

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

Date: **10 June 2014**

By: **Chief Operating Officer**

Title of report: **Internal Audit Strategy 2014/15 and Annual Plan**

Purpose of report: **To present the Council's Internal Audit Strategy 2014/15 and Annual Plan**

RECOMMENDATIONS

Members are recommended to:

- 1. review and endorse the Council's Internal Audit Strategy 2014/15 and Annual Plan;**
 - 2. approve the updated Internal Audit Charter.**
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1. Financial Appraisal

1.1 Resources needed to deliver the Council's Internal Audit Strategy and Annual Plan during 2014/15 are provided for within the agreed budget of the Assurance Division, Business Services Department.

2. Background

2.1 The Council's Internal Audit Strategy 2014/15 and Annual Plan (Annexe A) sets 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 Register) and following extensive consultation with officers, Members and other partners, including the Council's external auditors. A workshop was held with Members of the Audit, Best Value and Community Services Scrutiny Committee on 12 March 2014 and comments made have been fed into 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 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 Public Sector Internal Audit Standards (PSIAS).

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 with 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 B, which Members are asked to approve as part of this report.

3. Recommendations

3.1 The Audit, Best Value and Community Services Scrutiny Committee is 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 2014.

KEVIN FOSTER
Chief Operating Officer

Contact Officers: Russell Banks, Head of Assurance
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BACKGROUND DOCUMENTS
Internal Audit Strategy and Annual Audit Plan 2014/15

INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2014-2015



1. Role of Internal Audit

1.1 The full role and scope of the County Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, which was approved by the Audit and Best Value Scrutiny Committee (ABVCSSC) in November 2007. This Charter has been subject to some revisions during 2014 as a result of the introduction of new Public Sector Internal Audit Standards (see below) and is therefore attached as Appendix B 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 2014/15 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 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 to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering compliance against key controls;
- Previous reviews which resulted in either 'no assurance' or 'minimal assurance' audit opinions 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.

2.4 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high risk recommendations, with the results of this work reported to CMT and ABVCSSC on a quarterly basis.

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. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council must consider some radical changes to its service offer in all areas.

3.2 Internal Audit must therefore be in a position to give an opinion and 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 2014/15, a number of major organisational initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- Agile Working;
- Joint Working with the NHS (Better Care Fund);
- New Social Care Information System;
- 'Thrive';
- Highways Re-procurement.

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 2014/15 audit plan once again includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit 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.

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

- Cultural Compliance – a cyclical programme of reviews focussing on ensuring compliance with basic internal controls within teams across the organisation;
- Highways – work to provide assurance over the programme of planned highways improvement works and associated financial monitoring and control;
- Public Health Commissioning – an examination of arrangements within Public Health for the re-commissioning of services;
- Business Continuity – a corporate review of the Council’s business continuity arrangements to ensure that these are fit for purpose;
- Anti-Fraud and Corruption – continue our work to update the Council’s policy framework relating to the prevention and detection of fraud and strengthening our anti-fraud awareness and training for staff. Our work will also include reviewing the Council’s potential exposure to the risk of fraud and delivering a proactive programme of work to mitigate any specific risks;
- Schools – delivery of our schools audit strategy, including an increased number of visits to examine key financial controls in individual schools, themed reviews and continued work to help 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.

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 and a number of local academies.

4.3 Internal audit activities will continue to be delivered through a combination of in-house staff and externally provided specialist resources, particularly in areas such as ICT audit. The following table summarises the level of audit resources expected to be available for 2014/15 (expressed in days) compared to the equivalent number of planned days in previous years. Despite a small reduction in resources, the overall level of resource is still considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional ¹standards and to enable the Head of Internal Audit to provide his annual audit opinion.

