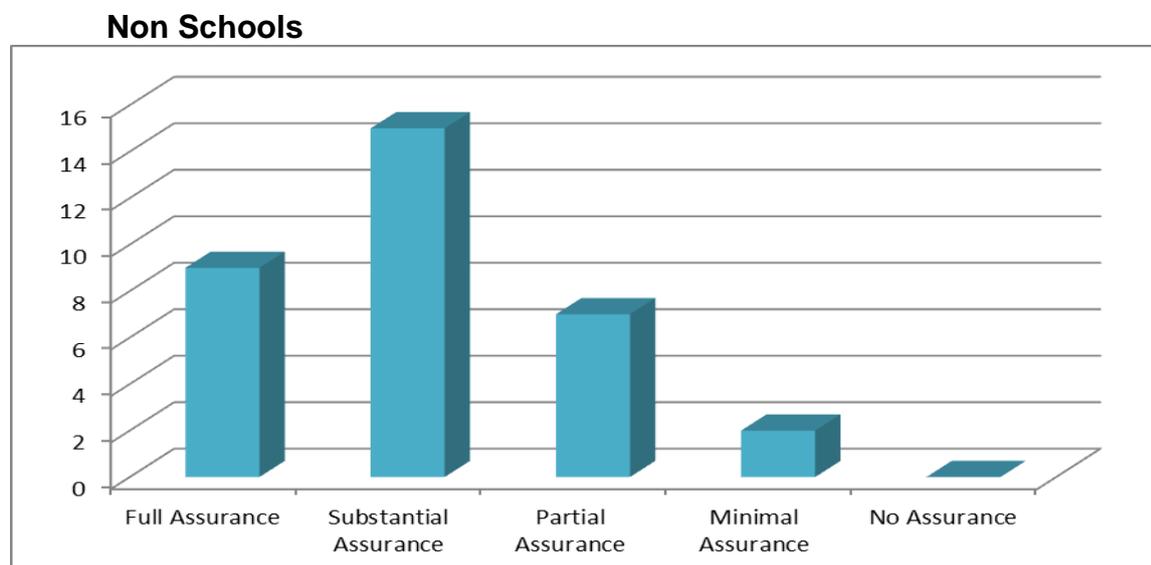
- All audit work completed during 2015/16, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to the findings and recommendations;
- Ongoing advice and liaison with management, including attendance by the Head of Assurance at monthly Statutory Officers Group meetings;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

4.2 No limitations have been placed on the scope of Internal Audit during 2015/16.

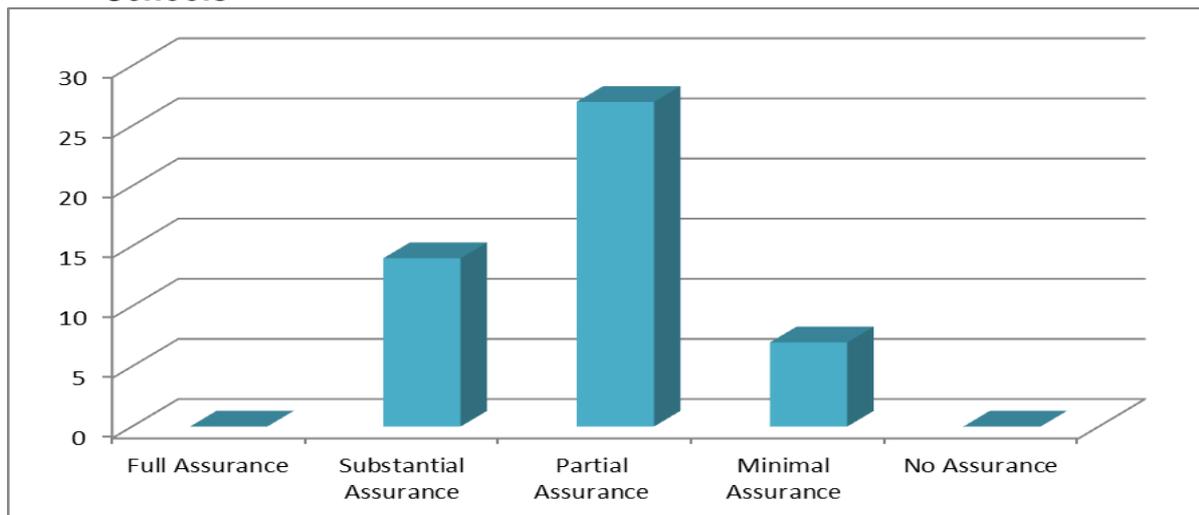
5. Key Issues for 2015/16

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, should be taken into account when preparing and approving the Council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graphs provide a summary of the outcomes from all non-school audits and school audits finalised during 2015/16 with standard audit opinions:



