

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **24 June 2013**

By: **Acting Chief Finance Officer**

Title of report: **Internal Audit Strategy 2013/14 and Annual Plan**

Purpose of report: **To present the Council's Internal Audit Strategy 2013/14 and Annual Plan**

---

**RECOMMENDATIONS:**

**The Committee is recommended to:**

- 1. review and endorse the Council's Internal Audit Strategy 2013/14 and Annual Plan; and**
  - 2. approve the updated Internal Audit Charter.**
- 

**1. Financial Appraisal**

1.1 Resources needed to deliver the Council's Internal Audit Strategy and Annual Plan during 2013/14 are provided for within the agreed budget of the Assurance Division, Business Services Department.

**2. Background**

2.1 The Council's Internal Audit Strategy 2013/14 and Annual Plan (Annexe A) set out how the Council will meet its statutory requirements for internal audit, as defined within the Accounts and Audit Regulations 2011. The Strategy proposes an approach based on focussing audit resources in those areas where the highest risk to the achievement of the Council's objectives lies. These areas have been identified and prioritised based on the Council's own risk assessment processes (including the Strategic Risk Log) and following extensive consultation with officers, Members and other partners, including the Council's external auditors, PKF. A workshop was also held with Members of the Audit, Best Value and Community Services Scrutiny Committee on 15 March 2013 and comments made have been considered as part of the planning process.

2.2 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's Promise, and to reflect its aim to act as a single unified organisation delivering corporate outcomes, the format of the audit plan has been amended for 2013/14. Specifically, the plan is no longer structured around individual departments but has instead been aligned to the four key corporate priorities of:

- Driving economic growth;
- Keeping vulnerable people safe from harm;
- Building resilience for individuals and families to live independently;
- Making best use of our resources

2.3 The Strategy and Plan will be delivered in line with proper internal audit practices as set out within the new Public Sector Internal Audit Standards (PSIAS) and the requirements of our managed audit arrangements with our external auditors.

2.4 The Internal Audit Charter sets out the scope and responsibility of internal audit and this was originally approved by the Audit and Best Value Scrutiny Committee in 2007. This has recently been reviewed and updated to reflect organisational changes within the County Council and the requirements of the new PSIAS referred to above. The updated version is attached to the Internal Audit Strategy as Appendix C, which Members are asked to approve as part of this report.

### **3. Recommendations**

3.1 Members are recommended to review and endorse the Internal Audit Strategy and Plan and the updated Internal Audit Charter prior to their submission to Cabinet in July 2013.

MO HEMSLEY  
Acting Chief Finance Officer

Contact Officer: Russell Banks, Head of Assurance Tel No. 01273 481447

Local Member: All

#### **BACKGROUND DOCUMENTS**

Internal Audit Strategy and Annual Audit Plan 2013/14

# **INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2013-2014**



## **1. Role of Internal Audit**

1.1 The full role and scope of the County Council's Internal Audit Service (IAS) is set out within our Internal Audit Charter and Terms of Reference, which was approved by the Audit and Best Value Scrutiny Committee in November 2007. This Charter has been subject to some minor revisions during 2013, primarily as a result of the introduction of new Public Sector Internal Audit Standards (see below) and is therefore attached as Appendix C for approval.

1.2 The following mission statement sets out the basis for the delivery of internal audit services at ESCC:

*'Internal audit is an independent assurance function which conducts reviews and provides advice, support and challenge to the organisation on risk, governance and internal control matters. In achieving this, the service aims to:*

- *Deliver a high quality, cost effective service in line with best practice and professional standards;*
- *Work constructively with management to support new developments and major change programmes;*
- *Be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls;*
- *Be flexible and responsive to the needs of the organisation in all its work.'*

## **2. Risk Assessment and Audit Planning**

2.1 The County Council's Internal Audit Strategy is updated annually and is 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. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the annual plan for 2013/14 has involved 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. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, every effort has been made to identify, and where possible, rely upon, other sources of assurance available.

2.3 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's Promise, and to reflect its aim to act as a single unified organisation delivering corporate outcomes, the format of the audit plan has been amended for 2013/14. Specifically, the plan is no longer structured around individual departments but has instead been aligned to the four key corporate priorities of:

- Driving economic growth;
- Keeping vulnerable people safe from harm;
- Building resilience for individuals and families to live independently;
- Making best use of our resources.

In producing the audit plan (which is set out in Appendix A) the following key principles have, however, continued to be applied:

- All fundamental accounting systems are subject to annual audits of compliance against key controls in accordance with external audit requirements;
- Systems with 'no assurance' or 'minimal assurance' audit opinions during previous years will be subject to a specific follow up review to assess the effective implementation by management of agreed recommendations. This will also include a sample of previous reviews with a 'partial assurance' opinion.

### **3. Key Issues**

#### Major Change

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. The Council currently faces some significant financial pressures as a result of the national reduction in public sector spending, and continues to be engaged in a number of major projects, developments and restructurings. The Council is also experiencing changes to the services that it is responsible for delivering and in the way services are delivered.

