

INTERNAL AUDIT ANNUAL REPORT & OPINION 2022/2023

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.

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 Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement.

2. Delivery of the Internal Audit Plan

2.1 The 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 2022/23, 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. All adjustments to the audit plan were agreed with the relevant departments and reported throughout the year to CMT and the Audit Committee as part of our periodic internal audit progress reports. Full details of the adjustments to the plan can be found in Appendix D.

2.3 It should be noted that whilst there were a small number of audit reports in progress or at draft report stage at year-end, outcomes from this work have been taken into account in forming our annual opinion. Full details of these audits will be reported to CMT and the Audit Committee once each of the reports have been finalised with management.

3. Audit Opinion

3.1 No assurance can ever be absolute; however, based on the internal audit work completed, the Chief Internal Auditor can provide reasonable¹ assurance that the Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2022 to 31 March 2023.

3.2 Further information on the basis of this opinion is provided below. Overall, the majority of audit opinions issued in the year were generally positive, with only a small number of instances where internal audit activities have identified that the operation of internal controls have not been fully effective. We are pleased to report that no minimal assurance opinions were issued in the year. There were, however, five partial assurance opinions reported (see 5.4 below), all of which will be subject to follow-up reviews in 2023/24.

3.3 Where improvements in controls are required as a result of our work, we have agreed appropriate remedial action with management.

¹ This opinion is based on the activities set out in the paragraphs below. It is therefore important to emphasise that it is not possible or practicable to audit all activities of the Council within a single year.

4. Basis of Opinion

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

- All audit work completed during 2022/23, planned and unplanned;
- Follow up of actions from previous audits;
- Management's response to the findings and recommendations;
- Ongoing advice and liaison with management, including regular attendance by the Chief Internal Auditor and Audit Managers at organisational meetings relating to risk, governance and internal control matters;
- Effects of significant changes in the Council's systems;
- The extent of resources available to deliver the audit plan; and
- Quality of the internal audit service's performance.

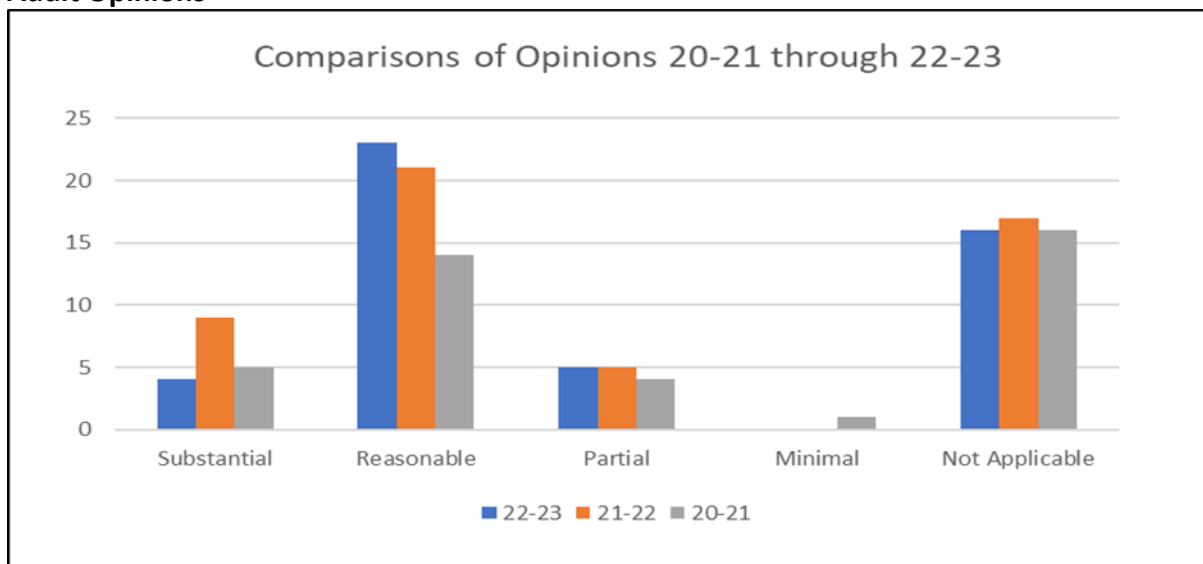
4.2 No limitations have been placed on the scope of Internal Audit during 2022/23.

