

**INTERNAL AUDIT
ANNUAL REPORT & OPINION
2019/2020**



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.

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 Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The 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 2019/20, 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. This has included responding to and investigating allegations of fraud and other irregularities.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to the Audit Committee as part of our periodic internal audit progress reports. Whilst it did not make a material difference to our overall audit plan delivery for the year, and our subsequent annual audit opinion, the Coronavirus pandemic meant that a number of reviews in progress at the time were not completed to final report stage. Where appropriate, the findings from these audits were still reported to services for information, with a view to finalising the reports at a future date.

2.4 In other cases, planned work was suspended as a result of the Coronavirus pandemic and will therefore be considered for inclusion within our 2020/21 audit plan. Given the ongoing impact of the Coronavirus on our work, it is anticipated that the 2020/21 audit plan will be subject to a comprehensive review, taking into account new risks to the organisation arising from the crisis and previous work that we have been unable to complete. The outcome of this will be reported to the Corporate Management Team (CMT) and the Audit Committee once it has been completed.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable¹assurance that the Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2019 to 31 March 2020.

3.2 Further information on the basis of this opinion is provided below. Overall, the majority of audit opinions issued in the year were generally positive, including improved levels of assurance for lower audit opinions issued previously in 2018/19. However, internal audit activities have identified a few areas where the operation of internal controls have not been fully effective, as reflected by the two minimal and seven partial assurance opinions.

3.3 This is similar to the position of previous years and consequently, the overall opinion remains unchanged from that issued for 2018/19. However, the minimal and partial assurance opinions relating to the two Pension Fund audits completed during the year (Pension Fund Administration, People, Processes and Systems, and Pension Fund Compliance with Regulatory Requirements, respectively) are of concern and need to be addressed by management as a priority. Further detail of these are included in Annexe B attached to this report. The outcome of both audits has been reported to the Pension Fund Board and Pension Fund Committee who are monitoring implementation of the agreed actions with management.

3.4 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

4. Basis of Opinion

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

- All audit work completed during 2019/20, 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 regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- 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 2019/20.

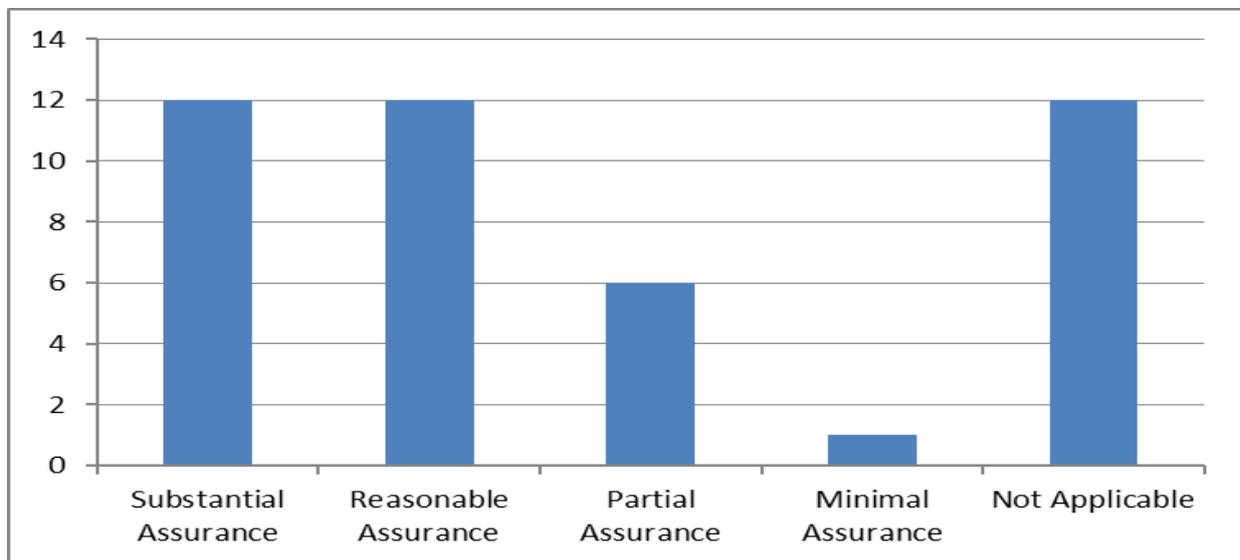
¹ This opinion is based on the activities set out in paragraph 4 below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

