

# **Internal Audit Strategy and Annual Audit Plan 2019-2020**

## 1. Role of Internal Audit

1.1 The full role and scope of the Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, the latest version of which is attached to this Strategy as Appendix 2.

1.2 The mission of Internal Audit, as defined by the Chartered Institute of Internal Auditors (CIIA), is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Internal Audit is defined as *"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."*

## 2. Risk Assessment and Audit Planning

2.1 East Sussex County Council's Internal Audit Strategy and Annual Audit Plan is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the strategic and departmental 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 2019/20 has involved consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual directorates 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, efforts continue to be 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 2019/20 audit planning process:



2.3 In producing the audit plan (which is set out in Annex 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, as a minimum, compliance against key controls;
- Previous reviews which resulted in 'minimal assurance' audit opinions will be subject to a specific follow-up review to assess the effective implementation by management of agreed actions. This will also include a number of previous reviews with a 'partial assurance' opinion where deemed necessary or where the area under review is considered to be of a higher risk nature.

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 the Audit Committee on a quarterly basis.

2.5 During the last two years, Surrey County Council, East Sussex County Council and Brighton and Hove City Council have been working together to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work has resulted in the formation of a single, integrated internal audit service from April 2018, involving three locality based teams supported by two specialist teams in the areas of ICT audit and counter fraud. It is our ambition that this will provide greater resilience and capacity for our partner councils whilst also building on existing high quality services.

### 3. Key Issues

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 many 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 2019/20, a number of organisational and new system initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these projects progress. These include:

- South East Transport Hub
- Health and Social Care Integration
- New E-Recruitment System
- Travel and Expenses Systems

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 2019/20 audit plan 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 senior management and Members 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:

- Special Educational Needs and Disabilities Assessment and Commissioning
- Direct Payments
- Business Continuity
- Council Procurement Practices
- Cyber Security
- Network Security

3.6 The results of all audit work undertaken will be summarised within quarterly update reports along with any common themes and findings arising from our work.

#### **4. Counter Fraud**

4.1 Managing the risk of fraud and corruption is the responsibility of management. 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.

4.2 The Chief Internal Auditor should be informed of all suspected or detected fraud, corruption or irregularity in order to consider the adequacy of the relevant controls and evaluate the implication for their opinion on the control environment.

4.3 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, Internal Audit will maintain a fraud risk assessment and deliver a programme of proactive and reactive counter fraud services to help ensure that the Council continues to protect its services from fraud loss.

#### **5. Matching Audit Needs to Resources**

5.1 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.

5.2 In addition to this, resources have been allocated to the external bodies for whom Orbis Internal Audit also provide internal audit services, at an appropriate charge. These include Horsham District Council, Elmbridge District Council, East Sussex Fire Authority and South Downs National Park.

5.3 Internal audit activities will be delivered by a range of staff from across the Orbis Internal Audit Service, maximising the value from a wide range of skills and experience available. In the small number of instances where sufficient expertise is not available from within the team, mainly in highly technical areas, externally provided specialist resources will continue to be utilised.

5.4 The following table summarises the level of audit resources expected to be available for East Sussex County Council in 2019/20 (expressed in days), compared to the equivalent number of planned days in previous years. Whilst the overall level of resource was reduced in 2018/19, as part of the Internal Audit contribution towards planned organisational savings, no further significant reductions have been made for 2019/20. This level of resource is considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional standards<sup>1</sup> and to enable the Chief Internal Auditor to provide his annual audit opinion. It should also be noted that the impacts of the previous year’s reduction in resources have been mitigated as far as possible through efficiencies and additional resilience offered from the Orbis partnership, as explained above.

**Table 1: Annual Internal Audit Plan – Plan Days**

	2015/16	2016/17	2017/18	2018/19	2019/20
Plan Days	1,602	1,532	1,583	1,417	1,400

## 6. Audit Approach

6.1 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.

