

Annual Internal Audit Report & Opinion

2019 - 20

West Sussex County Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- Level of assurance required;
- Significance of the objectives under review to the organisation’s success;
- Risks inherent in the achievement of objectives; and
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy)
- results of any follow up exercises undertaken in respect of previous years' internal audit work
- the results of work of other review bodies where appropriate
- the extent of resources available to deliver the internal audit work and the extent of audit needs covered
- the quality and performance of the internal audit service and the extent of compliance with the Standards

The significant impact and subsequent challenges posed by the coronavirus pandemic (Covid-19), both to the way we work and the delivery of the Council's services, has resulted in some delays in completing planned 2019/20 reviews, particularly those planned for completion in the latter part of the year. However, this delay has not inhibited my ability to provide an opinion on the operation of the organisation's framework of risk management, governance, and control during 2019-20.

Annual Internal Audit Opinion 2019-20

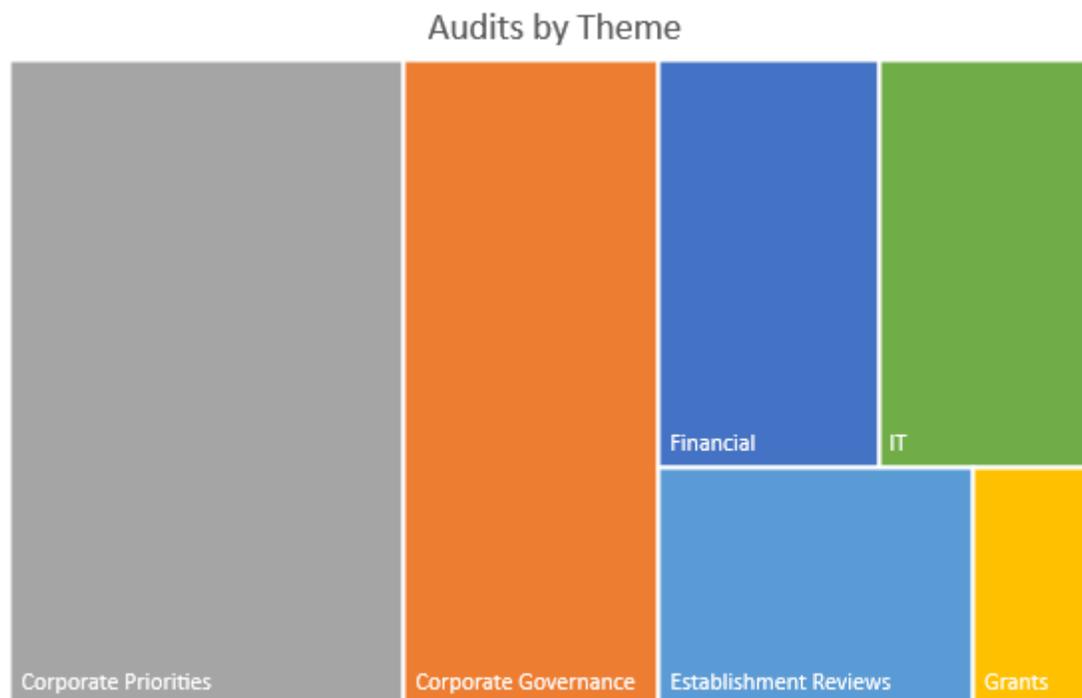
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of West Sussex County Council's internal control environment.

It is my opinion, West Sussex County Council's framework of governance, risk management and control is 'Limited'. This is formed on the basis of internal audit's own assurance work during the year and taking account of the conclusions of other external reviews and inspections which highlighted significant concerns regarding the Council's governance framework.

Where weaknesses have been identified through internal audit reviews, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2019-20 Internal audit plan, approved by the Regulation, Audit and Accounts Committee in March 2019, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 48 reviews during the year ending 31 March 2020.

Due to the breadth of audit coverage across the organisation there has been an inevitable impact on the delivery of those reviews scheduled for completion within the quarter four portfolio allocations which has either resulted in delays or early cessation of planned audit work.