5. Key Internal Audit Issues for 2022/23

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, will 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 over the past three years:

Audit Opinions



**Not Applicable: Includes grant certifications and audit reports where we did not give a specific audit opinion. Typically, this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance-based opinions is not appropriate.*

5.3 A full listing of all 2022/23 completed audits and opinions for the year is included at Appendix B. The status of all planned audits in progress but not completed to final report by year-end is shown in Appendix C.

5.4 As stated above, we are pleased to report that there were no minimal assurance audit opinions issued. Five audits received partial assurance (all of which have been reported on in our quarterly progress reports) as follows:

- Vehicle Use Follow-Up
- Contract Management Group Cultural Follow-Up
- Children's Data Handling
- Climate Change
- Procurement Data Analytics

5.5 Whilst actions arising from these reviews will be followed up by Internal Audit, either through specific reviews or via established action tracking arrangements, it is important that management take prompt action to secure the necessary improvements in internal control.

5.6 Whilst a substantial assurance annual audit opinion was issued for 2021/22, it is important to recognise that this was an exceptional year in terms of the findings from our internal audit work and was in fact the first time such a positive opinion has been issued since the formation of Orbis Internal Audit. The reasonable assurance opinion for 2022/23 does however, remain positive and continues to reflect the robust governance, risk management and internal control arrangements within ESCC. The primary reasons for the slight reduction assurance include:

- There were only four substantial assurance opinions in 2022/23 compared to nine in 2021/22;
- As noted in 2.3 above, in formulating our opinion, we have taken into account work not yet finalised at year-end. In 2022/23, this has included three audits with partial assurance which will be reported upon in our quarter 1 progress report, taking the total partial assurance opinions for the year to eight. In 2021/22, there were only five partial assurance opinions;
- Some of the areas against which we gave partial assurance opinions during 2022/23 are considered higher-risk areas than those in 2021/22. As noted above, these included the completed audits of Climate Change, Procurement Data Analytics and Children's Data Handling, and those at draft report stage at year-end, including External Funding, and Appointeeships and Deputyships. In 2021/22, of the five audits with partial assurance, three of these were schools which are considered lower risk overall;
- Finally, there have been two follow-up audits during the year which have resulted in unchanged opinions of partial assurance. For one of these (Vehicle Use Follow-Up), whilst the agreed actions had been implemented, we found continued instances of non-compliance with policy across the Council, resulting in an unchanged opinion. The other, relating to the Highways Contract Management Group Cultural Compliance audit, remained as partial assurance as a result of agreed actions to improve control not being implemented (a summary of this audit is included in our quarter 4 progress report in Annex B). Both audits are the subject of a separate paper to the July 2023 Audit Committee, from the Director of Communities, Transport and Environment.

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. Of those audits completed during 2022/23, all resulted in either substantial or reasonable assurance being provided over the control environment (the audit of Accounts Payable audit was at draft report stage at the end of the year and will be reported in our quarter 1 progress report).

Other Internal Audit Activity

5.8 During 2022/23, Internal Audit has continued to provide advice, support and independent challenge to the organisation on risk, governance and internal control matters across a range of areas. These include:

- Managing Back Office Systems (MBOS) programme
- Support in relation to cash payments to Ukrainian guests
- Adult Social Care 'Being Digital' Programme Governance Arrangements
- The Department for Levelling Up, Housing and Communities deep-dive into the South-East Local Enterprise Partnership
- Sea Change Sussex
- Highways Maintenance Contract Reprocurement
- UK Community Renewal Fund

And attendance at, and support to:

- Statutory Officers' Group
- Business Services (BS) Departmental Management Team
- Finance Management Team
- BSD Business Partners Group
- Pension Board and Pension Committee

5.9 As well as actively contributing to, and advising these groups, we utilise the intelligence gained from the discussions to inform our own current and future work programmes to help ensure our work continues to focus on the most important risk areas.

Anti-Fraud and Corruption

5.10 During 2022/23, the Internal Audit Counter Fraud Team continued to deliver both reactive and proactive fraud services across the organisation. Details of all counter fraud and investigatory activity for the year, both proactive and reactive, have been summarised within our quarterly progress reports and also a separate Counter Fraud Annual Report due to be presented alongside this Internal Audit annual report. Where relevant, the outcomes from this work have also been used to inform our annual internal audit opinion and future audit plans.