6.2 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 there are increasing demands upon Internal Audit, some of which 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 2018/19 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.

6.3 In delivering this strategy and plan, we will ensure that liaison has taken place with the Council’s external auditors, Grant Thornton, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

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<sup>1</sup> Public Sector Internal Audit Standards (PSIAS)  
East Sussex County Council

## 7. Training and Development

7.1 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 a formal performance and development process and are delivered and monitored through on-going management supervision.

7.2 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 as well as several new members of the team embarking on new apprenticeship training during 2019/20.

## 8. Quality and Performance

8.1 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.

8.2 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 Audit Committee's role as the Board.

8.3 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 the Audit Committee, 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.

8.4 In addition, the performance of Orbis Internal Audit continues to be measured against key service targets focussing on service quality, productivity and efficiency, compliance with professional standards, influence and our staff. These are all underpinned by appropriate key performance indicators as set out in Table 2 below.

8.5 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.

8.6 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 the Audit Committee on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

8.7 Whilst Orbis Internal Audit liaises closely with other internal audit services through the Sussex and Surrey audit and counter fraud groups, the Home Counties Chief Internal Auditors' Group and the Local Authority 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.

**Table 2: Performance Indicators**

Aspect of Service	Orbis IA Performance Indicators	Target
<b>Quality</b>	<ul style="list-style-type: none"> <li>Annual Audit Plan agreed by Audit Committee</li> <li>Annual Audit Report and Opinion</li> <li>Satisfaction levels</li> </ul>	<p>By end April</p> <p>To inform AGS 90% satisfied</p>
<b>Productivity and Process Efficiency</b>	<ul style="list-style-type: none"> <li>Audit Plan – completion to draft report stage by 31 March 2020</li> </ul>	90%
<b>Compliance with Professional Standards</b>	<ul style="list-style-type: none"> <li>Public Sector Internal Audit Standards</li> <li>Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act</li> </ul>	<p>Conforms</p> <p>Conforms</p>
<b>Outcomes and degree of influence</b>	<ul style="list-style-type: none"> <li>Implementation of management actions agreed in response to audit findings</li> </ul>	97% for high priority
<b>Our Staff</b>	<ul style="list-style-type: none"> <li>Professionally Qualified/Accredited</li> </ul>	80%

Russell Banks  
Orbis Chief Internal Auditor

# DRAFT INTERNAL AUDIT PLAN

## 2019/20



### Planned Audit Reviews

Review Name	Outline Objective
Schools	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. We will also work with our Orbis partners to provide information bulletins and guidance for schools on risk, governance and internal control matters.
Parking	A review to assess the various aspects of ESCC parking arrangements, where there are risks of invalid payments, poor performance of contractors and also inadequate income collection procedures, resulting in financial loss to the Authority. The audit will include contract management, budget and financial management and income collection.
Transport for the South East	Transport for the South East is a sub-national transport body created to improve the transport network and grow the economy of the whole South East area. It is currently bidding to achieve statutory status. ESCC is the accountable body and there are clear financial and reputational risks associated with this. We will therefore complete a review of the governance and financial management arrangements in place once statutory status has been achieved.
Children Care Assessment Process	To complete an audit of children care assessments and the management of care provision. This will include looking at arrangements for the commissioning and procurement of care, cost identification and forecasting, financial monitoring and reporting, and the arrangements for reviewing care packages over time to ensure they remain effective in delivering care needs and managing costs.
Commissioning of Adult Social Care Services	A review of social care commissioning and contract management arrangements within the Adult Social Care Department to provide assurance that roles and responsibilities are sufficiently clear and robust to deliver the required outcomes and to maximise efficiency within the process.
Health and Social Care Integration	Continued audit advice, support and assurance in relation to the integration of health and social care. We will work with Adult Social Care and Finance colleagues to identify key areas of support to help provide assurance that a sufficiently robust framework of control exists in this complex and changing area.