3.2 The IAS must therefore be in a position to give an opinion/assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2013/14, a number of major programmes and projects are featured within the audit plan, with the intention that the IAS is able to provide proactive advice, support and assurance on delivery as these projects progress. These include:

- Agile Working;
- Resources Consolidation;
- Bexhill/Hastings Link Road;
- CBOSS/SAP Surrey Partnership;
- New Social Care Information System;
- 'Thrive'.

3.3 In recognition that in some cases, sufficient information regarding the full extent of future changes and associated risks may not yet be known, the 2013/14 audit plan once again includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable the IAS to react appropriately throughout the year as new risks materialise and to ensure that internal audit expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, IAS will continue to work closely with CMT and senior management throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect. This will include considering and reviewing existing risks within the Authority.

3.5 Other priority areas identified for inclusion within the audit plan include:

- Resources Consolidation Changes – work to consider the impact of changes on the control environment, particularly with regard to key financial systems;
- Discretionary East Sussex Support Scheme (DESSS) – providing assurance over the efficient and effective operation of the scheme;
- Families with Multiple Problems – advice, support and assurance over the systems in place to deliver the support required and to ensure that this can be clearly evidenced for grant claim purposes;
- Anti-Fraud and Corruption – a review of our current arrangements for the prevention and detection of fraud, including identifying the extent to which the County Council is exposed to it. This will also include fraud awareness and training for staff;
- Schools – delivery of our schools audit strategy, including audit visits to examine key financial controls in schools, themed reviews and continued work to improve the level of scrutiny and challenge amongst school governors.

3.6 Where common themes and findings are identified as a result of our work across the Council, these will be highlighted in our quarterly and annual reports.

3.7 Appendix A sets out all of the planned audit activity for 3013/14 whilst Appendix B provides a summary of this coverage against the Council's Strategic Risk Register at the time of producing this report.

#### 4. Matching Audit Needs to Resources

4.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

4.2 In addition to this, resources have been allocated to the external bodies for whom we also provide internal audit services at an appropriate charge. These include East Sussex Fire Authority, Plumpton College and a number of academies.

4.3 As part of the Resources Consolidation process, the IAS is currently subject to a restructure, due to be finalised later in 2013. Whilst this has meant that various planning assumptions have needed to be made in terms of the number of audit days available for the financial year 2013/14, it is likely that we will see a reduction of around 100 days when compared to last year. This level of resources is, however, still considered to be sufficient to allow the IAS to deliver its risk based plan in accordance with professional <sup>1</sup>standards.

*Table 1: Annual Internal Audit Plan – Plan and Actual Days Delivered*

	2009/10	2010/11	2011/12	2012/13	2013/14
Plan Days	2,182	2,054	1,761	1,751	1,642
Actual Days	2,203	2,108	1,810	TBC	

<sup>1</sup> Public Sector Internal Audit Standards (PSIAS)

4.4 The Resources Consolidation process has also resulted in other structural changes impacting on the IAS, particularly with the creation of the new Assurance Team, which combines internal audit with the risk management and insurance functions. It is anticipated that these changes will deliver improved co-ordination between risk management and internal audit activity and therefore help provide a more robust all round assurance framework.

4.5 These audit and assurance activities will continue to be delivered through a combination of in-house staff and external provided specialist resources, particularly in areas such as ICT and contract audit. The revised structure also includes a new one year Counter Fraud Specialist role for 2013/14, with the objective of strengthening the Council's arrangements in this area in response to the latest national guidance.

