

# **INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2005-2007**



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

1.1 All local authorities must make proper provision for internal audit in line with the 1972 Local Government Act (S151) and the Accounts and Audit Regulations 2003. The latter states that authorities must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal controls in accordance with the proper internal audit practices”.

1.2 East Sussex County Council has delegated responsibility for ensuring that statutory internal audit arrangements are in place to the Deputy Chief Executive and Director of Corporate Resources. These arrangements form a key element of the County Council’s framework for corporate governance. On a day to day basis the Assistant Director (Audit and Performance) serves as the County Council’s Chief Internal Auditor and the Audit and Performance Division provides internal audit services to the County Council on behalf of the Deputy Chief Executive and Director of Corporate Resources.

1.3 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation’s objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. To carry out this role the Audit and Performance Division’s Internal Audit Service (IAS) aims to:

- satisfy legal requirements and professional standards;
- examine, evaluate and report objectively on the adequacy of arrangements to secure proper economic, efficient and effective use of resources;
- assist management with its responsibility for establishing and maintaining internal control systems and for ensuring that resources are properly applied, risks are appropriately managed and outcomes are achieved;
- investigate allegations of fraud and corruption in line with the Council’s Anti-Fraud and Corruption Strategy; and
- provide an annual opinion to Members and Officers on the adequacy of the Council’s control environment, and regular reports on key audit findings.

1.4 The key service objectives for the IAS as set out in the 2005/06 Council Plan (Corporate Resource Planning and Management 1.4) are to:

- prepare, maintain and deliver the annual risk based internal audit plan;
- promote risk management with proactive audit involvement in service developments; and
- play an active role in developing the Council’s approach to corporate governance.

1.5 The delivery of these objectives is underpinned by the Audit and Performance Divisional Business Plan and the objectives agreed with individual members of the IAS through the performance appraisal process.

## 2. Risk assessment

2.1 The County Council's audit strategy is updated annually. This is based on a risk assessment of all the County Council's major systems and other auditable areas and allows us to prioritise those areas to be included within the plan on the basis of risk. This year we have moved from a 3 year to a 2 year rolling strategy, this change recognises the pace of change within the organisation and improvements in the Council's own risk assessment processes.

2.2 The risk assessment and update of the annual plan has been informed by management's own risk assessment and extensive consultation with the following stakeholders, to ensure that their views on risks within their departments are reasonably identified and reflected within the plan, where appropriate:

- the Deputy Chief Executive and Director of Corporate Resources;
- members of the Audit and Best Value Scrutiny Committee;
- Departmental Management Teams (including Chief Officers);
- key contacts within departments and lead officers for key corporate projects;
- E-business managers;
- the Council's external auditors, the Audit Commission, to ensure that audit resources are used to the best effect, reliance can be placed on the work of internal audit and duplication is avoided; and
- other bodies internal audit providers, where joint working is proposed.

In times of significant transformation organisations must both manage change effectively and ensure that core controls remain in position. The Council is currently engaged in a challenging transformation programme and therefore internal audit must be in a position to give an opinion/assurance that covers the control environment in relation to both new developments and existing systems. This has been a key driver in developing this strategy and plan.

2.3 The key factors, which have driven our assessment of risk and audit needs for 2005/07, are:

**Implementation of SAP** – the need to complete a series of full systems reviews of SAP functions and to provide clear guidance on the control issues and risks arising from future SAP developments;

**Financial excellence** – the need to ensure that adequate and effective arrangements exist across the Council to monitor and control both capital and revenue budgets, its other key financial systems and to manage the Council's financial resources in support of service outcomes. Management's arrangements for achieving value for money have always formed an implicit part of our internal audit approach, and this will continue reflecting the fact that from 2005/06, the CPA will have a greater focus on the efficient use of resources. The formation of the Children's Directorate and other related restructuring does present some additional risks to the achievement of financial excellence, and controls within the new Directorates will be assessed through work on budgetary control and key financial systems.