# DRAFT INTERNAL AUDIT PLAN

## 2019/20



Review Name	Outline Objective
Direct Payments	A review to examine the system of control associated with the administration, payment and monitoring of direct payments to social care clients, following the transfer of management arrangements in this area from Business Operations to the Adult Social Care Department.
Declaration of Interests and Gifts/Hospitality, and Secondary Employment	This audit will assess the arrangements in place within the Council to manage staff declarations of interest and gifts and hospitality. This will include an assessment of compliance with corporate policy and will seek to confirm that declarations made are appropriately managed. In addition, we will also review the adequacy of arrangements within the Council to identify and manage staff secondary employment.
Business Continuity	A review to examine the adequacy and effectiveness of business continuity arrangements across the Council, covering issues such as roles and responsibilities, identification of business critical services, adequacy of response plans, communication, testing and review. As part of this, business continuity risks specifically associated with Brexit, and the Council's preparation for these, will be assessed.
Procure to Pay	To review the processes and key controls relating to the accounts payable system, including those in place for ensuring the accuracy of vendor details, the processing of invoices, goods receipting and promptness of payments.
Accounts Receivable	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
HR/Payroll	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, overpayments and pre-employment checks.
Pensions Fund Administration - Process and Systems	We will review controls over the calculation and payment of pension benefits, transfers to and from the Pension Fund and the collection and recording of pension contributions from scheduled and admitted bodies.
Pension Fund - Compliance with Regulatory Requirements	A review of the effectiveness of management assurance processes to ensure compliance with statutory and regulatory requirements.

# DRAFT INTERNAL AUDIT PLAN

## 2019/20



Review Name	Outline Objective
Pension Fund - Governance, Strategy and Investments	We shall review the adequacy of governance arrangements over the East Sussex Pension Fund, to cover strategy and the arrangements to manage investments, including pooling arrangements, and the internal controls of external fund managers.
Treasury Management (TM)	A review to assess the adequacy of key controls and procedures across the Council's Treasury Management arrangements, including cash flow forecasting, segregation of duties, financial investments and use of treasury advisers. This will also include an assessment of the impact of changes as a result of Orbis integration.
General Ledger	A key financial system audit. To review controls in relation to the Council's general ledger, including year-end procedures, journal transfers and bank reconciliation.
Adult Social Care Liquidlogic (LAS) and Controcc	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) and Controcc	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).
Making Tax Digital	A review of the robustness of the preparations made by the Council for the compulsory digital tax-keeping records from HMRC – Making Tax Digital (MTD) – which come into effect for local authorities on 1 October 2019.
Orbis Integrated Budget Management Follow Up	This review will assess the implementation of the agreed actions arising from the Orbis Integrated Budget Management audit that was completed in 2018/19 and which received an audit opinion of partial assurance. In addition, we will evaluate the effectiveness of budget management arrangements for a sample of individual service budgets within Orbis.
Grants	We will continue to undertake grant certification work where the Authority has bid for grant funding. In many instances, certification is required by the grant funding body prior to reimbursing the funds or prior to applying for further grants. Wherever possible, we will seek to ensure we are able to recover the costs of this work through the bidding process.