5. Key Internal Audit Issues for 2019/20

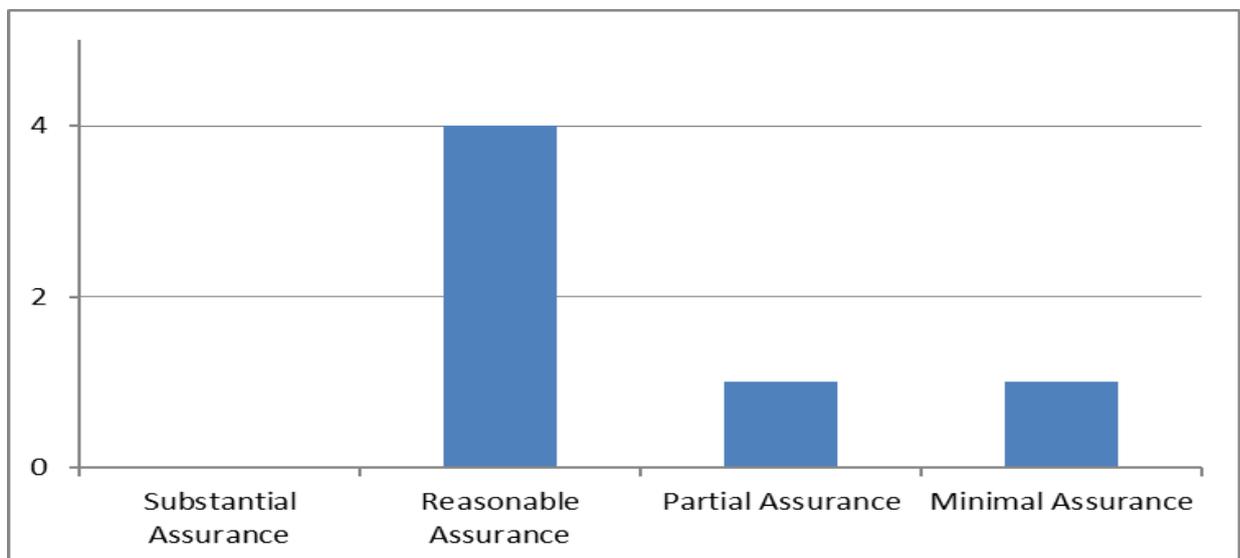
5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, have been taken into account when preparing and approving the Council's Annual Governance Statement.

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 audits finalised during 2019/20:

Non-Schools Audit Opinions



Schools Audit Opinions



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. Whilst the results of all audit work completed is reported to CMT and the Audit Committee throughout the year, the one (non-school) review with minimal assurance has been summarised below for completeness:

- **Pension Fund Administration, People, Processes and Systems**

For the year 2019/20, we introduced a revised Internal Audit Strategy for Pensions, which was approved by the Pension Committee in June 2019. This extended the scope of our testing and, because we were given read-only access to the Altair pension administration system for the first time, we were also able to carry out testing in more depth than had previously been the case.

In completing our work, we identified areas that required significant improvement, including in relation to automating the calculation of pension benefits, improving data processes to ensure that all members receive their Annual Benefit Statements each year by the deadline of 31 August, improving procedures to ensure the quality of data, and ensuring reporting to Pension Board and Committee is accurate. Further detail on the findings of this review can be found in Annexe B.

5.4 In addition to the above, a total of 7 audits received partial assurance opinions within the year as follows:

- Pension Fund - Compliance with Regulatory Requirements;
- Home Care Management;
- Building Condition Asset Management;
- Atrium (Property Asset Management System);
- Social Value in Procurement;
- Buzz Active; and
- Heathfield Community College.