Amendments to the Audit Plan

5.11 In accordance with proper professional practice, the Internal Audit plan for the year was kept under regular review to ensure that the service continued to focus its resources in the highest priority areas based on an assessment of risk. All audits added to and removed from the plan during the year are provided in Appendix D.

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 2022/23, including the results of our latest independent PSIAS assessment, an update on our Quality Assurance and Improvement Programme and the year end results against our agreed targets.

PSIAS

6.2 The Standards cover the following aspects of internal audit, all of which were independently assessed during late 2022 by the Chartered Institute of Internal Auditors:

- 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; and
- Communicating the acceptance of risks.

6.3 As reported to Audit Committee in March 2023, Orbis Internal Audit has been assessed as achieving the highest level of conformance available against professional standards, with no areas of non-compliance identified.

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 Internal Audit will continue to liaise with the Council's external auditors (Grant Thornton) to ensure that the Council obtains maximum value from the combined audit resources available.

6.6 In addition to this annual summary, CMT and the Audit Committee will continue to receive performance information on Internal Audit throughout the year as part of our quarterly progress reports and corporate performance monitoring arrangements.

Internal Audit Performance Indicators 2022/23

| Aspect of Service | Orbis IA Performance Indicator | Target | RAG Score | Actual Performance |
|--|---|---------------|-----------|---|
| Quality | Annual Audit Plan agreed by Audit Committee | By end April | G | Approved by Audit Committee in March 2023 |
| | Annual Audit Report and Opinion | By end July | G | To be approved by Audit Committee in July 2023 |
| | Customer Satisfaction Levels | 90% satisfied | G | 100% |
| Productivity and Process Efficiency | Audit Plan – completion to draft report stage | 90% | G | 94.4% |
| Compliance with Professional Standards | Public Sector Internal Audit Standards | Conforms | G | <p>Dec 2022 - External Quality Assurance completed by the Chartered Institute of Internal Auditors (IIA). Orbis Internal Audit assessed as achieving the highest level of conformance available against professional standards with no areas of non-compliance identified, and therefore no formal recommendations for improvement arising. In summary the service was assessed as:</p> <ul style="list-style-type: none"> • Excellent in: Reflection of the Standards Focus on performance, risk and adding value • Good in: Operating with efficiency Quality Assurance and Improvement Programme • Satisfactory in: Coordinating and maximising assurance |

| Aspect of Service | Orbis IA Performance Indicator | Target | RAG Score | Actual Performance |
|---------------------------------|---|--------------------------------------|-----------|---|
| | Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act | Conforms | G | No evidence of non-compliance identified. |
| Outcome and degree of influence | Implementation of management actions agreed in response to audit findings | 97% for high priority agreed actions | G | 100% |
| Our staff | Professionally Qualified/Accredited | 80% | G | 93% ² |

² Includes part-qualified staff and those undertaking professional training

Summary of opinions for Internal Audit final reports issued during 2022/23

Substantial Assurance:

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

| Audit Title | Department |
|---|-------------------|
| Post Brexit Information Governance | Corporate |
| IT Asset Procurement (Value for Money) | Corporate |
| Dallington Church of England Primary School | CSD |
| Elective Home Education | CSD |

Reasonable Assurance:

| Audit Title | Department |
|---|-------------------|
| Pension Fund Administration – People, Processes and Systems | BSD |
| Pension Fund Governance | BSD |
| Commissioning and Delivery of Property Projects Follow-Up | BSD |
| IT Strategic and Operational Risk Management | BSD |
| Building Security Follow Up | BSD |
| Network Access Controls | BSD |
| Building Condition Asset Management Follow-Up | BSD |
| Pension Fund I-Connect Application Controls audit | BSD |
| Meta Compliance IT Application Controls audit | BSD |
| Accounts Receivable | BSD |
| Payroll | BSD |
| Capital Project Management | Corporate |
| Electronic Signatures | Corporate |
| Use of Consultants | Corporate |
| Home Care Contract Management Follow-Up | ASCH |
| Direct Payments Follow Up | ASCH |
| Public Health Grant Governance Arrangements | ASCH |
| LCS/Controcc | CSD |
| Maynards Green Primary School | CSD |
| Westfield School | CSD |
| South Malling CE Primary School and Nursery | CSD |
| Little Horsted CE Primary School | CSD |
| Tollgate Community Primary School | CSD |