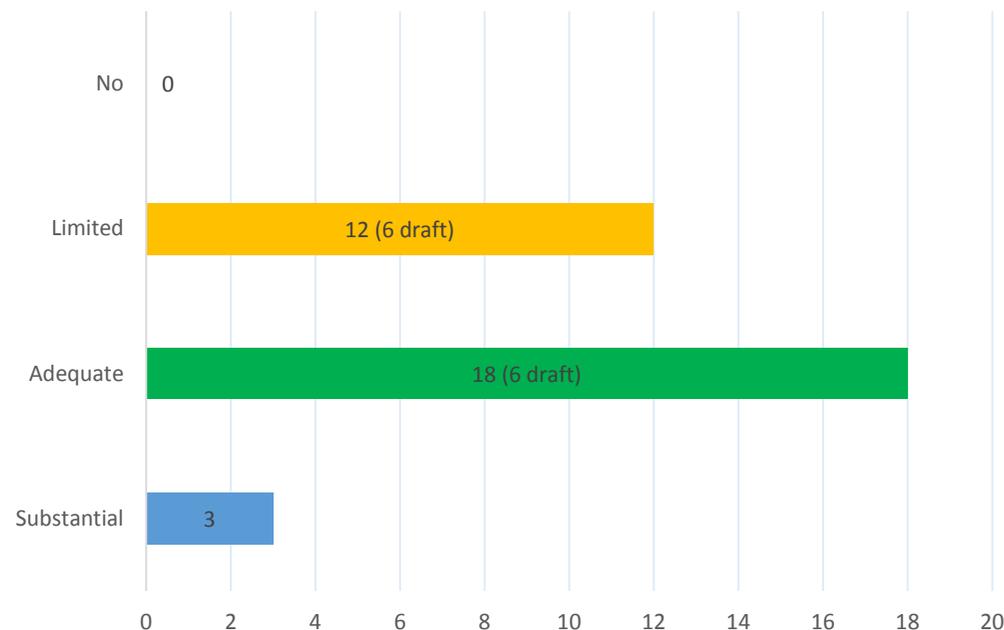
The revised 2019-20 internal audit plan has been delivered with the following exceptions:

- Work had commenced but halted prior to completion either due to availability of staff or difficulties in auditing the service area virtually in respect of 2 reviews:
 - Cornfield School,
 - Fraud Proactive – Care related payments

- Fieldwork remains in progress in respect the Children’s Services – Investment plan review. It is fully anticipated that assurance work will be completed in this area in the near future and will be reported to Senior Management and the Regulation Audit & Accounts Committee as part of our next progress report.

- Work is substantially complete, and an opinion has been formed for 15 reviews however, final reports have not yet been agreed:
 - Contract Management – Crawley Schools PFI (Limited)
 - Information Governance - FOI Process (Adequate)
 - Travel Management Hub (Adequate)
 - Capital Programme Governance (Adequate)
 - Data Storage & Data Backup (Limited)
 - Problem Incident & Management (Adequate)
 - SEND Special Educational Needs (Limited)
 - Asset Protection – Recoverable works (Adequate)
 - Fraud Proactive – Purchasing Cards (Limited)
 - Fraud Proactive – Companies House Matches (Limited)
 - Crawley Dual Use Agreement (Limited)
 - Children’s Safeguarding QAF (Position Statement)
 - Whole Council Design – Governance (Position Statement)
 - Externally Managed Investments & Pooling Arrangements (Position Statement)
 - Procurement – significant projects (Adequate)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

Adequate - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

Limited - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

No - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

*14 reviews (3 in draft) did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, grant certification or concluded with a position statement

5. Key Observations

There were no 'No Assurance' opinions issued during the year. However, there were some areas identified that provide challenge to the organisations risk environment:

Governance

During the year internal audit commenced a review focused on the governance and transparency of reporting of the Whole Council Design Programme, and its alignment with the council's scheme of delegation. At the time, the Programme was overseen by the Transformation Board.

In August 2019 (during the course of the audit) the Transformation Board was disbanded, and the audit review was paused. Our findings at the time found governance to support the delivery of the Transformation Board to be weak, ineffective and did not recognise constitutional requirements.

Since disbanding the Transformational Board, the Council have undertaken a review of Whole Council Design to re-evaluate the Programme workstreams and re-prioritise timelines, costs and benefits. Revised workstreams are incorporated within the 2020/21 internal audit plan.

Additionally, through commentary and recommendations from external review and inspection, most notably the Children's Commissioner report, significant concerns have been raised with regard to the Council's framework of governance, most notably cultural behaviours and practices, the model of political governance, delegated authorities and decision making processes.