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

	2010/11	2011/12	2012/13	2013/14	2014/15
Plan Days	2,054	1,761	1,771	1,642	1,580
Actual Days	2,108	1,810	1,830	TBC	

¹ Public Sector Internal Audit Standards (PSIAS)

5. Audit Approach

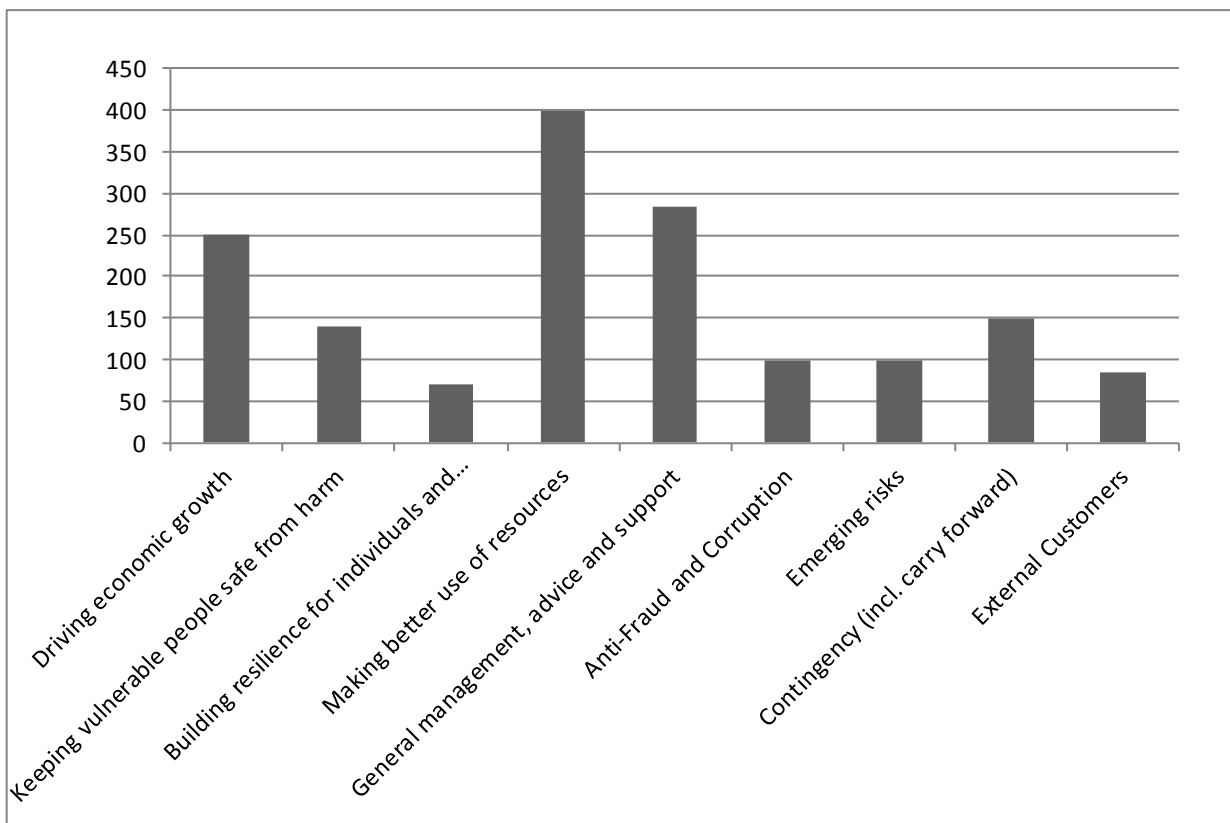
5.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits, control self-assessment and themed reviews. All audits have regard to management's arrangements for:

- 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 Internal Audit 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 2013/14 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, 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 (days) across the 2014/15 audit plan is set out in the following graph:



5.4 In delivering this Strategy, the Head of Internal Audit has liaised with the Council's external auditors, KPMG, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

6. Training and Development

6.1 The effectiveness of the Internal Audit Service 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 team is also 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, 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.

7.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the updated Internal Audit Charter attached to this report as Appendix C, which confirms the ABVCSSC's role as the Board.

7.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to CMT and the ABVCSSC each year, usually as part of the annual internal audit report.

7.4 In addition, the performance of Internal Audit 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 (as per 7.3 above).

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

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 ABVCSSC on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

7.7 Whilst Internal Audit 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 Internal Audit 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.

