

INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2017-2018

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 last approved by the Audit, Best Value and Community Services Scrutiny Committee (ABVCSSC) in June 2014.

1.2 The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Internal Audit is defined "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 the effectiveness of risk management, control and governance processes."

Internal Audit supports the whole Council to deliver economic, efficient and effective services and achieve the Council's vision, priorities and values.

2. Risk Assessment and Audit Planning

2.1 The County Council's Internal Audit Strategy is updated annually and is based on a number of factors, especially 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 2017/18 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. The following diagram sets out the various sources of information used to inform our 2017/18 audit planning process:



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;
- Helping people help themselves;
- Making best use of our resources.

2.4 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 number of previous reviews with a 'partial assurance' opinion where the area under review is of a higher risk nature.

2.5 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.

2.6 During the last two years, the County Council has been working with Surrey County Council, and more recently Brighton and Hove City Council, to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work is progressing well, with a clear project plan in place aimed at integrating the three internal audit teams into a single service over the next year. Wherever possible, opportunities to co-ordinate audit work with our Orbis partners have been identified and joint working has been taking place across the three organisations. This enables more effective use of the knowledge and skills available across the internal audit teams.

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 needs to 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 2017/18, 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:

- Better Together / Accountable Care Model;
- Orbis;
- Procurement and Contract Management.

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 2017/18 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:

- Budget Management;
- Staff Travel and Expenses;
- Highways Contract;
- Waste Contract;
- Home To School Transport;
- Direct Payments;
- General Data Protection Regulations;
- Anti-Fraud and Corruption.

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 2017/18 (expressed in days) compared to the equivalent number of planned days in previous years. The overall level of resource has remained relatively consistent in recent years and 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 Assurance to provide his annual audit opinion.

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

¹ Public Sector Internal Audit Standards (PSIAS)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Plan Days	1,771	1,642	1,580	1,712	1,622	1,668
Actual Days	1,830	1,618	1,500	1,581	TBC	TBC

5. Audit Approach

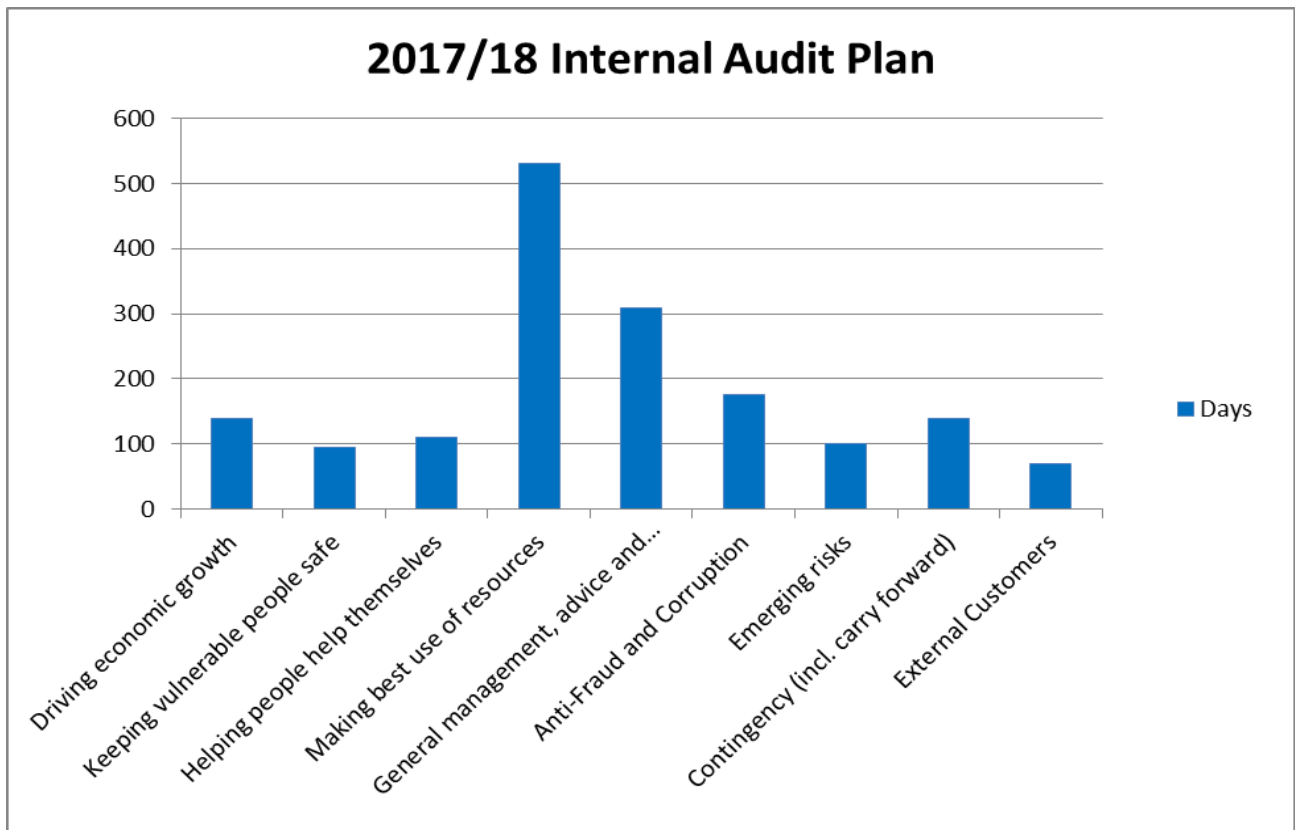
5.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management's arrangements for:

- Achievement of the organisation's objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

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 2016/17 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 2017/18 audit plan is set out in the following graph:



5.4 In delivering this Strategy, the Head of Assurance 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 Council’s appraisal process and are delivered and monitored through on-going management supervision. Use is also made of CIPFA’s skills and competencies matrix for internal auditors as part of this process.

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 Internal Audit Charter, 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. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives, and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused;
- Promotes organisational improvement.

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 also ongoing performance appraisals and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

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, the 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 (including as part of Orbis) to help improve resilience and make better use of our collective resources. During 2016, the Head of Assurance has taken up the position of Chair of the County Chief Auditor's Network, the membership of which includes all county council and unitary council heads of internal audit across England.

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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Council Priority:	Driving Economic Growth
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Review Name	Type	Outline Objective
Schools	Audit & Advice	We will continue our audit coverage in schools, which will involve a range of assurance work, including key controls testing in individual schools, follow-ups of previous audit work and themed reviews. In addition, we will continue to work with Children's Services colleagues to help improve the level of scrutiny and challenge provided by school governors, including the provision of more robust and focussed training. We will also work with our Orbis partners to provide bulletins and guidance for schools.
Academy Transition Arrangements	Audit	This review will consider the arrangements in place for managing the transition for schools becoming academies, having regard to the risks for both the schools themselves and the County Council.
Education Improvement Partnerships	Audit	Education Improvement Partnerships (EIPs) are groups of schools working together across an area to improve outcomes for all pupils. EIPs receive funding from the local authority and include primary and secondary schools, and, in some areas, post-16 colleges and early year providers. This audit will examine EIP governance arrangements, with a view to ensuring there is appropriate consultation on EIP objectives, effective financial planning for EIP funds, clear stakeholder reporting and robust controls over the authorisation of expenditure.
Community Infrastructure Levy	Audit	A review to ensure that the Community Infrastructure Levy application and bidding process is operating effectively to maximise the Council's ability to secure funding, including assurance that funds received are used appropriately.
Sustainable Drainage Systems (SuDS)	Audit	A review to assess compliance with the Council's statutory obligations (as Lead Local Flood Authority - LLFA) in relation to SuDS, where recent changes have made SuDS a material consideration when determining planning applications for major developments. Non-compliance exposes the Council to financial and reputational risks.

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Council Priority:	Keeping Vulnerable People Safe
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Review Name	Type	Outline Objective
School Registration Arrangements (to include Academies)	Audit	<p>The Education (Pupil Registration) (England) (Amendment) Regulations 2016 seek to provide a framework for schools to manage child protection risks, particularly in relation to the whereabouts and safety of children. The regulations also provide a framework to ensure schools and academies don't remove pupils from the roll as a means of manipulating their performance.</p> <p>This audit will look to provide assurance that schools and academies are complying with the Government's requirements in relation to pupil registration and are following these when removing pupils from the school roll.</p>
Unaccompanied Asylum Seeking Children	Audit	<p>An audit of the Council's arrangements for dealing with unaccompanied children seeking asylum, where we are responsible for all associated costs until the age of 25 (failed asylum seekers may also be supported if they have children or social care needs). This includes schooling, foster care or children's homes, through to university fees and housing costs. The review will look to ensure that the Council is complying with its responsibilities, is maximising grant contributions and that all expenditure is appropriate, valid and accurate.</p>
Troubled Families	Audit	<p>As a continuation of our work in this area, we will verify a proportion of result claims before they are made, including confirming families' eligibility for inclusion in the expanded programme and whether progress measures set out in the Troubled Families outcome plans have been achieved and evidenced.</p>
Care Leaver Payments & Grants	Audit	<p>The audit will review the process for administering grants and other payments to those leaving care.</p>
Home To School Transport	Audit	<p>A review of the Council's arrangements for providing home to school transport for pupils. It will cover eligibility, safeguarding, procurement, contract and budget management arrangements (including billing and payments).</p>