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control.

5.6 Included in the graph above are two reviews where we have revisited areas which had previously received lower levels of assurance. For both of these (Surveillance Cameras and SAP Application Controls), we have been able to issue revised, improved opinions of reasonable assurance and substantial assurance, respectively.

5.7 As at 31 March 2020, a total of nineteen planned reviews from 2019/20 remained in progress but had been paused as a result of the Coronavirus pandemic so that internal audit work would not impede service response to the emergency. One of these is now final and eight are at draft report stage and we are working with management to progress these to final reports. For the remaining audits, depending on the circumstances of returning to business-as-usual, these will be completed later in the financial year. Details for these are provided in Appendix B.

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. Of those audits completed during 2019/20, all have resulted in either substantial or reasonable assurance being provided over the control environment.

Other Internal Audit Activity

5.9 During 2019/20, internal audit has continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Orbis Customer Access Portal;
- Logotech Treasury Management System;
- Making Tax Digital; and
- Managing Back Office Systems (MBOS).

And, attendance at:

- Statutory Officers' Group;
- Orbis Leadership Team;
- BSD Covid Response Group;
- Information Officers' Group;
- Finance Management Team; and
- Pension Board and Pension Committee.

5.10 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

Anti-Fraud and Corruption

5.11 During 2019/20, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the Orbis Partnership.

5.12 The team logged 20 allegations under the Council's Anti-Fraud and Corruption Strategy, with cases being identified through the Council's confidential reporting hotline or referrals from other departments. As a result of the allegations, 16 cases were taken forward to investigation by Internal Audit or where support was provided to a management investigation, with the remainder being referred to local management, another local authority, or assessed as requiring no further action.

5.13 The following provides a summary of the investigation activity undertaken by Internal Audit in the last 12 months:

- We provided support to a management investigation following concerns that an employee had submitted duplicate overtime claims. Analysis was performed of the employee's timesheets submitted for payment and Internal Audit interviewed the employee. Following conclusion of the investigation, it was concluded that there was no intent to deceive by submitting duplicate claims and the employee was provided with appropriate guidance and training to ensure future accuracy;
- We provided support to an HR investigation following a complaint that an employee was overstating their travel claims. Analysis was performed on mileage claimed against mileage permitted under the travel and expenses policy. The matter was passed back to management to progress with the support of HR and the employee subsequently resigned prior to a disciplinary hearing;
- Support was provided to HR in a case of a member of staff employed across multiple schools who was accused of being involved in potential financial irregularities. The employee resigned from all of their roles while under management investigation;
- Following an investigation previously conducted in 2018/19, Internal Audit provided support regarding a subsequent Local Government and Social Care Ombudsman appeal. An out of court settlement was reached and £18,090.60 was recovered from the client's family;
- We provided support and advice to Adult Social Care in respect of 6 further cases relating to misuse of Direct Payments and the recovery of monies paid;
- We conducted a review of cash handling arrangements at a school breakfast club following allegations of potential financial irregularities involving a member of school staff. The investigation did not identify that cash had been subject to misappropriation;
- Eight investigations remain ongoing at the time of writing this report.

5.14 Any internal control weaknesses identified during our investigation work are reported to management and actions for improvement are agreed. This work is also used to inform future internal audit activity.

5.15 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.