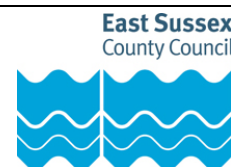
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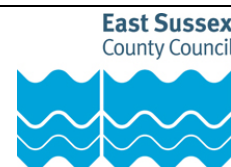
INTERNAL AUDIT PLAN 2014-2015



Council Priority: Driving Economic Growth

Review Name	Type	Outline Objective
Broadband	Audit	This review will examine the adequacy of arrangements for ensuring the successful roll-out and delivery of the East Sussex broadband programme and the methodology for providing complete and accurate grant returns to Broadband Delivery UK (BDUK).
Highways Re-procurement	Advice	During the 2014/15, we will continue to provide a watching brief over the arrangements for re-procuring a new highway services contract and will advise on risk, governance and internal control matters as they arise. It is anticipated that this work will continue into future years, particularly where assurance will be required over new business processes and working practices.
Highways Programme and Budget Management	Audit	This work will seek to provide assurance over arrangements for delivering the programme of highways improvements works during 2014/15 and over the adequacy and effectiveness of associated budget management.
Schools	Audit	As a result of the ongoing identification of financial governance weaknesses within schools, we will significantly increase our audit coverage in schools for 2014/15. This will involve a range of assurance work, including expanded key controls testing in individual schools, follow ups of previous audit work and themed reviews. We will also continue to work with Children's Services colleagues to help improve the level of scrutiny and challenge amongst school governors.

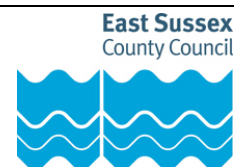
INTERNAL AUDIT PLAN 2014-2015



Council Priority: Keeping Vulnerable People Safe from Harm

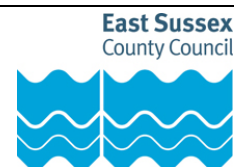
Review Name	Type	Outline Objective
Better Care Fund	Audit / Advice	We will review the Council's plan and proposals for ensuring the primary purpose of the Better Care Fund (BCF) is achieved, i.e. greater levels of integration across health and social care to improve outcomes, shift investment from acute to community and primary care and to deliver greater efficiency and value for money. Specifically, we will review the mechanisms in place to ensure agreed performance targets (national and local) associated with the BCF are met. This will include an assessment of the robustness of the Council's plan, its roll-out and any pooled budget arrangements.
Social Care Reform	Audit / Advice	We will review the Council's arrangements for ensuring compliance with social care reform, including the cap on care costs, new rights for carers and a national eligibility threshold for care and support. Our work will focus on specific elements of reform, particularly in relation to Fairer Funding and Deferred Charges, where we will examine the adequacy of assessment processes and charging mechanisms to ensure robust controls are in place, reducing the risk of financial loss to the Council.
Public Health Commissioning	Audit	Public health responsibilities were transferred to the County Council in April 2013. All public health services are being re-commissioned over two tranches, the first of which has now been completed. This work will seek to provide assurance that there is a joined-up approach to public health within the Council, and that commissioning arrangements enable the delivery of the required outcomes and value for money, and are subject to appropriate performance monitoring.
THRIVE Programme	Audit / Advice	The THRIVE programme is intended to transform how children's social care services are delivered within reduced budgets. We will continue to review the programme to ensure appropriate monitoring is taking place to deliver the required and expected outcomes, within budget.

INTERNAL AUDIT PLAN 2014-2015



Review Name	Type	Outline Objective
ContrOCC	Audit	This audit will seek to ensure that adequate and effective controls are in place in relation to payments to providers via the ContrOCC system, including controls over payment authorisations, SAP interfaces and reconciliation. Also, to ensure that adequate and effective controls exist in relation to income collection, accounting and reporting.
Appointeeships Follow Up	Audit	An audit of this area in 2013/14 identified the need for improvement and an audit opinion of 'partial assurance' was provided. The purpose of this follow-up review is to ensure that actions arising from our original audit have been implemented appropriately by management.
Coroners Service	Audit	The review of the Coroners Service will be undertaken as part of a programme of basic financial control and compliance audits across the Council, covering areas such as income, payments, payroll, budgetary control and security. The Coroners Service is not an area which has been subject to any internal audit coverage in recent years.
Looked After Children's Funds – Follow-Up	Audit	In an audit of this area in 2013/14, we were unable to provide any assurance that LAC funds were properly controlled, with a high risk of theft and inappropriate use of children's savings. We will therefore complete a follow-up review to confirm our previous audit recommendations have been fully implemented by management and that a robust control framework is now in place.