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Council Priority:	Helping People Help Themselves
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Review Name	Type	Outline Objective
East Sussex Better Together / Accountable Care Model	Advice & Audit	Continued audit advice, support and assurance in relation to ESBT (and Connecting 4 You) and the move towards an Accountable Care Model (and the pooling and alignment of a single budget and systems established to manage this). We will work with ASC and Finance colleagues to identify key areas of support to help provide assurance that a sufficiently robust framework of control exists in this complex area.
Social Care Non-Attendance and Deaths	Audit	A review of systems and controls in place to ensure payments are only made for valid social care clients who are actually receiving care.
Sexual Health Open Access	Audit	A review of controls in relation to open access, whereby ESCC residents seek and obtain sexual health treatment in other local authorities, and this is charged to ESCC. Whilst it is not possible to control how and when people access out-of-area services, it is important that the Council obtains appropriate assurance that services have actually been provided before any payments are made.
Ordinary Residence	Audit	A review of processes in place to manage the risks associated with other local authorities placing clients in receipt of social care services in East Sussex, and transferring to ESCC the commissioning, care management and funding responsibility for the individual as a result of a successful Ordinary Residence claim.
Financial Assessments	Audit	A review to understand and appraise the financial assessment process in relation to adults both entering and already in, ESCC care. This will include revisiting internal audit work previously undertaken in this area.

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Council Priority:	Making Best Use of Resources
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Review Name	Type	Outline Objective
Adult Social Care Liquidlogic (LAS) & Controcc	Audit	A review to assess the adequacy of controls within the LAS (client information and management system for Adults) and Controcc (the social care payments and billing system).
Children's Social Care LiquidLogic (LCS) & Controcc	Audit	A review to assess the adequacy of controls within the LCS (client information and case management system for Children) and Controcc (the social care payments and billing system).
ICT – General Data Protection Regulations (GDPR)	Audit	A review to ascertain preparedness for the new General Data Protection Regulations, where there is a risk of non-conformance and ensuing financial penalties under the new regime. A gap analysis will be undertaken to assess how measures implemented by the Council align to the proposed GDPR.
ICT – Third Party Services	Audit	The Council is exposed to clear risks associated with parts of the organisation trading with third party IT providers without our own IT and Digital Department being aware, and therefore unable to implement adequate information governance and security controls. This review will therefore assess the adequacy of, and compliance with, Council policy in this area and, where non-compliance is identified, whether the associated risks have been properly considered and managed.
ICT – Prioritisation of Disaster Recovery / Service Restoration	Audit	A review of the arrangements in place over the prioritisation of disaster recovery / service restoration, to ensure that these are robust and there is appropriate alignment between the recovery expectations of service departments and ICT restoration / recovery capability.
SAP Application Controls	Audit	An audit to evaluate the adequacy and effectiveness of the key configuration settings and access restriction mechanisms to a variety of sensitive transactions in SAP.
Accounts Payable	Audit	A full key financial system audit. To review processes relating to the procure-to-pay process.

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Review Name	Type	Outline Objective
Procurement Cards	Audit	This audit will look to provide assurance that P-cards are only issued to appropriately authorised and trained staff and are being used only to purchase goods and services that are wholly, exclusively and necessary for the use of the Council, and for the best value attainable.
Payroll - Key Controls	Audit	This audit will review the key controls operating within the Payroll system, including those relating to starters, leavers, temporary and permanent payments and contractual changes.
Accounts Receivable – Key Controls	Audit	This audit will provide assurance over the key controls operating within the Accounts Receivable system, including those in place for ensuring the accuracy of customer details, accuracy of invoicing, recording and matching payments to invoices, and recovery.
Debt Management	Audit	This audit will involve a thorough review of the controls operating within Adult Social Care and Business Operations to manage debt within the Accounts Receivable system. Particular emphasis will be placed on the arrangements for the monitoring and recovery of deferred debt arising from social care service users.
Bankline (Banking Application)	Audit	A review of the controls operating over the Council's electronic banking application 'Bankline'. The system is used for making Chaps payments (same day automated payment system in the UK – primarily used for high value payments, including Treasury Management payments) and faster payments, as well as the day to day management of Council bank accounts.
Pensions Governance, Investments and External Control Assurance	Audit	A review to assess the adequacy of East Sussex Pension Fund management and governance arrangements. Also, to examine arrangements for obtaining assurance over the adequacy of the control environment of pension fund investment managers and the custodian.
Pension Fund Processes and Systems	Audit	To review the key controls over 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).