5.16 Progress over the last 12 months is outlined below:

Priority	Progress to date
Reactive investigations	The Counter Fraud Team is responsible for assessing and evaluating fraud referrals received by each sovereign partner, and then leading on subsequent investigations. The team have implemented a coordinated approach to assessing and logging referrals and adopted consistent procedures for recording

Priority	Progress to date
	<p>investigations.</p> <p>During the 12 month period to date, there have been several investigations across the partnership which have been resourced through a mixture of the Counter Fraud Team and sovereign audit teams supported by advice and direction from the Counter Fraud Team.</p>
NFI Exercise	<p>The Counter Fraud Team have taken on responsibility for the coordination and submission of datasets at each authority. The NFI Key Contacts are members of the Counter Fraud Team to ensure a consistent approach is followed and good practice is shared across all partners.</p> <p>Results from the latest matching exercise were received in Spring 2019 and the Counter Fraud Team have been liaising with internal departments and partner authorities to review, prioritise and investigate flagged matches. To date, overall savings of £5,640.73 have been recorded.</p>
Counter Fraud Policies	<p>Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. The Counter Fraud Team have reviewed the sovereign strategies to ensure there is a consistent and robust approach to tackling fraud.</p>
Fraud Risk Assessments	<p>Fraud Risk Assessments have been consolidated to ensure that the current fraud threat has been considered and mitigating actions identified. The Fraud Risk Assessment is continually reviewed.</p>
Fraud Response Plans	<p>The Fraud Response Plans take into consideration the results of the Fraud Risk Assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. This includes an increased emphasis on data analytics.</p>
Fraud Awareness	<p>The team have refreshed and rolled out a fraud eLearning package to the whole organisation. This was rolled out in conjunction with fraud awareness workshops to help specific, targeted services identify the risk of fraud and vulnerabilities in their processes and procedures.</p> <p>Fraud awareness workshops were delivered to school governors and fraud bulletins highlighting potential fraud risks have been provided to schools.</p> <p>A fraud awareness campaign took place during November as part of National Fraud Awareness week.</p> <p>Regular fraud alerts have been provided to departments including both banking and schools.</p>

5.17 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 risk 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 fraud.

Amendments to the Audit Plan

5.18 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews were added to the original audit plan during the year:

- Orbis Customer Access Portal
- Broadband UK Grant Return
- Troubled Families
- Logotech Treasury Management System
- Home to School Transport - Follow Up
- Department for Transport Grant
- Bus Services Operators Grant
- Annual Governance Statement
- Risk Management
- Library Antiquarian Asset Management
- SAP Applications Control – Follow Up
- Buzz Active

5.19 In order to allow these additional audits to take place, the following audits have been removed or deferred from the audit plan and, where appropriate, will be considered for inclusion in future audit plans as part of the overall risk assessment completed during the annual audit planning process. These changes have been made on the basis of risk prioritisation and/or as a result of developments within the service areas concerned requiring a rescheduling of audits:

- IT&D Project Management
- Transport for the South East

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 2019/20, including the results of our first independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during 2018 by the South West Audit Partnership (SWAP) and subject to a refreshed self-assessment in 2019:

- 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 the SWAP review and our latest self-assessment found a high level of conformance with the Standards with only a small number of minor areas for improvement. Work has taken place to address these issues, none of which were considered significant, and these are subject to ongoing monitoring as part of our quality assurance and improvement plan.

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 Significantly, we have completed 90.5% of the 2019/20 audit plan, just exceeding our target of 90%. As reported in 5.7, above, some outstanding reviews were nearing completion at year end and, due to the impact of the COVID-19 crisis, there are a larger number of reports than usual still in draft status. These are identified in Appendix B.

6.6 Our action tracking of agreed, high-risk actions arising from audits completed throughout the year, has identified two such actions which hadn't been implemented by the agreed due date, resulting in the target in this area not quite being achieved (95% against the target of 97%). Both of these relate to the Pension Fund Administration, People, Processes and Systems audit as referred to in 5.3 above. At the time of this report, management are due to report back on the implementation status of all agreed actions relating to this and the Pension Fund Compliance with Regulatory Requirements audit at forthcoming Pension Board and Pension Committee meetings.

6.7 Internal Audit will continue to liaise with the Council's external auditors (Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.8 In addition to this annual summary, CMT and the Audit Committee will continue to receive performance information on Internal Audit throughout the year as part of our quarterly progress reports and corporate performance monitoring arrangements.

