

Annexe A

**INTERNAL AUDIT SERVICES
ANNUAL REPORT AND OPINION
2014/2015**



1. Internal control and the 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 2015. The full role and scope of the Council's Internal Audit Service is set out within our Internal Audit Charter and Terms of Reference, which can be found as an appendix to the Internal Audit Strategy.

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 Internal audit is not the only source of assurance for the Council. There are a range of external audit and inspection agencies, as well as processes for internal management review, which can also provide assurance and these are set out in the Council's Local Code of Corporate Governance and its Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The County Council's Internal Audit Strategy and Plan is updated each year 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. The process of producing the plan involves 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.

2.2 In accordance with the audit plan for 2014/15, a programme of audits was carried out covering all Council departments and, in accordance with best practice, this programme was reviewed during the year and revised to reflect changes in risk and priority.

2.3 All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to Corporate Management Team (CMT) and Audit, Best Value and Community Services Scrutiny Committee (ABVCSSC) as part of our quarterly internal audit progress reports.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Head of Assurance (as the Council's Head of Internal Audit) can provide reasonable assurance that East Sussex County Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2014 to 31 March 2015. Audit testing has confirmed that the majority of key controls examined are working in practice, with some specific exceptions. Where improvements to control or compliance are required, we are satisfied that appropriate action has been agreed by the relevant managers within reasonable timescales.

4. Basis of Opinion

4.1 The opinion and the level of assurance given takes into account:

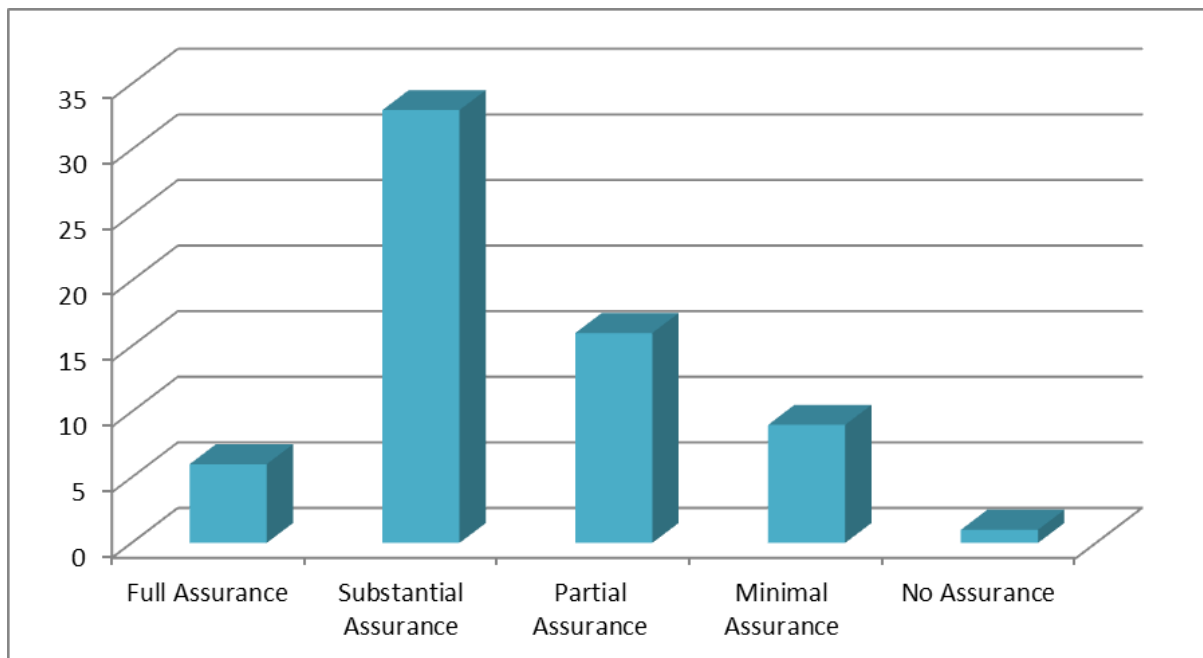
- All audit work completed during 2014/15, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to the findings and recommendations;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service's performance.

4.2 No limitations have been placed on the scope of internal audit during 2014/15.

5. Key Issues for 2014/15

5.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues, and the overall opinion, should be taken into account when preparing and approving the Council's Annual Governance Statement.