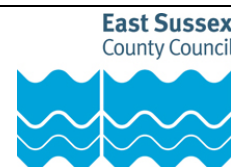
INTERNAL AUDIT PLAN 2014-2015



Council Priority:	Building Resilience for Individuals and Families to Live Independently
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Review Name	Type	Outline Objective
Social Care Information System (SCIS)	Audit / Advice	As part of the programme to procure and implement a new social care information system, we will continue to provide advice and support to management as well as delivering focussed assurance work in a number of higher risk areas. These will include business process re-engineering, data quality and migration, testing arrangements, system security and administration and system interfaces and reconciliation.
Direct Payments Prepaid Cards	Audit	This work will focus on providing assurance over the introduction of prepaid cards for direct payments. As well as continuing to provide advice leading up to implementation of the cards, we will conduct a review to ensure the system operates as intended, the appropriate internal controls are in place and that these are being complied with.
Special Educational Needs and Disability (SEND)	Audit / Advice	With the planned introduction of personal budgets and improvements in commissioning for children with special educational needs and disability, we will seek to ensure that robust supporting systems and processes are developed and that the control environment associated with these changes will ensure compliance with government policy.

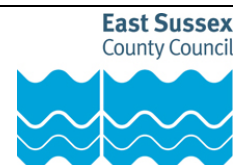
INTERNAL AUDIT PLAN 2014-2015



Council Priority: Making Best Use of Resources

Review Name	Type	Outline Objective
Business Continuity	Audit	This review will examine the adequacy and effectiveness of business continuity arrangements across the County Council, covering issues such as roles and responsibilities, identification of business critical services, adequacy of response plans, communication, testing and review.
Health and Safety	Audit	This review, which is likely to involve utilising specialist external expertise, will cover the adequacy of arrangements for ensuring that the County Council provides a safe working environment for all staff, contractors and others affected by the services it provides. This will include reviewing the Council's health and safety policies and procedures, communication and awareness arrangements and compliance with health and safety legislation.
Agile Programme	Advice	The implementation of agile working has the potential to result in significant changes to systems and processes and the way in which staff work. During 2014/15, we will monitor progress of the programme and be available to provide advice and support on risk and internal control issues as new working practices are developed.
Capital Programme	Audit	To review progress on planned improvements over capital programme management and monitoring, including in relation to governance of the overall programme and individual projects.
Atrium (New Property Management System)	Audit / Advice	To provide advice and support over the implementation of a new property management system, particularly in relation to governance, risk management and internal control.
Contract Management Follow Up	Audit	During 2013/14, a number of contract management audits were carried out across the Council, based on a sample of higher risk, high value contracts. As well as producing reports for each individual area, an overall report was also published highlighting the common areas for improvement. This follow up audit will seek to ensure that appropriate action has been taken to deliver improvements in each area and across the Council as a whole.