## **5. Audit Approach**

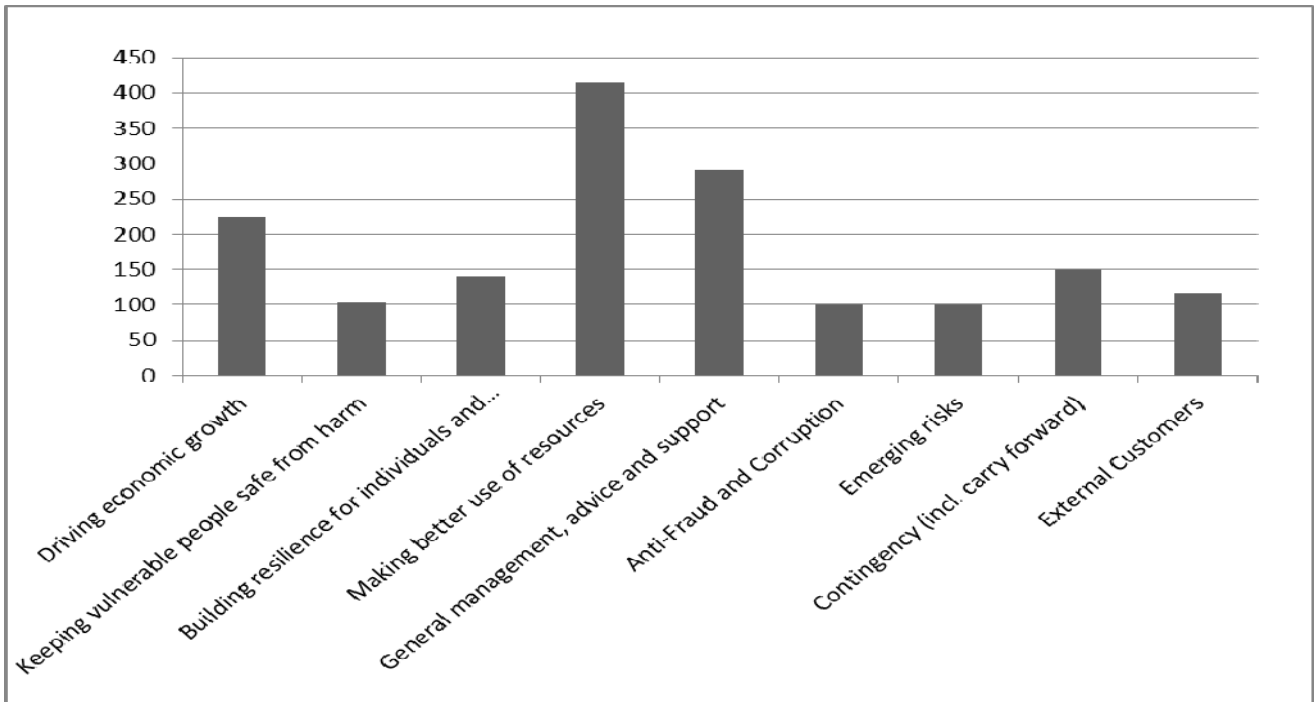
5.1 The approach of internal audit is to use risk based reviews, supplemented in some areas by the use of regularity/compliance audits, control self-assessment and themed reviews. All audits have regard to management's arrangements for:

- Identifying and managing risk;
- securing the proper, economic, efficient and effective use of resources;
- achieving key performance indicators, where appropriate;
- preventing fraud and irregularity.

5.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where demands upon the IAS cannot be planned in advance. For this reason time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2012/13 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning, ongoing liaison with departments and audit management time in support of the delivery of all audit work, planned and unplanned.

5.3 A summary of the allocation of audit resources across the 2013/14 audit plan is set out in the following graph:



5.4 In delivering this Strategy, the IAS works closely with the Council's external auditors, PKF, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met. A Joint Working Protocol is in place with PKF to facilitate this and formalise our working relationship.

5.5 The County has recently been advised by the Audit Commission that it will be required to have different auditors undertake the value for money judgement for the 2012/13 account with the new auditors taking over fully from 2013/14. This is due to the merger of PKF with a company that has previously undertaken work for the Council and hence may compromise their independence. Officers are in liaison with the Commission and PKF to manage any transition.

## 6. Training and Development

6.1 The effectiveness of the IAS depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through the performance appraisal process and delivered and monitored through on-going management supervision. As part of this process, all audit staff are assessed against CIPFA's skills and competencies matrix for internal auditors.

6.2 The IAS is committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification.

## 7. Quality and Performance

7.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, have adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government. Although generally consistent with the previous Code, some changes are required within this Authority to ensure full compliance with the PSIAS, principally:



- Amendments to the Internal Audit Charter to confirm the mandatory nature of the Standards, to define the terms 'Board' and 'senior management' in the context of audit activity and to provide a definition of 'consulting services';
- Ensuring the independence of the Head of Assurance by obtaining the input from the Chief Executive in performance reviews;
- Strengthening of internal audit quality assurance arrangements through annual reviews and independent external assessments at least every five years.

7.2 An amended Internal Audit Charter reflecting these changes is attached to this report as Appendix C. It is intended that our first independent external assessment against the new PSIAS will be undertaken and reported sometime during 2013/14.

7.3 In the meantime, the performance of the IAS continues to be measured against key service targets focussing on the following three areas, all of which are underpinned by appropriate performance measures:

- Quality/Customer Satisfaction;
- Cost/Coverage;
- Compliance with Professional Standards.

7.4 The IAS subscribes to the CIPFA Benchmarking Club for Internal Audit Services on annual basis, with this information utilised as part of the above performance measures.

7.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is ongoing performance appraisal and supervision for all IAS staff during the year to support them in achieving their personal targets. External review of the IAS is also carried out by the County Council's external auditors, PKF, and reported on in the Annual Audit Letter.

7.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to both CMT and the Audit, Best Value and Community Services Scrutiny Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

7.7 Whilst the IAS liaises closely with other internal audit services through the Sussex Audit Group, Home Counties Chief Internal Auditors' Group and the County Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams to help improve resilience and make better use of our collective resources.

7.8 Finally, in order to ensure compliance with professional standards, alternative management arrangements will be put in place to ensure there is appropriate independence where the IAS undertakes audit activity in areas where the Head of Assurance (as the Head of Internal Audit for the County Council) also has operational responsibility. This relates primarily to any audit work on risk management or insurance arrangements.