5.2 The internal audit plan is delivered each year through a combination of formal reviews with standard audit opinions, direct support for projects and new system initiatives, investigations, grant audits and ad hoc advice. The following graph provides a summary of the outcomes from all audits finalised during 2014/15 with standard audit opinions:



5.3 A full listing of completed audits and opinions for the year is included at Appendix B, along with an explanation of each of the assurance levels. Significantly, it is pleasing to report that, with the exception of schools, which are commented on in Section 5.8 below, none of the audits completed in the period have resulted in either 'minimal' or 'no assurance' opinions.

5.4 Included with the above graph are a total of nine follow up reviews where we have revisited areas which had previously received lower levels of assurance. Of these nine, in all but one case, we have been able to issue a revised opinion of substantial assurance. The one exception to this relates to Staff Transfers and Leavers where the opinion of partial assurance remained unchanged. However, since completing the follow up, management have provided an update report to ABVCSSC confirming that sufficient action has now been taken to mitigate the risks identified.

5.5 As well as conducting formal follow up reviews, we have in place arrangements to track the implementation of all high risk audit recommendations issued during the year. As at 31 March 2015, there were no high risk recommendations outstanding beyond the agreed implementation date.

5.6 At the time of producing this report, a total of 4 reviews (1 of which was a school) remained in progress, all of which will be completed during the first quarter of 2015/16. The finalisation of these reports will result in 100% completion of the 2014/15 internal audit plan.

Key Financial Systems

5.7 Given the substantial values involved, each year a significant proportion of our time is spent reviewing the Council's key financial systems, both corporate and departmental. It is pleasing to report that of those completed during 2014/15, all of these, with the exception of Pension Fund Processes and Systems (partial assurance), resulted in either full or substantial assurance being provided over the control environment.

Schools

5.8 Throughout the year, we have completed a programme of assurance work in schools in accordance with our agreed 'Schools Internal Audit Strategy'. Whilst all County Council schools are required to submit annual self- assessments against the national 'Schools Financial Value Standard' to Children's Services Department (CSD), a number of individual schools were also subject to a separate audit during the year. These were selected on the basis of risk, in consultation with the Schools Risk Review Group, and a summary of the results of this work is set out within the following table:

School	Opinion
Robertsbridge Community College	Substantial Assurance
Uckfield Community Technical College Follow-Up	Substantial Assurance
Herne Junior School	Substantial Assurance
Whitehall Infant School	Substantial Assurance
Etchingam CE Primary School Follow-Up	Substantial Assurance
Chyngton Primary School Follow-Up	Substantial Assurance
Bodium Primary School Follow-Up	Substantial Assurance
Willingdon Community School	Partial Assurance
Hurst Green CE Primary School	Partial Assurance

School	Opinion
Parkland Junior School	Partial Assurance
Seaford Primary School	Partial Assurance
Cradle Hill Community Primary School Follow-Up	Partial Assurance
Churchwood Primary School	Partial Assurance
Park Mead Primary School	Partial Assurance
Westfield School	Partial Assurance
Bishop Bell C.E School	Minimal Assurance
Chyngton Primary School	Minimal Assurance
Pells C.E Primary School Follow-Up	Minimal Assurance
Stafford Junior School	Minimal Assurance
St. Richards Catholic College	Minimal Assurance
Shinewater Primary School	Minimal Assurance
The Causeway School	Minimal Assurance
Ditchling (St Margaret's) CE Primary School	Minimal Assurance
Western Road CP School	No Assurance

5.9 In response to the control weaknesses we are identifying across schools, we are continuing to work with colleagues in Children's Services and BSD Finance to agree a range of activities to help improve school financial governance. These include the following:

- Continuing the work of the Schools Risk Review Group, made up of representatives from Internal Audit, Personnel and Training, Finance, and the Standards and Learning Effectiveness Service (which includes Governor Services), the primary aim of which is to ensure appropriate targeted support and intervention is provided to schools;
- Ongoing development of a more robust training programme for key school based personnel, including business managers, headteachers, chairs of finance committees and chairs of full governing bodies. This training will incorporate the main lessons to be learned from past audit findings;
- Increasing visibility and transparency of audit findings by now sending all audit reports directly to individual governors and emphasising the need for these to be subsequently presented and discussed at full governing body meetings;
- Producing quarterly information bulletins for all school governors highlighting common themes and issues arising from audit work which we recommend they seek assurance on within their own schools.