The council have responded positively to observations raised from external challenge, by commissioning a programme of work (Good Governance Review) to review governance across the organisation. Whilst the programme was unavoidably delayed by the impact of COVID-19, it has now regained momentum. Ongoing review and progress will form a fundamental part of the 2020/21 internal audit plan.

Information Technology

IT Services are delivered through the Council's contract with Capita. During the year we concluded on a number of limited assurance reviews on key aspects of the IT environment including:

- *IT Asset Management* - The Asset Management Data Base (AMDB) had not been effectively maintained and assurance could not be provided that it accurately reflected the Council's estate of hardware and software. At the time of the review, there had been no reconciliation of devices recorded on the AMDB to actual assets in use or connected to the network via the Active Directory. The leavers process did not consistently ensure that all devices were returned, or reallocations recorded.
- *Firewalls* - There was no dedicated firewall policy to define the standards for provisioning, configuring and managing firewalls or process to periodically review and/or renew the firewall architecture. At the time of the review, firewalls were not subject to a maintenance plan to ensure updates were applied promptly and there was no up to date inventory of firewalls. The Capita IT Security Standard states firewall rulesets are reviewed annually however at the time of the audit, the task was six months overdue.
- *Disaster Recovery Planning* - The last comprehensive disaster recovery test was undertaken during 2018. The test highlighted a series of lessons learnt; however, these were not captured in a formal action plan to ensure they were assigned ownership, or fully implemented in a timely manner. At the time of the audit review no annual disaster recovery test date had been agreed for 19/20.

Required documentation, equipment and hardware to support disaster recovery arrangements were found to be either out of date or absent.

- *IT Backups* - Policies, procedures or process documents for the backup service were not evident at the time of the review, additionally, expertise to support the backup processes resides with an experienced but finite number of staff, presenting a risk in respect of service resilience.

Much of the infrastructure supporting the backup service was found to be aging and out of date. One server was identified that reached 'end of life' status in 2009.

Quality Assurance Framework (Adult Services)

The Adult Services Quality Assurance Framework (QAF) was last reviewed by the Council in October 2019, however, was completed in isolation of the new Safeguarding Adults Board QAF which was observed to be a more modern and intuitive document.

The QAF had not been discussed at the Adult Health Leadership Team (AHLT) with a view to setting the strategic direction for the quality assurance priorities. Additionally, there had been no reporting into the AHLT on the outcome of any quality assurance activity since November 2019, nor engagement to drive and improve quality assurance operationally as a key component of business activity.

Whilst there was a mechanism for feeding back learning from the QAF, the framework did not identify how the authority would verify learning had been embedded.

Allowances (Compliance)

Outcomes from the review, which focused on business travel, weekend working, unsocial hours, Saturday enhancements and overtime found policies to be inconsistent, unclear and not sufficiently comprehensive increasing the risk of inaccurate or inappropriate claims.

There were found to be inconsistencies in relation to the claiming of home to work mileage resulting in overclaimed mileage in nearly half of claims tested and insufficient information recorded in others to assess whether home to work mileage had been correctly deducted.

Half of claims tested for allowances and enhancements for weekend working, unsocial hours, Saturday enhancement and overtime were not claimed and paid in accordance with current policy.

Managers were found to not routinely verify claims to ensure that criteria for claiming allowances were met and had not routinely taken appropriate action when claims did not meet criteria resulting in repeat errors/issues.

Software in place to monitor data relating to allowances and enhancements was not fully optimised.

6. Anti-Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image. The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti-Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

Reactive Fraud Activity

The Southern Internal Audit Partnership work with West Sussex County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Policy and Response Plan.

Analysis highlights the fraud types that have been subject to internal audit input across West Sussex County Council during 19/20 (benchmarked against the previous two years). It should be acknowledged that the figures relate to areas of investigation / advice and not proven fraud.

The 'fraud types' evident in the table are reflective of national trends and as such are not issues unique to West Sussex County Council.

Type	17/18	18/19	19/20
Social Care	8	9	12
School Related	4	1	3
Procurement	1	3	0
Pensions	3	1	0
P-Card	1	4	2
Employee/ Recruitment	4	4	3
Blue Badge	6	3	4
Mandate	5	5	4
Others	4	2	2
Total	36	32	30

During 2019/20 two fraud investigations were undertaken by SIAP. One was in relation to a mandate fraud in which the Council were victim to a sophisticated attack in which the perpetrator infiltrated the email of the recipient of a council grant resulting in a loss of £50,000, the police were notified of the incident. The other investigation remains ongoing and relates to an employee's expense claims.