Schools



5.3 A full listing of all completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. Significantly, it is pleasing to report that, with the exception of schools, only two of the audits completed in the period have resulted in 'minimal assurance' and there have been no 'no assurance' opinions.

5.4 Included with the non-schools graph above are a total of six follow up reviews where we have revisited areas which had previously received lower levels of assurance. Whilst for three of these, we have been able to issue a revised opinion of substantial assurance; it is of concern that in the other three audits, insufficient improvement in control has been secured, with partial assurance opinions being given.

5.5 For the three audits concerned, Contract Management, Staff Transfers and Leavers and Schools Senior Leadership Salaries, we have agreed revised action plans with management who have committed to ensuring the necessary control improvements are made. In all cases, this will be followed up once again by Internal Audit during the coming months, with the results being reported to ABVCSSC as part of our 2016/17 quarterly progress reports.

5.6 As well as conducting formal follow up reviews, we have in place arrangements to track the implementation of all high risk audit recommendations issued during the year. As at 31 March 2016, there were two high risk recommendations outstanding beyond the agreed implementation date, both of which related to schools. We are continuing to liaise with school management on these issues and expect them to have been resolved in the near future.

5.7 At the time of producing this report, a total of 8 reviews remained in progress, all of which will be completed during the first quarter of 2016/17. The finalisation of these reports will result in 100% completion of the 2015/16 internal audit plan.

Key Financial Systems

5.8 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. It is pleasing to report that of those completed during 2015/16, all of these, with the exception of Controcc (partial assurance), resulted in either full or substantial assurance being provided over the control environment.

Schools

5.9 Throughout the year, we have completed a programme of assurance work in schools in accordance with our agreed Schools Internal Audit Strategy. For 2015/16, this has focussed on 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 service, and;
- A wider programme of audits of randomly selected schools, delivered through Mazars Public Sector Internal Audit.

5.10 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 currently being delivered to governors, headteachers and school business managers. A full list of all schools audited in the year, along with the relevant audit opinions, is provided within Appendix B to this report.

5.11 Given that the majority of the randomly selected school audits will be have been completed in advance of the new training programme being concluded, the true effectiveness of the training will not be known until later in 2016/17 when the second sample of school audits is completed. The initial results of our work do, however, indicate that the pattern of poor internal control found in the higher risk group of schools does not appear to be replicated more widely.

5.12 Other audit initiatives during the year to help improve financial governance in schools have included:

- Continuing the work of the Schools Risk Review Group, made up of representatives from Internal Audit, Personnel and Training, Finance, and the Standards and Learning Effectiveness Service (which includes Governor Services), the primary aim of which is to ensure appropriate targeted support and intervention is provided to schools;
- Supporting the development of the more robust training programme for key school based personnel, including business managers, headteachers, chairs of finance committees and chairs of full governing bodies. This training has incorporated the main lessons to be learned from past audit findings;
- Increasing visibility and transparency of audit findings by sending all audit reports directly to individual governors and emphasising the need for these to be subsequently presented and discussed at full governing body meetings;

- Producing quarterly information bulletins for all school governors highlighting common themes and issues arising from audit work which we recommend they seek assurance on within their own schools.

Shared Care Information System (SCIS)

5.13 Throughout 2015/16, Internal Audit have continued to work closely with the SCIS Programme Team to provide assurance over the implementation of a new client information and case management system (Liquidlogic) for Children's and Adult Services. The current social care finance system for Adult Social Care (ASC), Controcc, is being incorporated to provide care and financial information for both Adults and Children in one place. The main areas of focus for our assurance have been:

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

5.14 As previously reported, we have provided regular updates during the year which culminated in reports to the Programme Board in November 2015 and February 2016, summarising the work carried out and providing a commentary on any issues which could impact on the Board's decision to go live with Liquidlogic Adults (LAS) and Liquidlogic Children's (LAS) systems.