5.10 Our other assurance work in schools included a School Funds Themed Review which resulted in an opinion of 'partial assurance'.

Agile

5.11 Utilising specialist external project and programme assurance expertise, advice, support and independent challenge has been provided to the Agile Programme. Using a proven methodology, discussion around the status of how the Programme has been managed versus expected good practice has highlighted issues and improvement opportunities which have been fed back into the programme on a timely basis to enable immediate action to be taken. At the same time, supporting documentation was reviewed to validate understanding.

5.12 This approach was designed to ensure key risks have been identified, evaluated and plans / measures put in place to manage such. Internal audit has worked closely with the external specialist to support their assurance work and inform the wider view of risks and internal control. Assurance reports have been provided to the Programme Board at periodic intervals up to the point where the programme has transitioned into business as usual. Overall, whilst improvement activities were identified at various stages, the final programme assurance report concluded that good project management practices had been displayed.

Anti Fraud and Corruption

5.13 During 2014/15, we logged 29 allegations and potential issues under the Council's Anti-Fraud and Corruption Strategy. These were identified via the Council's confidential reporting hotline, our programme of audit work or notifications from departments. A total of 8 investigations were subsequently conducted, with the balance being referred to local management or being assessed as requiring no action. The following provides a summary of the investigation activity undertaken by internal audit during the past twelve months:

- One case in relating to the theft of postage from the Council which resulted in the dismissal of a member of staff;
- One investigation into the inappropriate use of email which resulted in the dismissal of the staff member concerned. This is subject to an employment tribunal; the outcome of which is still awaited;
- Two investigations were carried out relating to the potentially inappropriate claiming of business mileage by staff. None of the staff concerned continue to be employed by the Council and where appropriate, action has been taken to recover any amounts overpaid;
- One instance of the theft of a laptop from a school by a staff member who has been issued with a final written warning, pending the outcome of criminal proceedings;
- One investigation into an allegation of the inappropriate use of Council vehicles by a member of staff, which proved unfounded;
- Two investigations are currently ongoing and we will report on these in due course.

5.14 Our findings from all investigation activity are used to identify any internal control weaknesses and these are reported to management along with appropriate recommendations for improvement. The findings from investigations are also used to inform future internal audit plans.

5.15 As part of the Cabinet Office's (previously the Audit Commission's) National Fraud Initiative (NFI), the Council is required provide a range of data in order to carry out a data matching exercise. Data matching involves comparing computer records held by one body against other computer records held by the same or another body for the purpose of identifying potential cases of error or fraud.

5.16 During 2014, internal audit co-ordinated the submission of data for the NFI, which included payroll, pensions, creditors, residential care clients, concessionary travel passes, residents parking permits and clients in receipt of direct payments. The results from the data matching exercise were made available in February 2015 for further investigation, the results of which will be known later in 2015. Previous exercises have identified overpayments in relation to residential care clients and ESCC pensioners who have died but where payments continue to be made. In the event of overpayments being identified as part of this exercise, recovery arrangements will be put in place.

5.17 As well as the investigation work referred to above, we continue to be proactive in the identification and prevention of potential fraud and corruption activity across the authority and in raising awareness amongst staff. More recently, this has included reviewing and updating the Council's anti fraud and corruption related policies, which were endorsed by the ABVCSSC in March 2015.

5.18 Whilst it is our opinion that the control environment in relation to fraud and corruption is satisfactory and the incidence of fraud is considered low for an organisation of this size and diversity, we continue to be alert to the risks of fraud.

5.19 Finally, we have recently been successful in two bids for central government funding to support counter fraud initiatives in the local area. In both cases, these are joint initiatives working with other local authorities aimed at delivering a strong and co-ordinated approach to preventing, detecting and responding to the risks of fraud. One of these bids involves working with Brighton and Hove City Council to tackle Blue Badge misuse and fraud, which has included the appointment of two new Blue Badge Investigation Officers. Since these appointments, 45 badges have been seized and 3 cases have been subject to prosecution.