National Fraud Initiative (NFI)

The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

2019/20 was a match release year and our work focussed on facilitating match enquiries received and assisting departments with the investigation of matches. This exercise is now complete, and all match reports have been closed on the Cabinet Office NFI website. The exercise has identified fraud or irregular activity to an approx. value of £108,000 (pensions £15,000 and concessionary fares £93,000*) for which arrangements are to be put in place to recover where appropriate.

*As a result of the NFI, 3,896 concessionary travel passes were cancelled from the database. Although no fraud was identified, the Cabinet Office assigns a notional value of £24 per pass saved to the public purse based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme

Proactive Approach - Whilst the established process to reactive fraud assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation. Initiatives and subsequent outcomes during the year included:

- The annual CIPFA fraud survey was completed on behalf of the Council and submitted in accordance with the June 2019 deadline.
- Advice and guidance were provided across approx. 180 enquiries.
- The SIAP developed a mandatory fraud awareness training session specifically for the authority's procurement card approvers. The training has been delivered to 60 staff but has been paused during the current pandemic.
- We have continued to expand upon and develop our range of general fraud awareness training presentations with a view to benefit the Council through an offering of e-learning packages.
- A number of fraud circulars have been disseminated across the organisation highlighting new and emerging fraud risks.
- Three themed proactive reviews were undertaken during the year:

- *Procurement Cards* – our review used data analytics to examine P-Card transactions to identify and investigate potential fraud risks including inappropriate spend. Analysis highlighted a number of practices that increase the potential for fraudulent activity:
 - Circumvention of authorisation limits (splitting costs across a number of transactions)
 - payments that should have been processed through alternative routes
 - instances of personal spend
 - transactions submitted for review without receipts, or where the description is not clear and transparent

Details of fraudulent transactions are captured by the P-Card administration team; however, is not analysed to identify trends in behaviours or disseminated for learning across the wider organisation. Additionally, there was no monitoring information in place that specifically focuses on fraud risk indicators.

- *NFI - Companies House Matches* – the National Fraud Initiative (which is expanded upon below) compares payroll to Companies House data, to identify employees with potential undeclared interests that may give a financial advantage.

Checks required as part of the NFI guidance have been followed and identified no fraudulent activity in relation to the matches reviewed, however, the effectiveness of governance to support the declaration and oversight of business interests was of significant concern.

There were a significant number of undeclared interests and initial contact with Directorates found register of business interest to be absent, incomplete, or out of date.

Despite acknowledgement within the Annual Governance Statement 2018-19 and 2017-18 regarding concerns over the maintenance and transparency of declarations of interest, actions to address process and compliance are yet to embed across the organisation.

- *Pre-payment cards for direct payments* – the use of pre-payment cards seeks to provide greater transparency over direct payment transactions and streamlines the process for monitoring customer accounts.
Data analytics were used to examine spend to identify and investigate potential fraud risks including inappropriate spend. Controls in place to mitigate the risk of fraud were generally found to be robust

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’. The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

“It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”

In accordance with PSIAS, annual self-assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that:

‘the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2019-20 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered (including draft reports)	95%	98%	97%
Positive customer survey response			
• West Sussex County Council	90%	n/a	96%
• SIAP – all Partners	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including Members, senior officers and key contacts involved in the audit process throughout the year.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout West Sussex County Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
July 2020

Appendix 1

Final Internal Audit Reviews – Assurance Opinions

Substantial	Adequate	Limited	No	Other
Contract Management - WSP Framework (Highways) Treasury Management Change Management	Document management & retention Accounts Payable Schools – GDPR compliance Schools – Website content St Andrew’s Primary School Clapham & Patching Fire Core Financial Systems Glebelands Commuted Sums (post agreement) Maintenance of Assets Civil Parking Arrangements Crowdfunding (SpaceHive) Fraud Proactive - Prepayment cards for Direct payments	IT Asset management Allowances Disaster Recovery Planning Firewalls & Malware Protection QAF (Adults Safeguarding) Intentionally Homeless – Financial Control		Position Statements: Decision Making and Accountability Virtual School Pupils Premium HMIC inspection follow up Mosaic User Access Assurance Mapping: Budgetary Management (AS) Safeguarding (CS) Internal Investments Grants: Think Family Gigabit Project Mandatory: National Fraud Initiative SFVS