Partial Assurance:

| Audit Title | Department |
|--|--------------------|
| Procurement Data Analytics | BSD / Corporate |
| Climate Change | Corporate |
| Childrens Data Handling | CSD |
| Highways Contract Management Group Cultural Compliance Follow Up | CET |
| Council Vehicle Use Follow-Up | CET |

Minimal Assurance:

| Audit Title | Department |
|--------------------|-------------------|
| None | |

Non-Opinion:

| Audit Title | Department |
|---|-------------------|
| Property Asset Management System Replacement | BSD |
| Adult Weight Management Grant Certification | ASCH |
| MBOS Programme Support | Corporate |
| MBOS Key Controls | Corporate |
| MBOS Reporting Arrangements | Corporate |
| MBOS Data Cleansing and Migration | Corporate |
| MBOS Security, Roles and Permissions | Corporate |
| Contain Outbreak Management Fund Grant Certification | ASCH |
| European Social Fund Transform Project Grant Certification | CSD |
| Supporting Families Programme Grant Certification | CSD |
| Department for Levelling-Up, Housing and Communities Deep-Dive of the South East Local Enterprise Partnership (SELEP) | CET |
| Sea Change Sussex | CET |
| Local Transport Capital Block Funding (incl. Traffic Signals) Grant Certification | CET |
| UK Community Renewal Fund | CET |
| Highways Contract Reprocurement | CET |
| Bus Services Operators Grant | CET |

2022/23 Audit Plan - Audits in Progress at Year-End

| Audit Title | Planned/ Unplanned | Department | Status |
|--|-------------------------------|-------------------|-----------------|
| Pension Fund Investments and Accounting | Planned | BSD | Draft report |
| Pension Fund Cash Management | Planned | BSD | Draft report |
| Pension Fund Cyber Security Arrangements | Planned | BSD | Draft report |
| Techforge IT Application Controls | Planned | BSD | Draft report |
| Procurement of IT Systems | Planned | BSD | Draft report |
| Accounts Payable | Planned | BSD | Draft report |
| Pension Fund – Administration of Pension Benefit Payments | Planned | BSD | Audit fieldwork |
| Cyber Security | Planned | Corporate | Draft report |
| Health and Safety | Planned | Corporate | Draft report |
| Information Governance (Subject Access Requests and Freedom of Information Reporting Arrangements) | Planned | Corporate | Audit fieldwork |
| Mobile Device Management | Planned | Corporate | Audit fieldwork |
| Corporate Governance | Planned | Corporate | Audit fieldwork |
| Contract Management | Planned | Corporate | Audit fieldwork |
| Appointeeships and Deputyships | Unplanned | ASCH | Draft report |
| Adults Safeguarding | Planned | ASCH | Draft report |
| External Funding | Planned | CET | Draft report |
| Home to School Transport Follow-Up | Planned | CET | Audit fieldwork |

Audits added to and removed from the plan during 2022/23

Audits Added:

| Audit Title |
|---|
| Reporting Services Database |
| Cash Payments to Ukrainian Guests |
| Being Digital Programme Governance Arrangements |
| Broadband Grant |
| Covid Bus Services Support Grant |
| Additional Dedicated Home to School and College Transport Grant |
| DfT Local Transport Authority Covid-19 Bus Service Support Grant Restart (Revenue) Grant Certification |
| Sea Change Sussex |
| Department for Levelling-Up, Housing and Communities Deep-Dive into the South-East Local Enterprise Partnership |
| Biodiversity Net Gain Grant |

Audits Removed/Deferred:

| Audit Title |
|--------------------------------------|
| Financial and Benefits Assessments |
| Beacon/Grove Park Project Management |
| Adult Social Care Funding Reform |
| Waste Management |
| Kofax IT Application Controls |
| Proactis IT Application Controls |

Audit Opinions and Definitions

| Opinion | Definition |
|------------------------------|---|
| Substantial Assurance | Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Reasonable Assurance | Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Partial Assurance | There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk. |
| Minimal Assurance | Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives. |