5.15 Whilst some issues and areas of potential risk were highlighted for management, this enabled the Board to seek assurance from the programme team that these would be resolved prior to any go-live, either through the implementation of formal controls or via temporary workarounds. In the case of both systems, appropriate assurance was obtained from management with the systems now live and in operation across both departments. During 2016/17, we will be undertaking our first full audits of SCIS to ensure the system is operating in a robust control environment.

Cultural Compliance

5.16 Cultural compliance reviews are intended to provide assurance that services are delivered effectively within teams across the Council and in compliance with appropriate policies and procedures. In particular, the reviews focus on service delivery and good management practice, budget management, expenditure, income, staff management and assets and inventory management.

5.17 In 2015/16, we have completed three such reviews, with another due to be finalised soon, covering teams in ASC, CSD, CET and BSD. It is pleasing to report that, for the three reviews completed so far, these have resulted in audit opinions of at least 'substantial assurance', demonstrating the existence of robust management controls in all of the areas sampled. Further similar reviews are planned for 2016/17.

Anti Fraud and Corruption

5.18 During 2015/2016, we logged 30 allegations under the Council's Anti-Fraud and Corruption Strategy, in all cases identified through the Council's confidential reporting hotline or notifications from departments. As a result of the allegations, 10 investigations were undertaken by Internal Audit, with the remainder being referred to local management or assessed as requiring no further action. The following provides a summary of the investigation activity undertaken by internal audit in the last 12 months:

- One investigation into an employee suspected of misusing petty cash and working whilst receiving paid sick leave resulted in the individual resigning during the disciplinary process;
- One investigation into a member of staff suspected of claiming excessive mileage and expenses. Whilst their actions were not deemed to be deliberate, they have been required to repay £1,500 to the Council;
- An investigation into the theft of money from a school. This was found to relate to a previous investigation and subsequent prosecution and was referred back to the police who did not wish to take any further action against the individual;
- One whistleblowing allegation relating to corrupt recruitment processes at a school resulted in a joint investigation and audit of the school. Whilst no evidence of impropriety was found, the successful candidate resigned before taking up the post. A range of recommendations specifically relating to the management of conflict of interests were also made in the audit report which will be followed up during 2016/17;
- One investigation into a potential conflict of interest in relation to the sourcing of training within Children's Services. Whilst procurement processes were not sufficiently robust, no evidence was found that the member of staff in question had personally benefited from the process and no further action was taken as a result;
- An investigation into another allegation relating to misuse of Adult Social Care direct payments was unable to find any evidence to support the allegation and was closed without further action;
- An investigation into an ESCC employee submitting excess mileage claims was undertaken but there was insufficient evidence found to support any further action. However, the investigation highlighted that another employee had submitted duplicated mileage claims which resulted in an agreement for all excess amounts to be repaid;
- One referral relating to the misuse of Adult Social Care direct payments is now an ongoing joint investigation with Wealden DC, encompassing enquiries into direct payment fraud, misuse of grant funded building adaptations and council tax fraud;
- There is an ongoing investigation into an employee submitting excessive mileage claims. The value of the excess claims is estimated to be over £1000.

5.19 Any internal control weaknesses identified during our investigation work are reported to management along with appropriate recommendations for improvement. This work is also used to inform future internal audit activity.

5.20 As part of the Cabinet Office's (previously the Audit Commission's) National Fraud Initiative (NFI), the Council is required provide a range of data in order to carry out a data matching exercise. Data matching involves comparing computer records held by one body against other computer records held by the same or another body for the purpose of identifying potential cases of error or fraud.

5.21 Internal Audit have co-ordinated the production and submission of this data on behalf of the Council, covering a range of areas, including payroll, pensions, creditors, residential care clients, concessionary travel passes, residents parking permits and clients in receipt of direct payments. The results from the exercise were made available in March 2015 for further investigation. Although a small number of matches were still being investigated at the time of writing this report, overpayments totalling £17,492 have so far been identified. These specifically relate to ESCC pensioners who had died but where pension payments continued to be made. In all cases, the pension payments have been ceased whilst our investigations continue, which will include efforts to recover all overpaid sums.

5.22 The latest round of the NFI is due to commence later in 2016/17 with Internal Audit once again co-ordinating the production and submission of data on behalf of the Council.