Kevin Foster, Chief Operating Officer

Contact Officers:  
Russell Banks – Head of Assurance

Tel No: 01273 481447



## 2013/2014 Internal Audit Plan



<b>PRIORITY:</b>	<b>DRIVING ECONOMIC GROWTH</b>
------------------	--------------------------------

Review Name	Type	Outline Objective
Local Broadband Plan	Audit	To continue providing advice, support and constructive challenge on risk, internal control and governance matters. To review the arrangements for contract management and monitoring to ensure the successful delivery/rollout of the project.
Galaxy Replacement	Audit Advice and Support	To review project governance arrangements and to provide assurance over new systems and working practices, including interfaces with SAP.
Bexhill to Hastings Link Road	Audit	A review of project governance arrangements, assessing the adequacy of project management and governance, including roles, responsibilities and accountabilities, risk management, financial management, monitoring and reporting. This is also likely to include an on-going watching brief as the project progresses.
Schools	Audit	Provision has been made within the audit plan to undertake a range of audit and assurance work within schools. This is likely to include key financial control testing in individual schools, follow-ups of previous work undertaken, themed reviews and work to improve the level of scrutiny and challenge amongst school governors.
Contracting and Procurement - Peacehaven Schools Ltd - Follow-Up	Audit	To follow-up the recommendations made in the 12/13 audit report where an audit opinion of partial assurance was given.
Highways Reprocurement	Audit Advice and Support	To review the arrangements for governance, project management, partnership working and contract management between participating authorities. Work will also focus on ensuring appropriate contract management monitoring and reporting arrangements are in place to ensure effective service delivery and VFM are achieved.
Trapeze	Audit	To ensure that payments made to passenger transport providers are being made in a controlled manner and that the financial interface to SAP is adequately controlled. Additionally ICT controls in respect of access to the system, back-up arrangements, system changes and system support arrangements will be reviewed.

## 2013/2014 Internal Audit Plan



**PRIORITY:** KEEPING VULNERABLE PEOPLE SAFE FROM HARM

Review Name	Type	Outline Objective
Fundamental Accounting System - CONTROCC	Audit	To ensure that adequate and effective controls are in place in relation to payments to providers via the Controcc/Abacus system, including controls over payment authorisations, SAP interface and reconciliation. Also, to ensure that adequate and effective controls exist in relation to income collection, accounting and reporting. This is a key control review which will include a follow up of our work in 12/13 and will be relied upon by the County Council's external auditor.
Mental Health Budget Management	Audit	To review the adequacy of the governance and financial management arrangements in relation to the Mental Health budget, including assurance over clarity of roles and responsibilities, decision-making arrangements and financial reporting.
Discretionary East Sussex Support Scheme (DESSS)	Audit	To continue our role in providing advice and challenge to the DESSS project in relation to risk, probity and internal control. This will include advising on controls within newly developed processes and systems for awarding goods and services.
THRIVE	Audit Advice and Support	We will continue to work closely with programme management to agree specific areas of review and to ensure the major risks faced by the programme are identified, assessed and properly managed (details to be determined as the project develops).
Appointeeships - Financial Management for Vulnerable Adults	Audit	Assurance over the continued delivery of the Appointeeship function in light of recent organisational restructuring and changes in roles and responsibilities.
SPOCC	Audit	To ensure that payments to providers of housing related support services are being made in a controlled manner, against a valid contract, at the rate specified and for clients confirmed as being in receipt of approved benefits. Additionally ICT controls in respect of access to the system, back-up arrangements, system changes and system support arrangements will be reviewed.

## 2013/2014 Internal Audit Plan



<b>PRIORITY:</b>	<b>BUILDING RESILIENCE FOR INDIVIDUALS AND FAMILIES TO LIVE INDEPENDENTLY</b>
------------------	---

<b>Review Name</b>	<b>Type</b>	<b>Outline Objective</b>
Integration with the NHS	Audit	To continue our role in providing risk management advice and challenge in relation to the integration programme. In addition, to focus on specific areas of high risk, including reviewing the adequacy of governance arrangements and data sharing between parties, including Clinical Commissioning Groups (CCG's), Districts and Boroughs, and NHS Sussex.
Families with Multiple Problems	Audit	To provide on-going support in ensuring that adequate information systems are developed to assist programme management, and that robust audit trails exist for individual cases. This will enable us to certify the data the Council has provided to the CLG in support of the grant claim.
Special Educational Needs and Disabilities (SEND)	Audit	To review the arrangements following the introduction of personal budgets, along with commissioning arrangements, to ensure compliance with government policy and to advise on controls within supporting systems and processes.
Joint Commissioning Arrangements with Health	Audit	An audit of joint commissioning arrangements with health partners to ensure robust governance arrangements are in place and that examples of good practice are identified and shared.
Social Care Information System (SCIS)	Audit Advice and Support	There are significant risk and control implications associated with major IT system implementations. Internal Audit activity will include advice and support to management as part of the project to replace Carefirst and as the implementation progresses, specific focus areas for further audit assurance will be agreed with management but are likely to include data quality and data migration, system access and security, testing and interface controls.
Direct Payments Pre-Paid Cards	Audit Advice and Support	To provide assurance on the implications of using prepaid cards for direct payments, including continuing to review the proposals in terms of project and risk management arrangements, contract/tendering arrangements with banks/suppliers, and the risk of fraud.
Children's Centres - Governance and Financial Management	Audit	We will review the governance and financial management arrangements for a cluster of Children's Centres, focussing on budget management, financial reporting, expenditure and assets/security.