**Partnerships** – the need to ensure that the growing number of partnerships with other public, private and voluntary sector bodies have in place robust financial controls and governance arrangements, and that risks to the County Council are identified and managed;

**Governance arrangements** – the need to independently review and give an opinion on the Council's arrangements for both corporate governance and risk management, to support the production of an annual statement of assurance within the statement of accounts;

**E-government and ICT** – the need to provide proactive guidance on internal control issues arising from the Council's development of e-government agenda through the IEG Statements. This is coupled with the need to ensure that adequate arrangements exist to ensure the security and integrity of new ICT systems;

**Procurement and contract management** – the need to ensure that the County Council's systems for all aspects of procurement, including contract management, are efficient and effective, particularly for major new contracts e.g. renewal of outsource contracts within T&E and the Integrated Waste Services Management Contract;

**Performance management** – the need to ensure that effective systems are in place to deliver the performance outcomes against which the County Council is increasingly assessed e.g. BVPIs, CPA and PSA, particularly the information systems which underpin the measurement and reporting of performance;

**Internal control environment and specific risks** – the need to ensure adequate internal audit coverage across all departments which supports the achievement of good governance, effective risk management and financial excellence. The coverage for 2005/06 reflects our findings during 2004/05, and consequently the increase in planned coverage for Adult Social Services.

2.4 The key risk issues within each department which are included in the audit plan for the coming year are set out below:

**Corporate Body (including ICT audit):**

- CBOSS – to support the development of the control environment within future phases of the CBOSS project;
- Fundamental accounting systems - full coverage in line with managed audit approach, taking account of the SAP implementation;
- Pension Fund – a number of reviews planned specific to the Council's role in administering the East Sussex Pension Fund;
- Anti-Fraud and Corruption – a review of the Anti-Fraud and Corruption Strategy and the processes that underpin it. A key element of the Council's governance framework, the review will examine the adequacy and effectiveness of current arrangements;
- Budgetary control – a corporate review across the Council, covering an updated self assessment exercise and detailed review of selected high risk budgets;
- E-government – a range of reviews in support of developments planned within the IEG Statement, particularly roadmap and premier projects.
- Risk Management – a review of the effectiveness of the County Council's risk management arrangements, following up the recommendations made in the 2004/05 review.

### ***Chief Executive's***

- Corporate Governance – carry out annual reviews of corporate arrangements and give an opinion in support of the preparation of a corporate assurance statement. This approach will be underpinned by the provision of a separate report for each department giving an opinion on its internal control environment based on work completed during the year;
- Corporate performance indicators – ensuring that adequacy of BVPI data collection systems are considered within the scope of all relevant reviews and conducting a separate review covering overall management arrangements in relation to BVPI data.
- Partnerships/Outside Bodies – reviewing examples of where the County Council (including Members and Officers) is involved in outside bodies, identifying the risks associated with these roles and recommending appropriate controls;
- External Funding/Grants – following up the recommendations made from previous reviews, including the Area Investment Framework, and undertaking detailed testing of compliance;
- Libraries – using a control self assessment approach similar to that adopted for schools.

### ***Children's Services***

- CBOSS Implementation in Schools – advising on project with planned visits to pilot schools to look at the overall control environment;
- Schools Financial self assessments - further work with Education Finance and Cfbt around improving the financial governance arrangements for all schools  
Early Years/Surestart Schemes/Children's Centres - large grant and partnership areas with recent changes to management arrangements;
- Direct payments for Children - growing area which will require sound controls.

### ***Transport and Environment***

- Integrated Waste Services Management Contract – a review of the reconciliation of payments arrangements under the contract and ongoing advice and support;
- Renewal of Outsourced Contracts (ROCS) – review of procurement and payment proposals under the new contract supported by subsequent compliance testing once contract is in place;
- Passenger Transport – following up the recommendations made during previous reviews relating to Social Services taxi use and Home to School Transport;
- Parking Schemes – a review of controls in relation to current decriminalised arrangements.

### ***Social Services – Adult Services***

- Pooled Budget Arrangements – a closer inspection of existing Learning Disability Services and partnership arrangements around Mental Health Services;
- Integrated Community Equipment Services (ICES) - focusing on the development and application of the on-line ordering system used by Council and PCT staff;
- Financial Excellence - governance arrangements around the proposed Financial Services restructure and building on the decision taken at DMT level to raise the awareness of operational staff's responsibility for the management of internal control;
- AEGIS Replacement - a system currently responsible for controlling around £74 million of payments to Community Care providers. On the basis that ITnet will design a replacement system around existing SAP functionality, thorough testing of the system will need to be carried out prior to "go-live".