5.23 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the authority and in raising awareness amongst staff. During 2015/16, this has included the delivery of both targeted counter fraud training from teams in specific higher risk areas as well as general awareness sessions available to all staff.

5.24 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risks of fraud. This includes working with local fraud hubs; the aim of which is to deliver a strong and co-ordinated approach to preventing, detecting and responding to the risks of fraud.

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require 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 following paragraphs provide a summary of our performance during 2015/16, including the results of our latest internal PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The new Standards cover the following aspects of internal audit, all of which have been assessed during 2015/16 by the Head of Assurance:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;
- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of this work found a high level of conformance with the Standards with only a small number of actions identified. The main areas for improvement relate primarily to reviewing and updating our internal quality manual and increasing awareness of the service through the intranet and internet. In all cases, work is continuing to address the required actions, many of which will be considered as part of our ongoing work to develop the Orbis partnership with internal audit colleagues from Surrey County Council and Brighton and Hove City Council.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 Despite resourcing challenges during the year, 89.1% of the 2015/16 audit plan was completed, just fractionally below our 90% target. A small number of outstanding reviews were nearing completion at year end, with all reports due to be finalised early in quarter 1 of 2016/17. We are currently exploring opportunities to improve the benchmarking arrangements for internal audit and will report on this in due course when further information becomes available.

6.6 Internal Audit is continuing to liaise with the Council's external auditors, KPMG, as part of which both teams are endeavouring to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, CMT and the ABVCSSC will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.

Appendix A

Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance Year End
Client Satisfaction					
Chief Officer/DMT	Consultation / Survey	Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through Chief Officer consultations in February / March 2016, where high levels of satisfaction confirmed.
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	G	94%
Section 151 Officer	Liaison Meetings	Quarterly	Satisfied with service quality, adequacy of audit resources and audit coverage.	G	Confirmed through ongoing liaison throughout the year and via approval of audit strategy and plan.
ABV&CSSC	Chairs Briefing and Formal Meetings	Quarterly / Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through annual review of effectiveness and feedback from committee as part of quarterly reporting.
Cost/Coverage					
CIPFA Benchmarking	Benchmarking Report and Supporting Analysis Tools	Annual	1. Cost per Audit Day; 2. Cost per £m Turnover; equal to or below all authority benchmark average	G	Opportunities to improve benchmarking being explored. Last results available are for 2012, these show: 1. £316 against average of £325 2. £559 against average of £1,004
Local and National Audit Liaison Groups	Feedback and Points of Practice	Quarterly	Identification and application of best practice.	G	Ongoing via attendance at County Chief Auditors Network, Home Counties Audit Group and Sussex Audit Group.
Delivery of the Annual Audit Plan	Audits Completed	Quarterly	90% of Audit Plan Completed.	A	89.1%

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance Year End
Professional Standards					
Compliance with professional standards	Self-Assessment against new Public Sector Internal Audit Standards	Annual	Completed and implementation of any actions arising.	G	Self-assessment completed, improvement plan in place and being actioned.
External Audit Reliance	Key Financial Systems Internal Audit Activity	Annual	Reliance confirmed.	G	Whilst KPMG no longer seek to directly place reliance on the work of internal audit, as part of their 2015/16 audit plan they reviewed the internal audit function and reports issued. No matters have been raised as a result.

Summary of Opinions for Internal Audit Reports Issued During 2015/16

Full Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
High Weald Area of Outstanding Natural Beauty (AONB)	CET
Treasury Management	BSD
New Highways Contract	CET
General Ledger	BSD
Pension Fund Governance and Investments	BSD
Pension Fund External Control Assurance	BSD
Accounts Payable	BSD
Public Health Commissioning	ASC
Cultural Compliance Review - The Family Plus Team / Family Group Conference	CSD

Substantial Assurance:

Audit Title	Department
Accounts Receivable	BSD
Trapeze	CET
Cultural Compliance Review – Joint Community Rehabilitation (JCR)	ASC
Social Care Assessment and Planning Team (Sorrel Drive)	CSD
SAP Security and Administration Follow-Up	BSD
Agile Technology Security Audit	BSD
Coroner's Office Follow-Up Review	G&CS
The Keep	CET
HR/Payroll	BSD
Procurement	BSD
Client Affairs – Follow Up	ASC
SPOCC	ASC
Social Media	BSD
Cultural Compliance Review – The Communications Team	G&CS
East Sussex Better Together - Governance and Pooled Budget Arrangements	ASC