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Review Name	Type	Outline Objective
Pension Fund Pooling – Governance Arrangements	Advice	To provide advice and guidance on the governance framework associated with the ‘ACCESS Pool’, in preparation for the pooling of ESCC pension fund assets from April 2018.
Budget Management	Audit	A review of the Council’s budget management arrangements, to include both central controls and examination of a sample of individual service budgets.
Recruitment and Induction	Audit	This audit will review the arrangements for recruiting new staff, to include approval to recruit, advertising arrangements, shortlisting, pre-employment checks, training and induction.
Apprenticeship Levy	Audit	<p>The Apprenticeship Levy, introduced in April 2017, changes the way the government funds apprenticeships in England. As a result, the way the Council accesses funding and training for apprenticeships will also change.</p> <p>This audit will seek to provide assurance over the arrangements for calculating and accounting for the Apprenticeship Levy, the arrangements for ensuring the funds for apprenticeship training are spent in a timely manner and in accordance with the Department for Education’s Apprenticeship Funding Policy.</p>
Personal Service Companies and Use of Consultants	Audit	<p>A review to provide assurance that the Council has controls in place to manage the key risks associated with the appointment of personal service companies and use of consultants, including non-compliance with the Code of Conduct, inadequate performance monitoring, the reputational risk associated with not following an appropriate appointment process and failing to protect intellectual property rights.</p> <p>We will also provide assurance that the Council has adequate controls in place to ensure compliance with the new IR35 legislation relating to ‘self-employment’ status.</p>

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Review Name	Type	Outline Objective
ORBIS - General	Advice and Audit	To work with management to support the development of new systems, processes and working practices within the partnership to help ensure that a sufficiently robust framework of control remains in place. This will include following-up previous audit reports to ensure agreed actions have been implemented.
ORBIS - Business Operations Roadmap	Advice	We will provide advice, support and challenge on risk and internal control matters associated with changes made within Business Operations, as identified within their 'Roadmap' document. The work will support the merging of processes within transactional teams (such as Payroll, Accounts Payable, Accounts Receivable and Pensions).
ORBIS - SAP Developments	Advice	To provide advice, support and challenge in relation to SAP development and improvement work.
ORBIS - Property Transformation	Advice	To provide advice, support and challenge on risk, governance and internal control matters in relation to property transformation and improvement initiatives.
ORBIS - Procurement Transformation	Advice	To provide advice and support into the procurement transformation programme, including the design of sourcing, purchasing and contract management systems.
Procurement and Contract Management (incl Financial Assessments)	Audit	As a continuation of previous audit work in this area, we will undertake a review of a sample of high risk and, where appropriate, joint contracts with Surrey County Council. The audit will also review the process for undertaking due diligence of contractors, including financial assessments, both pre and post contract award.
Lease Management – Property	Audit	A review to assess the adequacy of the control framework in place for the management of property leases (where the Council is either the landlord or the tenant) to ensure that the Council achieves maximum value from its property assets.
Highways Contract Management	Advice and Audit	Following the letting of the highways contract to Costain, we will undertake a contract management audit which will include a review of governance arrangements, performance management and payment mechanisms.

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Review Name	Type	Outline Objective
Waste Contract	Audit	Audit work in relation to the Waste PFI Contract following the recent external review by Defra. Potentially to include a review of the implementation of actions arising from this external review, contract compliance, governance and payment arrangements, and the measurement / accounting of waste volumes.
Staff Travel and Expenses	Audit	This audit will review the controls associated with all methods of staff travel and expenses, including (but not limited to) mileage claims, travel warrants, season tickets, workplace travel allowances, purchasing cards and petty cash.
Capital	Advice	To provide audit advice and support in relation to the review of current capital systems and processes, following the analysis work undertaken by AECOM. Note – Capital will be subject to a full internal audit review in 18/19.
Energy Management	Audit	A review of the Council's energy management arrangements and associated processes, including the payment of invoices and the management of income received in respect of green energy generation.