## 2013/2014 Internal Audit Plan



<b>PRIORITY:</b>	<b>MAKING BEST USE OF OUR RESOURCES</b>
------------------	---

Review Name	Type	Outline Objective
Agile	Audit Advice and Support	Agile Working is a corporate initiative, seeking to challenge the way in which we work and the way we access and use resources, having clear property, ICT and HR implications. Working alongside the implementation partner and management, we will provide advice, assurance and constructive challenge to the programme, as well as reviewing project governance arrangements. We will also have a role to play in advising on risks vs. business benefits and any internal control implications of significant system changes as a result of Agile. In addition, we will review the arrangements to ensure the Council has adequate mechanisms in place to confirm that savings and benefits are actually being achieved (this relates both to Agile and also other programmes and projects across the Council).
Resources Consolidation	Audit Advice and Support	To provide assurance over specific high risk service areas affected by Consolidation, and that risks associated with Consolidation are properly understood and managed. Also, to provide assurance that changes take place effectively, including those to systems, processes and working practices, without any unacceptably adverse impact on the control environment.
E-Tendering / E - Auction	Audit Advice and Support	To provide advice and support on risk and internal control in relation to the implementation of E-Tendering and E-Auction Tools within the Council.
Anti Fraud and Corruption	Audit Advice and Support	To review the County Council's anti-fraud and corruption arrangements to ensure that these are fit for purpose and in line with latest best practice. This work will include updating our Anti-Fraud and Corruption Strategy, our Confidential Reporting (Whistleblowing) Policy and developing and delivering a counter fraud awareness programme for targeted staff groups.
SAP Hosting Arrangements Post Transfer	Audit	To review the new SAP hosting arrangements with Surrey County Council, ensuring that key risks are properly managed, including those associated with system security and business continuity/disaster recovery.
SAP Security and Administration	Audit	To ensure that SAP access and administration is adequately controlled, particularly in light of widespread reorganisation and restructuring within the Council. Work will include confirming that existing staff have the correct access, that all leavers have been removed and that there are no rogue users in the system.
SAP Future Phases	Audit Advice and Support	To provide on-going advice, challenge and support to future SAP developments.
Fundamental Accounting System - Accounts Payable/Procurement	Audit	To ensure adequate controls exist (and are operating effectively post CBOSS transition) over the procure to pay process, including ordering, goods receipting and payment. The review will include a follow up of our work in 2012/13 and will be relied upon by the County Council's external auditor.
Fundamental Accounting System - Accounts Receivable	Audit	To ensure adequate controls exist (and are operating effectively post CBOSS transition) over the collection and recording of income within the council, including debt recovery arrangements. The review will include a follow up of our work in 2012/13 and will be relied upon by the County Council's external auditor.
Fundamental Accounting System - HR/Payroll	Audit	To ensure adequate controls exist (and are operating effectively post CBOSS transition) over the HR/Payroll function and processes. This review will also include a follow up of our work in 2011/12 and will be relied upon by the County Council's external auditor.
Fundamental Accounting System - Treasury Management	Audit	Review of the controls relating to borrowing and lending arrangements as part of the Treasury Management process (including long-term borrowing arrangements). This review will also include a follow up of our work in 2012/13 and will be relied upon by the County Council's external auditor.
Fundamental Accounting System - General Ledger	Audit	To ensure adequate controls exist (and are operating effectively post CBOSS transition) in relation to the County Council's general ledger, including year-end procedures, journal transfers and bank reconciliation. This review will also include a follow up of our work in 2011/12 and will be relied upon by the County Council's external auditor.
Fundamental Accounting System - Pension Fund Governance and Strategy	Audit	A review to assess the adequacy of East Sussex Pension Fund management and governance arrangements. This work forms part of a Pension Fund Internal Audit Strategy developed based on a risk assessment and in accordance with national best practice guidance.