Internal Audit Performance Indicators 2019/20

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	Approved by Audit & Committee on 25 March 2019.
	Annual Audit Report and Opinion	By end July	G	Approved by Audit Committee on 12 July 2019.
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	90.5%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	January 2018 – External assessment by the South West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings. Confirmed in most recent self-assessment, Quarter 4 2019/20.
	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	A	95% (this equates to 2 out of 41 high risk actions not implemented by the due date).
Our staff	Professionally Qualified/Accredited	80%	G	93%

Summary of Opinions for Internal Audit Reports Issued During 2019/20

Substantial Assurance:

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

Audit Title	Department
Budget Setting	Corporate
Treasury Management	BSD
General Ledger	BSD
Pension Fund Governance and Investments	BSD
Pension Fund External Control Assurance	BSD
Purchase to Pay 18/19	BSD
SAP Application Controls Follow Up	BSD
Impact of Savings	Corporate
Risk Management	Corporate
ICT Compliance Frameworks	BSD
Commissioning of Adult Social Care Services	ASC
LAS/Controcc	ASC

Reasonable Assurance:

Audit Title	Department
Accounts Receivable	BSD
Supply Chain Management	Corporate
Capital	Corporate
Business Continuity	Corporate
BACS Payments	BSD
General Data Protection Regulation Compliance	BSD
HR/Payroll	BSD
Cyber Security	BSD
Surveillance Camera Follow-Up	BSD
LiquidLogic Application Controls	ASC/CSD
LCS/Controcc	CSD
Parking	CET
Cradle Hill Community Primary School	CSD
Hurst Green Primary School	CSD
Chailey Secondary School	CSD
Telscombe Cliffs Primary School	CSD

Partial Assurance:

Audit Title	Department
Pension Fund – Compliance with Regulatory Requirements	BSD
Building Condition Asset Management	BSD
Atrium	BSD
Social Value in Procurement	Corporate
Home Care Contract Management	ASC
Buzz Active	CSD
Heathfield Community College	CSD

Minimal Assurance:

Audit Title	Department
Pension Fund Administration, People, Processes and Systems	BSD
Maynards Green Community Primary School	CSD

Other Audit Activity Undertaken During 2019/20 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Broadband UK	CET
Making Tax Digital	BSD
Logotech Treasury Management System	BSD
Orbis Customer Access Platform	BSD
Delays to Waivers to Procurement Standing Orders	BSD
Troubled Families Grant Certification (*4 instalments)	CSD
E-Recruitment	BSD
Bus Services Operators' Grant	CET
Department for Transport Grant	CET
Support to the Managing Back Office Systems (MBOS) Programme	BSD
Business Operations Improvements – E-Pay	BSD
ISEND Purchase to Pay	CET

Audits Carried Forward (suspended as a result of Covid19) from 2019/20 to 2020/21 (note that, where draft reports have been issued to clients, or the audit has subsequently been completed, these have been marked as such in the following list):

Audit Title	Department	Status
Cultural Compliance – Highways Contract Management Group	CET	Now complete and final report issued
Cloud Computing	BSD	Draft report issued
Declaration of Interests, Gifts and Hospitality	Corporate	Draft report issued
Enforcement Powers Follow Up	CET	Draft report issued
Annual Governance Statement	GCS	Draft report issued
Library Asset Management	CET	Draft report issued

Audit Title	Department	Status
Mobile Device Management	BSD	Draft report issued
Network Security	BSD	Draft report issued
Purchase to Pay 19/20	BSD	Draft report issued
Business Operations Cultural Compliance	BSD	Suspended
Commissioning and Delivery of Property Projects	BSD	Suspended
Orbis Integrated Budget Management Follow-Up	BSD	Suspended
Patch Management	BSD	Suspended
Travel and Expenses Follow Up	BSD	Suspended
Care Assessment Process	CSD	Suspended
Direct Payments	ASC	Suspended
Home to School Transport Follow Up	CET	Suspended
Orbis Data Centre	BSD	Suspended
Pension Fund – Governance, Strategy and Investments	BSD	Suspended

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.