INTERNAL AUDIT PLAN 2014-2015



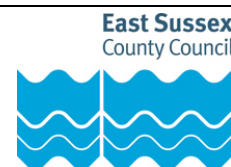
Review Name	Type	Outline Objective
Procurement Shared Services	Audit	This work will involve a review of the Procurement Shared Services arrangement with Surrey County Council to ensure the anticipated benefits, i.e. cost efficiency and service standards, are being delivered.
Procurement Standing Orders	Audit	Following the introduction of new Procurement Standing Orders in 2013, we will seek to carry out sample testing of recent procurement activity to ensure an appropriate level of compliance is being obtained.
Management of Staff Transfers and Leavers Follow Up	Audit	In 2013/14, we found that the arrangements for controlling access to the Council network folders and IT systems were ineffective and inefficient and represented a clear security risk for the organisation. We will therefore complete a follow-up review to ensure audit recommendations made and agreed with management have been fully implemented.
Fleet Management Follow Up	Audit	A follow-up review of the Council's Fleet Management arrangements will be undertaken following an internal control review in 2012/13.
Cultural Compliance Audit	Audit	A cyclical programme of reviews focussing on ensuring compliance with basic internal controls within teams across the organisation.
Accounts Payable	Audit	A key financial system. To review controls over the procure to pay process, including ordering, goods receipting and payment.
HR/Payroll	Audit	A key financial system. We will review controls over the HR/Payroll function and processes.
Treasury Management	Audit	A key financial system. We will review controls relating to borrowing and lending arrangements as part of the Treasury Management process (including long-term borrowing arrangements).
General Ledger	Audit	A key financial system. To review controls in relation to the County Council's general ledger, including year-end procedures, journal transfers and bank reconciliation.
Pension Fund Governance and Strategy	Audit	A review to assess the adequacy of East Sussex Pension Fund management and governance arrangements in accordance with our Pension Fund Internal Audit Strategy.

INTERNAL AUDIT PLAN 2014-2015



Review Name	Type	Outline Objective
Pension Fund Processes and Systems	Audit	A key financial system. 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). Our review will include an assessment of the impact of new LGPS regulations (which take effect from April 2014) on processes.
Pension Fund External Control Assurance	Audit	To review controls in relation to the administration of pension fund investments, including monitoring of fund manager performance and accounting arrangements.
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.
Nursery Income Follow Up	Audit	A follow-up review of nursery income and debt management as a result of previous weaknesses being identified in this area.
New Registers System	Audit / Advice	To provide advice and support over the implementation of a new Registrars ICT system, particularly in relation to system security, payment and income controls.
New Financial Regulations	Advice	To provide audit input and advice in relation to the update and amendment of the Council's Financial Regulations.
Waste	Audit	Jointly with Brighton and Hove City Council Internal Audit, we will complete a programme of work in relation to the Integrated Waste Management Services Contract (IWMSC), to be agreed with the IWMSC Board.
Anti-Fraud and Corruption	Audit	To review the County Council's anti-fraud and corruption arrangements to ensure that these remain 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.
ICT Change Control, Patch and Release Management	Audit	To assess controls over changes to the ICT environment, including patch and release management.

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Review Name	Type	Outline Objective
ICT Security Policies	Audit	To assess the IT security management framework in terms of security management policy and governance, adoption of best practice standards i.e. ISO 27001, and compliance with operational security management.
ICT Internet and Firewall Security	Audit	To examine the adequacy of the Council's arrangements in relation to internet and firewall security.
Information Governance Follow-Up	Audit	To follow-up on the previous audit review and recommendations made in relation to information governance. Additionally, this will assess controls over data sharing (both internally within the Council and with external partners) and the adequacy of the monitoring and reporting of information breaches.
Replacement of Operating System	Audit	This audit will assess the technical controls over replacement of the XP and Windows 2003 operating systems within the Council.
ICT Asset Management	Audit	This review will examine the Council's arrangements for ensuring its ICT assets are properly maintained and controlled.



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’¹.

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.”

¹ Chartered 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 will be put in place to ensure that any internal audit work is subject to appropriate independence and that any conflicts of interest are avoided. This is likely to involve any such work being managed and delivered by the Head of Internal Audit from another local authority.

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 Finance 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.

5.2 The Head of Internal Audit reports directly to the Chief Finance 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 Chartered Institute of Internal Auditors (CIIA) 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 'Audit, Best Value and Community Services Scrutiny Committee' and 'Corporate Management Team' 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 are reported to management and the Audit, Best Value and Community Services Scrutiny Committee, 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 Finance 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 Mike Blanch
Chairman of the Audit, Best Value and Community Services Scrutiny
Committee

Marion Kelly
Chief Finance Officer

Russell Banks
Head of Assurance

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