PRIORITY:		MAKING BEST USE OF OUR RESOURCES
Review Name	Type	Outline Objective
Fundamental Accounting System - Pension Fund Processes and Systems	Audit	To review the key controls in relation to the calculation and payment of pensions, transfers to and from the pension fund and the collection and recording of pension contributions (incl. contributions from other admitted bodies). The audit will also cover the recently adopted separate books of account for the Pension Fund, independent from the Council's own ledgers. This work forms part of a Pension Fund Internal Audit Strategy developed based on a risk assessment and in accordance with national best practice guidance.
Fundamental Accounting System - Pension Fund External Control Assurance	Audit	To examine arrangements for ensuring the adequacy of the control environment of the Pension Fund investment managers and custodian. The review will include identifying and examining the sources of assurance available in relation to these organisations. This work forms part of a Pension Fund Internal Audit Strategy developed based on a risk assessment and in accordance with national best practice guidance.
Fundamental Accounting System - Pension Fund Investments	Audit	To review controls in relation to the administration of pension fund investments, including monitoring of fund manager performance and accounting arrangements. This work forms part of a Pension Fund Internal Audit Strategy developed based on a risk assessment and in accordance with national best practice guidance.
Contract Management	Audit	Following procurement and contract management reviews of specific high risk, high value contracts in last year's audit plan, further work will be completed in reviewing contract management arrangements for a sample of contracts across the Council. This will be completed jointly with the Procurement Team and will be used to direct future audit work in this area.
Capital Programme - Project Management	Audit	To review the arrangements for managing the delivery of individual capital projects. The audit will be conducted based on a sample of projects.
Management of Staff Transfers and Leavers	Audit	We will review the adequacy and effectiveness of existing arrangements relating to the movement and exit of Council staff, and work with management to improve efficiency and internal controls in this area.
New Property System	Audit Advice and Support	To provide advice and support over the implementation of a new property management system, particularly in relation to governance, risk management and internal control.
New Registrars System	Audit Advice and Support	To provide advice and support over the implementation of a new registrars ICT system, particularly in relation to payment and income controls.
Lease Cars	Audit	To review governance and internal control arrangements relating to the County Council's lease car scheme. The review will seek to provide assurance over eligibility, adequacy of monitoring and insurance arrangements for each category of user.
Telecoms and Voice-Over Internet Protocol (VOIP)	Audit	Telecoms and VOIP is currently the subject of a procurement exercise. While Voice-over Internet Protocol (VoIP) communications can provide excellent value for money, they can also increase system availability and confidentiality risks, as VoIP is supported by a complex environment of standards. This audit is designed to ensure the adequacy of the controls applied to the Telecoms and VoIP network, which inherits all the vulnerabilities linked with the underlying data network. This audit has been deferred from 2012/13.
Thin Client Technology	Audit	This long-term project commenced in 2011/12. Its aim is to replace existing user-facing technology with a lower-cost "thin" solution, supported by two shared brokers, in replacement of existing desktop functionality. The objectives of the review are to evaluate controls over the solution, to ensure that the risks have been assessed properly, that the testing regime is comprehensive, and that project planning processes are adequate.
Corporate ICT Disaster Recovery	Audit	To evaluate the ICT disaster recovery arrangements in terms of roles and responsibilities, business impact review, disaster recovery timescales, planning and escalation procedures, standby arrangements, testing arrangements and new system requirements.
High Weald AONB	Audit	A compliance audit to ensure that adequate and effective financial controls are in place to allow the Annual Return to be signed-off.
South Downs Joint Committee	Audit	To review the annual return for SDJC. This is the last year it will be required.

## 2013/2014 Internal Audit Plan



<b>PRIORITY:</b>	<b>GENERAL</b>
------------------	----------------

Review Name	Type	Outline Objective
Emerging Risks	Audit Advice and Support	We will perform an important role in helping to ensure that risks associated with changes to services are properly understood and managed, and that management are obtaining the necessary assurance that these changes take place effectively, and without an unacceptably adverse effect on the control environment. This resource will also be used to enable us to respond to any new risks as they emerge during the year.
Contingency	Audit Advice and Support	A provision to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2012/13 plan.
Annual Report and Opinion	Audit Management, Advice and Support	To provide a report and opinion on the control environment within the County Council for the year 2012/13.
Internal Audit Strategy and Plan	Audit Management, Advice and Support	To work with management to produce the Internal Audit Strategy and Annual Internal Audit Plan for formal reporting to CMT, Audit, Best Value and Community Services Scrutiny Committee and Cabinet.
External Audit Liaison	Audit Management, Advice and Support	Participation in regular liaison meetings with the County Council's external auditors, who place reliance on our work, to ensure proper co-ordination of audit activity in accordance with professional standards and agreed joint working protocol.
Support for ABVCSSC	Audit Management, Advice and Support	Support to the Committee to include attendance at all meetings and Chair's Briefings and production of regular progress reports on internal audit activity and performance.
Action Tracking	Audit Management, Advice and Support	To confirm implementation of all high risk audit recommendations.
Client Advice and Support	Audit Management, Advice and Support	To provide on-going ad hoc advice on risk, control and probity issues across the Council as they arise during the year.
Audit Management, Client Liaison and Planning	Audit Management, Advice and Support	Risk assessment and production of the Annual Audit Plan. Ongoing liaison with management during the year, and audit management time in support of the delivery of all audit work across the Authority; planned and unplanned.