6. Internal Audit Performance

6.1 Public Sector Internal Audit Standards (PSIAS) require the internal audit service to be reviewed annually against the Standards, supplemented with a full and independent external assessment at least every five years. The following paragraphs provide a summary of our performance during 2014/15, including the results of our latest internal PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The PSIAS cover the following aspects of internal audit, all of which have been assessed during 2014/15 by the Head of Assurance:

- Purpose, authority and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality assurance and improvement programme;
- Managing the internal audit activity;
- Nature of work;
- Engagement planning;

- Performing the engagement;
- Communicating results;
- Monitoring progress;
- Communicating the acceptance of risks.

6.3 The results of this work found a high level of conformance with the Standards with only a small number of actions identified. The main areas for improvement relate primarily to reviewing and updating our internal quality manual and increasing awareness of the service through the intranet and internet. In all cases, work is continuing to address the required actions.

Key Service Targets

6.4 Performance against our previously agreed service targets is set out in Appendix A. Overall, client satisfaction levels remain high, demonstrated through the results of our post audit questionnaires, discussions with key stakeholders throughout the year and annual consultation meetings with Chief Officers.

6.5 It is pleasing to report that, despite resourcing challenges during the year, 92.6% of the 2014/15 audit plan was completed as at 31st March 2015, in excess of our 90% target. A small number of outstanding reviews were nearing completion at year end, with all reports due to be finalised early in quarter 1 of 2015/16. We are currently exploring opportunities to improve the benchmarking arrangements for internal audit and will report on this in due course when further information becomes available.

6.6 Internal audit is continuing to liaise with the Council's external auditors, KPMG, as part of which both teams are endeavouring to ensure that the Council obtains maximum value from the combined audit resources available.

6.7 In addition to this annual summary, CMT and the ABVCSSC will continue to receive performance information on internal audit throughout the year as part of our quarterly progress reports.

Appendix A

Internal Audit Performance Indicators

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance Year End
Client Satisfaction					
Chief Officer/DMT	Consultation / Survey	Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through Chief Officer consultations in February / March 2015, where high levels of satisfaction confirmed.
Client Managers	Satisfaction Questionnaires	Each Audit	>89%	G	100%
Section 151 Officer	Liaison Meetings	Quarterly	Satisfied with service quality, adequacy of audit resources and audit coverage.	G	Confirmed through ongoing liaison throughout the year and via approval of audit strategy and plan.
ABV&CSSC	Chairs Briefing and Formal Meetings	Quarterly / Annual	Confirmation of satisfaction with service quality and coverage and feedback on areas of improvement.	G	Confirmed through annual review of effectiveness and feedback from committee as part of quarterly reporting.
Cost/Coverage					
CIPFA Benchmarking	Benchmarking Report and Supporting Analysis Tools	Annual	1. Cost per Audit Day; 2. Cost per £m Turnover; equal to or below all authority benchmark average	G	Opportunities to improve benchmarking being explored. Last results available are for 2012, these show: 1. £316 against average of £325 2. £559 against average of £1,004
Local and National Audit Liaison Groups	Feedback and Points of Practice	Quarterly	Identification and application of best practice.	G	Ongoing via attendance at County Chief Auditors Network, Home Counties Audit Group and Sussex Audit Group.
Delivery of the Annual Audit Plan	Audits Completed	Quarterly	90% of Audit Plan Completed.	G	92.6%
Professional Standards					
Compliance with professional standards	Self-Assessment against new Public	Annual	Completed and implementation of any actions arising.	G	Self-assessment completed, improvement plan in place and being

Measure	Source of Information	Frequency	Specific Measure / Indicator	RAG Score	Actual Performance Year End
	Sector Internal Audit Standards				actioned.
External Audit Reliance	Key Financial Systems Internal Audit Activity	Annual	Reliance confirmed.	G	Whilst KPMG no longer seek to directly place reliance on the work of internal audit, as part of their 2013/14 audit plan they reviewed the internal audit function and reports issued. No matters have been raised as a result.