# DRAFT INTERNAL AUDIT PLAN

## 2019/20



Review Name	Outline Objective
Commissioning and Delivery of Property Projects	This review will focus on the commissioning, planning, approval and delivery of a sample of projects within the Property Division of Business Services, with a view to providing assurance that they are aligned with the needs of the Council and deliver their objectives within the resources available.
Atrium	Atrium is the property asset management system used by the Council. In previous years', we have provided assurance over the implementation of certain modules of Atrium, highlighting key risks and issues. We will continue this work for any new modules being implemented, and will also review the operation of controls within those elements of the system already in place.
Council Procurement Practices	<p>A review to assess the adequacy and effectiveness of procurement practices across the Council, potentially including:</p> <ul style="list-style-type: none"> <li>• The role of the Procurement team;</li> <li>• Compliance with Procurement Standing Orders, including the use of waivers and the award of contracts;</li> <li>• Supply chain management, supplier resilience, business continuity and the associated risks of Brexit;</li> <li>• Procurement transparency requirements;</li> <li>• Management of social value requirements.</li> </ul>
Anti Fraud and Corruption	To cover the investigation of potential fraud and irregularity allegations as well as proactive counter fraud activities, including the National Fraud Initiative (NFI) data matching exercise.
Cultural Compliance	This review will aim to provide assurance over basic management controls within a sample of teams across the organisation, assessing compliance with key council policies and procedures.
E-Recruitment System	Advice and support on controls associated with the new e-recruitment system, TribePad, which is to interface directly into the Council's main financial system, SAP.
Travel and Expenses Follow Up	A follow-up review of the Travel and Expenses audit that was completed in 2018/19 and which received an audit opinion of partial assurance. This will also include audit advice and support into the project to source an automated solution for staff travel and expenses.

# DRAFT INTERNAL AUDIT PLAN

## 2019/20



Review Name	Outline Objective
Cyber Security	The audit will review the Authority's arrangements for protecting its systems and services from cyber-attack, including arrangements for effectively responding to attacks as and when they occur.
Orbis Data Centre	A review of the Orbis data centre to ensure appropriate controls are in place to prevent unauthorised physical and electronic access (including 3rd party access) to data held within the centre. The audit will also consider the effectiveness of controls to protect the servers from fire, electrical and water damage; and review the adequacy of backup arrangements to ensure systems and services are not affected in the event of an outage. Where possible, we will place reliance on assurances already available.
Network Security	Significant changes to the way the network is secured are planned, with these beginning to take effect during 2019/20 and fully established in 2020/21. This audit will review the current network security arrangements, and will critically evaluate the planned changes.
Patch Management	We will review the controls in place to support effective patch management ensuring that patches are tested prior to being applied and that they are applied in a timely manner.
Cloud Computing	From a sample of applications and systems retained in the cloud, we will review the controls in place to manage the security, access, recovery and deletion of the data.
Liquid Logic Application Controls Audit	This review will evaluate the application controls over the Council's major social care systems which make up a significant proportion of its payments to suppliers. The audit will review all major input, processing and output controls and the controls in place to interface with the main payment system and general ledger.
ICT Compliance Frameworks	The Council's application to the Government's Public Sector Network (PSN) Code of Connection (CoCo) provides significant assurance over its ICT governance arrangements. With the demise of the CoCo PSN assessment, we will review the ICT governance arrangements in place and, where appropriate, rely on any other suitable sources of assurance, such as the Cyber Essentials Plus submissions.
Surveillance Cameras	We will review the effectiveness of the controls in place to meet the requirements of the Security Camera Commissioner's Code of Practice. This will include a follow-up of the findings of previous audit work in this area.

# DRAFT INTERNAL AUDIT PLAN 2019/20



Review Name	Outline Objective
IT&D Project Management	To review the project management arrangements for a sample of high priority/risk IT&D projects.
Mobile Device Migration	This audit will review the controls for managing the security of mobile devices and the arrangements for securing the data contained on these.
Potential Follow-Up Audits (from quarter 4 work in 2018/19)	This will cover any follow-up audit reviews arising from our work in quarter 4 of 2018/19.

# DRAFT INTERNAL AUDIT PLAN

## 2019/20



### Internal Audit Service Management and Delivery

Review Name	Outline Objective
Action Tracking	Ongoing action tracking and reporting of agreed, high risk actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and Audit Committee covering results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
External Liaison	Liaison with external auditors and other external bodies, including attendance at regional and national audit groups and counter fraud hubs.
Orbis IA Developments	Audit and corporate fraud service developments, including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.
Organisational Management Support	Attendance and ongoing support to organisational management meetings, e.g. Financial Management Team (FMT), Statutory Officers Group (SOG).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.
System Development and Administration	Development and administration of Audit and Fraud Management systems.