Risk Level	Reference	Risk	Risk Control	Planned Audit Coverage
Strategic	Strat-10	The current pothole situation on the unclassified roads across the county will have a significant reputational risk on the County Council, will significantly damage the integrity of our roads, and result in unprecedented levels of third party claims	<ul style="list-style-type: none"> <li>•Three times the usual level of resources have been deployed to deal with potholes at a cost to date of an additional £500,000. Resources to remain in place until required.</li> <li>• Longer term plans and additional investment to be identified to improve the condition of the road network, particularly those C and unclassified roads.</li> <li>• Third year of resurfacing programme completed, but roads have been affected by another wet/cold winter that has taken its toll on the roads not in the programme.</li> <li>• Asset plan development ongoing in conjunction with Surrey County Council and WS Atkins.</li> <li>• Plans for 10 year investment being developed, in the meantime works commenced on 2013/14 capital resurfacing programme but focused on remaining A and B roads.</li> </ul>	<ul style="list-style-type: none"> <li>•Highways Re-procurement Project.</li> <li>•EXOR System Follow Up.</li> </ul>
Strategic	Strat-06	Health changes leading to sub-optimal outcomes for East Sussex community. Impact of local NHS deficit and recovery plan on both health outcomes and ESCC services / costs.	<ul style="list-style-type: none"> <li>•Partnership working with Clinical Commissioning Groups on the development of joint commissioning and delivery arrangements for health and social care.</li> <li>•Health and Well Being Board and wider partners have agreed the Health and Wellbeing Strategy and Action plan.</li> <li>•Robust programme management arrangements for the agreed plans.</li> <li>•Management of joint commissioning arrangements Quality Innovation Productivity and Prevention targets and health and social care transformation.</li> <li>•Multi Agency Public Health Steering Group to oversee new arrangement.</li> </ul>	<ul style="list-style-type: none"> <li>•Integration with the NHS.</li> <li>•Social Care Information System.</li> <li>•Commissioning Arrangements.</li> <li>•Mental Health Budget Management.</li> </ul>
Strategic	Strat-11	Impact of changing schools governance and arrangements not improving outcomes for children.	<ul style="list-style-type: none"> <li>•Effective management of academy conversion programme, free schools and Newhaven University Technical College (UTC) - Cleantech.</li> <li>•Robust analysis of East Sussex County Council trading with schools to underpin future arrangements.</li> <li>•Focus on need to improve education attainment in new context.</li> </ul>	<ul style="list-style-type: none"> <li>•Schools Audit - including individual school visits, themed reviews and support for school governors.</li> </ul>
Strategic	Strat-01	Failure to plan a strategic corporate response to resource reductions, demographic change, and regional economic challenges.	<ul style="list-style-type: none"> <li>•Robust RPPR (Reconciling Policy, Performance and Resources) process business planning.</li> <li>•Adoption of Commissioning strategy and work programme.</li> <li>•Strategic approach to partnerships.</li> <li>•Infrastructure and programmes in place to support delivery of 'one council' objectives e.g Agile &amp; Consolidation.</li> </ul>	<ul style="list-style-type: none"> <li>•Commissioning Arrangements.</li> <li>•Resources Consolidation.</li> <li>•Agile.</li> <li>•THRIVE.</li> </ul>
Strategic	Strat-08	Failure to deliver local economic growth, and failure to maximise opportunities afforded by Government proposal to allocate single pot funding to South East Local Enterprise Partnership.	<ul style="list-style-type: none"> <li>•Implement economic development strategy.</li> <li>•Re-focussing of capital programme to support economic development.</li> <li>•Partnership working through the SELEP (South East Local Enterprise Partnership) (e.g. securing Growing Places Funding) and through Local Transport Board</li> <li>•Broadband project leading to increased coverage of superfast broadband.</li> <li>•New enhanced inward investment service for the county launched.</li> <li>•Link Road releases economic development potential in Hastings / Bexhill.</li> <li>• Refresh of corporate approach to skills and employability and economic development</li> </ul>	<ul style="list-style-type: none"> <li>•Local Broadband Plan.</li> <li>•Bexhill to Hastings Link Road.</li> </ul>

Risk Level	Reference	Risk	Risk Control	Planned Audit Coverage
Strategic	Strat-07	Welfare reform leading to sub-optimal outcomes for East Sussex community. Impact on working age adults and potential financial impact on County, District and Borough services.	<ul style="list-style-type: none"> <li>•Joint approach with boroughs and districts to design common Council tax Benefit scheme for East Sussex.</li> <li>•Specialist support commissioned for financial modelling.</li> <li>•Potential financial impact reflected through RPPR.</li> <li>•Partnership approach through Financial Inclusion Partnership and Targeted Welfare Reform Project</li> </ul>	<ul style="list-style-type: none"> <li>•Discretionary East Sussex Support Scheme.</li> <li>•Families with Multiple Problems.</li> <li>•Social Care Information System.</li> </ul>
Strategic	Strat-03	Failure to deliver capital programme outcomes on-time and on-budget.	<ul style="list-style-type: none"> <li>•Establish Capital Board and develop work programme operating effectively closely linked to RPPR.</li> <li>•Property Improvement Plan.</li> </ul>	<ul style="list-style-type: none"> <li>•Capital Programme - Project Management.</li> <li>•Contract Management.</li> <li>•New Property System.</li> </ul>
Strategic	Strat-05	Under-informed and under-motivated workforce results in adverse impact on service delivery / performance and ability to successfully deliver service transformation / corporate change programme.	<ul style="list-style-type: none"> <li>•Employee engagement programme.</li> <li>•Consistent and supportive management of single status roll out and restructuring.</li> <li>•Effective joint working with Trade Unions.</li> </ul>	<ul style="list-style-type: none"> <li>•Resources Consolidation.</li> <li>•Agile.</li> </ul>