### **3. Audit Needs Assessment**

3.1 The risk assessment process identifies all auditable areas and assesses the level of risk associated with each. In order to produce the County Councils audit needs assessment the following key principles are then applied:

- All core financial systems (including SAP) are subject to annual audits of compliance against key controls;
- All systems and auditable areas which are identified as high risk in our risk analysis are reviewed each year (except where the risk is short term e.g. exit arrangements from a current contract or new systems development) – this may include the use of shorter interim audits in some years;
- Systems assessed as medium risk – a full review every three years with a shorter follow up review in the subsequent year;
- Systems assessed as low risk – resources will be directed to higher risk areas, therefore low risk systems will not be subject to regular review;
- Systems assessed as weak or unsatisfactory during 2004/05 which are not subject to annual audit should be considered for a follow up review to assess the effective implementation by management of agreed audit recommendations;
- Where common areas of risk are identified across several departments then the use of corporate themed reviews is considered to ensure an approach which is both consistent and makes effective use of resources;
- Where a system is assessed having risks which require both systems audit and ICT audit input then joint reviews should be carried out to ensure an approach which is both consistent and makes effective use of resources;
- The development of new systems or significant changes to existing systems should be separately identified within the audit needs assessment.

### **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 provide an appropriate level of assurance for each directorate and for the County Council as a whole.

4.2 The audit needs assessment has been matched with available internal audit resources to produce the two year strategic plan and the annual plan for 2005/06. Resource planning assumptions for 2005/06 have been fully reviewed following consultation with staff to ensure that sufficient time is allocated for indirect work, for example training and development. It is assumed that some audit work will be carried forward from 2005/06 for completion within resources available in 2006/07 and that this will not exceed that carried forward from 2005/06. This reflects a reasonable level of work in progress.

4.3 Resources have also been allocated to the two external bodies for whom Audit and Performance Division provides internal audit services: East Sussex Fire Authority and Plumpton College. Our contract with Sussex Magistrates Courts Committee ended on 31 March 2005 following national restructuring of the service. Our contract with Plumpton College ends on 31 July 2005 and a tendering process for the new contract is currently underway.

4.4 The IAS has been subject to reorganisation for 2005/06 in order to reflect changes within the County Council and following the addition of a new Principal Audit Manager post. The creation of this post provides increased management capacity and importantly an opportunity to further develop the internal audit service.

4.5 The resource plan reflects the addition of this new post and assumes successful recruitment to two current vacancies during the year. We will continue to use agency staff where appropriate to help deliver the plan. Consideration will also be given to using specialist external resources potentially including forensic computer work and security reviews of the new SAP system. When fully staffed, the IAS will have 13.7 full time equivalents, in addition to the Chief Internal Auditor role of the Assistant Director (Audit and Performance).

4.6 The total number of planned audit days for 2005/06 is 2,126. This level of resource is sufficient to allow the IAS to deliver its risk based plan in line with the standard set out in 2003 Code of Practice for Internal Audit in Local Government.

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

	2001/02	2002/03	2003/04	2004/05	2005/06
Plan Days	2,420	2,598	2,294	2,129	2,126
Actual Days	1,910	2,191	2,047	1,993.5	-

## 5. Audit Approach

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

- 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 areas:

- Contingency – an allowance of 250 days to provide capacity for anti-fraud and corruption work including special audits and the investigation of potential irregularities. This contingency also allows some flexibility within the plan for any unplanned audit work and for the completion of work in progress from the 2004/05 plan;
- Discretionary and development work – an allowance of 50 days to support:
  - the development of the corporate approach to governance and risk management;
  - the work of the Audit and Best Value Scrutiny Committee, and;
  - the development of the Council's approach to anti-money laundering regulations.
- Advice to departments – an allowance against each department to cover the provision of ad hoc advice on audit and control issues.