Partial Assurance:

Audit Title	Department
Compliance with ESCC Procurement Standing Orders	BSD
Contract Management Follow-Up	BSD
Controcc and Associated Payment Processes and Procedures	ASC
Special Educational Needs and Disabilities (SEND)	CSD
Troubled Families Programme	CSD
Management of Staff Transfers and Leavers Follow-Up	BSD
Senior Leadership Team Salaries (SLT) Follow Up	CSD

Minimal Assurance:

Audit Title	Department
Public Health Local Service Agreements	ASC
ESCC Microsites	BSD

Other Audit Activity Undertaken During 2015/16 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Social Care Information System (SCIS)	ASC/CSD
E-Invoicing	BSD
Department for Transport Capital Block Funding Claim	CET
Broadband Annual Return	CET
Contracted Car User Status	BSD

Schools

Higher Risk and Follow Up Audits (Delivered in house)	Opinion
St Richard's Catholic College Follow-up	Substantial Assurance
The Bishop Bell CE School Follow-up	Substantial Assurance
Denton Primary School and Nursery Follow-up	Substantial Assurance
Ditchling (St Margarets) CE Primary Follow up	Substantial Assurance
College Central (Pupil Referral Unit)	Partial Assurance
St. Mary's School, Horam	Partial Assurance
Stafford Junior School Follow Up	Partial Assurance
The Causeway Secondary School Follow up	Partial Assurance
Pevensy and Westham CE Primary School	Minimal Assurance
Sacred Heart Catholic Primary School	Minimal Assurance
Castledown Primary School and Nursery	Minimal Assurance
St Marks CE Primary School	Minimal Assurance
Ocklynge Junior School	Minimal Assurance
Randomly Selected Audits (Delivered by Mazars)	
Catsfield CE Primary School	Substantial Assurance
St. Peter and St. Paul CE Primary School	Substantial Assurance
Wadhurst CE Primary School	Substantial Assurance
Brede Primary School	Substantial Assurance
Stonegate CE primary School	Substantial Assurance
St Andrews CE Infant School	Substantial Assurance
Rocks Park Primary School	Substantial Assurance
St Phillip's Catholic Primary School	Substantial Assurance
Bonnors CE Primary School	Substantial Assurance
Laughton Community Primary School	Substantial Assurance
Broad Oak Community Primary School	Partial Assurance
Dallington CE Primary School	Partial Assurance
High Hurstwood CE Primary School	Partial Assurance

Iford and Kingston CE Primary School	Partial Assurance
Manor Primary School	Partial Assurance
Mayfield CE Primary School	Partial Assurance
Rodmell CE Primary School	Partial Assurance
St. Paul's CE Primary School	Partial Assurance
West Rise Junior School	Partial Assurance
Little Common School	Partial Assurance
Roselands Infant School	Partial Assurance
Battle and Langton CE Primary school	Partial Assurance
Guestling Bradshaw CE Primary School	Partial Assurance
St Thomas CE Primary School	Partial Assurance
Tollgate Community Junior School	Partial Assurance
Maynards Green Community School, Horam	Partial Assurance
All Saints CE Primary School, Bexhill	Partial Assurance
Chantry Community Primary School	Partial Assurance
Hamsey Community Primary School	Partial Assurance
St Mary Magdalene Catholic Primary School, Bexhill	Partial Assurance
Little Horsted CE Primary School	Partial Assurance
Nutley CE Primary School	Partial Assurance
Salehurst CE Primary School	Partial Assurance
Parkside Primary School	Minimal Assurance
St Thomas a Beckett Junior School	Minimal Assurance

Internal Audit Assurance Levels:

Full Assurance: There is a sound system of control designed to achieve the system objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.

Substantial Assurance: Whilst there is a sound system of control, there are a small number of weaknesses which put some of the system/service objectives at risk and/or there is evidence of non-compliance with some controls. Opportunities to strengthen controls still exist.

Partial Assurance: Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Authority.

Minimal Assurance: Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve will lead to an increased risk of loss or damage to the Authority.

No Assurance: Control is generally weak or non-existent, leaving the system open to significant error or abuse and high risk to the system or service objectives. A high number of key risks remain unidentified and/or unmanaged.