Summary of Opinions for Internal Audit Reports Issued During 2014/15

Full Assurance:

(Explanation of assurance levels provided at the bottom of this document)

Audit Title	Department
Treasury Management	BSD
Pension Fund Governance and Strategy	BSD
General Ledger	BSD
Accounts Payable	BSD
Pension Fund External Control Assurance	BSD
Broadband	CET

Substantial Assurance:

Audit Title	Department
E-Tendering / E-Auction	BSD
Thrive	CSD
Telecoms and Voice Over Internet Protocol (VOIP)	BSD
Fleet Management - Follow-Up	CET
Lease Car Scheme - Follow Up	CET
Robertsbridge Community College	CSD
Corporate Governance – Annual Governance Statement 2013/14	Corporate
Churchill Contract Management – Follow-Up	CSD
ICT Security Policies	BSD
Replacement Operating Systems	BSD
Looked After Children's Funds – Follow-Up	CSD
Nursery Income and Debt - Follow-Up	CSD
Herne Junior School	CSD
Whitehall Infant School	CSD
Purchasing Cards	Corporate
THRIVE Programme	CSD
Contract Management Follow-Up – Apetito	ASC
Cultural Compliance Review – The Customer Services Group	CET
Uckfield Community Technical College – Follow-Up	CSD
Etchingam CE Primary School - Follow-Up	CSD
HR/Payroll	BSD
Procurement	BSD
On SAP Controls	BSD
Pension Fund Investments	BSD
Health and Safety (4 stars)	Corporate
Business Continuity Planning	Corporate
Information Governance - Follow-Up	BSD
Registration Service	CET
Cultural Compliance – Communication Team	Governance
Highways Programme and Budget Management	CET
Internet and Firewall	BSD

Audit Title	Department
Chyngton School - Follow-Up	CSD
Bodiam Primary School - Follow-Up	CSD

Partial Assurance:

Audit Title	Department
Hurst Green CE Primary School	CSD
Parkland Junior School	CSD
Seaford Primary School	CSD
Coroner's Office	Governance
Staff Transfers and Leavers – Follow-Up	BSD
ICT Asset Management	BSD
Cradle Hill Community Primary School – Follow-Up	CSD
SAP Security and Administration	BSD
ICT Change Control, Patch and Release Management	BSD
School Funds	CSD
Pension Fund Processes and Systems	BSD
Appointee and Deputyship (Client Affairs)	BSD
Churchwood Community Primary School	CSD
Park Mead - Follow-Up	CSD
Westfield School - Follow-Up	CSD
Willingdon Community School	CSD

Minimal Assurance:

Audit Title	Department
Flying Start Nursery – Denton Community School	CSD
Bishop Bell C.E School	CSD
Chyngton Primary School	CSD
Pells C.E Primary School – Follow-Up	CSD
Stafford Junior School	CSD
St. Richards Catholic College	CSD
Shinewater Primary School	CSD
The Causeway School	CSD
Ditchling (St Margaret's) CE Primary School	CSD

No Assurance:

Audit Title	Department
Western Road CP School	CSD

Other Audit Activity Undertaken During 2014/15 (including direct support for projects and new system initiatives and grant audits):

Audit Title	Department
Social Care Information System (SCIS) Programme	ASC
Special Educational Needs and Disability (SEND)	CSD
Chyngton Primary School ICT Services	CSD

Audit Title	Department
Capital Programme – Governance Arrangements	BSD
Financial Regulations	Corporate
Gifts and Hospitality – Internal Control Report	CET

Internal Audit Assurance Levels:

Full Assurance: There is a sound system of control designed to achieve the system objectives. Compliance with the controls is considered to be good. All major risks have been identified and are managed effectively.

Substantial Assurance: Whilst there is a sound system of control, there are a small number of weaknesses which put some of the system/service objectives at risk and/or there is evidence of non-compliance with some controls. Opportunities to strengthen controls still exist.

Partial Assurance: Controls are in place and to varying degrees are complied with but there are gaps in the control process, which weaken the system. There is therefore a need to introduce additional controls and/or improve compliance with existing controls to reduce the risk to the Authority.

Minimal Assurance: Weaknesses in the system of control and/or the level of compliance are such as to put the system objectives at risk. Controls are considered to be insufficient with the absence of at least one critical or key control. Failure to improve will lead to an increased risk of loss or damage to the Authority.

No Assurance: Control is generally weak or non-existent, leaving the system open to significant error or abuse and high risk to the system or service objectives. A high number of key risks remain unidentified and/or unmanaged.