A summary of the allocation of audit resources across the 2005/06 audit plan is shown at Appendix A. Appendix B shows the coverage of the audit plan in more detail.

5.3 One outcome of the risk assessment described earlier in the strategy is the formation of the new Children's Directorate and the reorganisation of other departments as a consequence and this is reflected in the plan. The number of days within the Corporate Body remains high for 2005/06 to reflect the range of audit reviews planned in the first full year of SAP implementation. We will also continue to provide support on audit and control issues associated with future phases of SAP development. The increase in planned days for Adult Social Services reflects the issues identified in 2004/05 and the number of high risk systems in this directorate.

## **6. Training and development**

6.1 The effectiveness of 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 as part of the CRD's Training and Development Plan. As well as basic training in audit techniques, and the acquisition of specialist audit skills, the IAS is committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. During 2004/05, two members of staff successfully completed their final Institute of Internal Auditors examinations and a further three will continue to be supported in studying towards the qualification during 2005/06. The IAS is also providing a work placement for CRD's CIPFA trainee during the year.

## **7. Quality and performance**

7.1 The IAS maintains a Quality Manual, which sets out the standards to which all audit assignments are completed. Following a review against the revised Code of Practice for Internal Audit in Local Government issued by CIPFA in 2003 we have identified a number of improvements to our processes which will be implemented during the year. The revisions to the Quality Manual will also reflect the implementation of the Galileo package for planning, performance monitoring and working papers.

7.2 The performance of the IAS is measured against the key service targets and objectives set out in the Council Plan, the CRD Business Plan and the Audit and Performance Division's Business Plan. 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 carried out by the County Council's external auditors and reported on in the Audit and Inspection Annual Letter and within the CPA.

7.3 In addition to the individual report to management for each audit assignment, quarterly reports on key audit findings and the delivery of the audit plan against key performance indicators are made to both COMT and the Audit and Best Value Scrutiny Committee. These key performance indicators and targets for 2005/06 are shown in appendix C.

7.4 The IAS will continue to liaise closely with other internal audit services through the Sussex Audit Group, Home Counties Chief Internal Auditors' Group and the County Chief Auditors' Network.

**SEAN NOLAN, DEPUTY CHIEF EXECUTIVE AND DIRECTOR OF CORPORATE RESOURCES**

Contact Officer: Duncan Savage – Assistant Director – Audit and Performance  
Tel No: 01273 482330

## Annual internal audit plan by customer

<b>Service</b>	<b>2005/06 Plan Days</b>	<b>% of 2005/06 Plan Days</b>	<b>2004/05<sup>1</sup> Plan Days</b>
East Sussex County Council			
Corporate Body (incl CRD)	395	18.6%	443
Computer Audit	260	12.2%	260
Children's Services	419	19.7%	394
Social Services - Adults	300	14.1%	300
Transport & Environment	165	7.8%	175
Chief Executives	200	9.4%	125
Contingency (incl. carry forward)	250	11.8%	275
Discretionary and corporate projects	50	2.4%	50
<i>Sub total – internal customers</i>	<i>2,039</i>	<i>95.9%</i>	<i>2,022</i>
Fire Authority	60	2.8%	60
Magistrates	-	0.0%	20
Plumpton College	27	1.3%	27
<i>Sub total - external customers</i>	<i>87</i>	<i>4.1%</i>	<i>107</i>
<b>Total audit days</b>	<b>2,126</b>	<b>100.0%</b>	<b>2,129</b>

<sup>1</sup> 2004/05 Plan Days are shown according to the previous structure i.e. Education & Libraries and Social Services.

**Strategic Audit Plan 2004/07 – Detailed analysis of coverage**

*See attached spreadsheet*

## Internal Audit Performance Indicators

Performance Indicator	Target
Planned days delivered (%)	>90%
Planned audits completed = final reports issued (%)	90%
Actual v Plan time on completed audits (%)	<102%
Direct time (%)	66.1%
External Audit reliance on internal audit	Achieved
CPA score maintained	At least 3/4 achieved within the new assessment methodology.
Recommendations accepted (%)	90%
Customer feedback forms scoring 3 out of 5 or higher (%)	95%
Reports to Chief Officers and Members	Quarterly