## ESCC INTERNAL AUDIT CHARTER & TERMS OF REFERENCE

### 1. RESPONSIBILITIES AND OBJECTIVES

1.1 Internal Audit is ‘an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes’<sup>1</sup>.

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 The agreed Mission Statement for Internal Audit at East Sussex County Council is as follows:

*‘Internal Audit is an independent assurance function which conducts reviews and provides advice, support and challenge to the organisation on risk, governance and internal control matters. In achieving this, the service aims to:*

- *Deliver a high quality, cost effective service in line with best practice and professional standards;*
- *Work constructively with management to support new developments and major change programmes;*
- *Be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls;*
- *Be flexible and responsive to the needs of the organisation in all its work.’*

### 2. STATUTORY ROLE

2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2011, which state in respect of Internal Audit that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires:

- make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit; and
- supply the body with such information and explanation as the body considers necessary for that purpose.”

---

<sup>1</sup> Institute of Internal Auditors

2.2 The statutory role is recognised and endorsed within the Council's Financial Regulations, which provide the authority for access to officers, members, documents and records and to require information and explanation as necessary.

### **3. INDEPENDENCE AND ACCOUNTABILITY**

3.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities. Where the Head of Internal Audit is responsible for other services, arrangements are in place for ensuring that any internal audit work is subject to appropriate independence and that any conflicts of interest are avoided.

3.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Head of Internal Audit has direct access to, and freedom to report in his own name and without fear of favour to, all officers and Members and particularly those charged with governance. This independence is further safeguarded by ensuring that the Head of Internal Audit's annual appraisal/performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of Audit, Best Value and Community Services Scrutiny Committee contribute to this performance review.

3.3 Internal Audit may also provide consultancy services, generally advisory in nature, at the request of the organisation. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit and, where this work is not already included within the approved audit plan and may affect the level of assurance work undertaken, this will be reported to Audit, Best Value and Community Services Scrutiny Committee.

3.4 Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

### **4. INTERNAL AUDIT SCOPE**

4.1 The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessment (as set out within County Council risk registers). Extensive consultation also takes place with key stakeholders.

4.2 Internal audit activity will include an evaluation of the effectiveness of the organisation's risk management arrangements and risk exposures relating to:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Efficiency and effectiveness of operations and activities;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

## **5. REPORTING LINES AND RELATIONSHIPS**

5.1 East Sussex County Council has delegated responsibility for ensuring that statutory internal audit arrangements are in place to the Chief Financial Officer. These arrangements form a key element of the County Council's framework for corporate governance. On a day to day basis the Head of Assurance serves as the County Council's Head of Internal Audit and the Assurance Team provides internal audit services to the County Council on behalf of the Chief Operating Officer.

5.2 The Head of Internal Audit reports directly to the Chief Financial Officer (the Section 151 Officer). The County Council also has an Audit, Best Value and Community Services Scrutiny Committee to whom Internal Audit reports on a quarterly basis. These reports cover results of internal audit activity and details of internal audit performance, including progress on delivering the audit plan. In addition, Internal Audit provides an annual report and opinion to Chief Officers and Members on the adequacy of the Council's control environment.

## **6. INTERNAL AUDIT STANDARDS**

6.1 There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards' (PSIAS) as defined by Institute of Internal Auditors (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA). These Standards have been adopted by East Sussex County Council Internal Audit. It is a requirement of these Standards that the Internal Audit Charter clarify the terms 'board' and 'senior management' and, in the context of ESCC, these are deemed to be the Council's 'Corporate Management Team' and 'Statutory Officers Group' respectively.

6.2 In accordance the Standards, Internal Audit is subject to a quality assurance and improvement regime. This consists of an annual self assessment of the service against the PSIAS, ongoing performance monitoring and an external assessment at least every five years by a suitably qualified, independent assessor. The results of all of this activity is reported to management and the Audit, Best Value and Community Services Scrutiny, along with details of any instances of non-conformance. Where non-conformance is considered significant, this will also be included within the County Council's Annual Governance Statement.

## **7. INTERNAL AUDIT RESOURCES**

7.1 It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to it's objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

7.2 The Head of Internal Audit is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

7.3 In addition to ESCC audit staff, the Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

7.4 The Head of Internal Audit is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby they concluded that resources were insufficient, they must formally report this to the Chief Operating Officer and, if the position is not resolved, to the Audit, Best Value and Community Services Scrutiny Committee.

## **8. FRAUD AND CORRUPTION**

8.1 Managing the risk of fraud and corruption is the responsibility of Chief Officers not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

8.2 The Head of Internal Audit should also be informed of all suspected or detected fraud, corruption or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for their opinion on the control environment.

Councillor Paul Sparks  
Chairman of the Audit and Best Value Scrutiny Committee

Chief Financial Officer

Russell Banks  
Head of Assurance

Updated: March 2013

