INTERNAL AUDIT
ANNUAL REPORT & OPINION
2023/2024

East Sussex County Council

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 2023/24, 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 some 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 reasonable[1] assurance that the Council has in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2023 to 31 March 2024.

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, eight partial assurance opinions reported (see 5.4 below), all of which will be subject to follow-up reviews in 2024/25.

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

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[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 2023/24, 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 2023/24.

5. Key Internal Audit Issues for 2023/24

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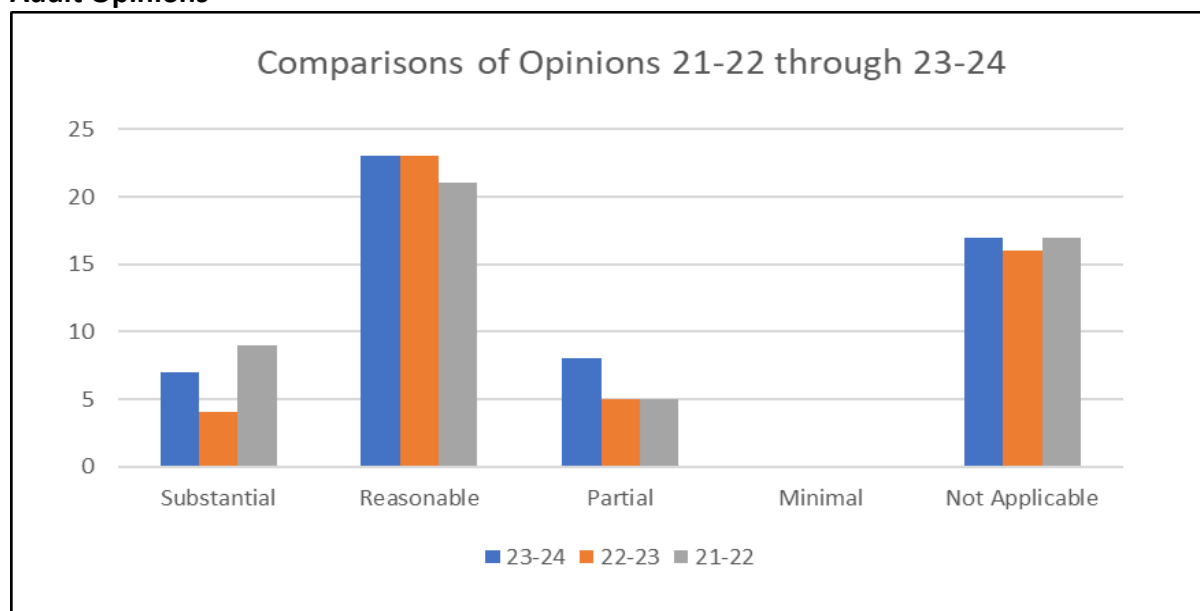
Not Applicable: Includes grant certifications and audit reports where we did not give a specific audit opinion. Typically, this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance-based opinions is not appropriate.

5.3   A full listing of all 2023/24 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. Eight audits received partial assurance (all of which have been reported on in our quarterly progress reports) as follows:

- Appointeeship and Deputyship Process
- External Funding
- Contract Management
- Supplier Failure
- Ukraine Funding
- Mental Health Services – Compliance with Corporate and Local Procedures
- Techforge IT Application Controls
- St Richard's Catholic College

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.

Key Financial Systems

5.6   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. In 2023/24, in view of the then impending go-live of the Council's new Enterprise Resource Planning (ERP) system, Oracle, and the recent completion of the 2022/23 audits in these areas, we completed only interim reviews of Accounts Payable, Accounts Receivable and Payroll, whereby we undertook limited sample testing of key controls in order to provide assurance that these continued to operate as expected. For each area, we found that the systems continued to be well controlled and remained fundamentally unchanged since the previous audits. We will complete full reviews of these early in 2024/25, prior to any implementation of the new ERP. In addition, we completed full audits of the General Ledger and Treasury Management, with both of these receiving substantial assurance.

Other Internal Audit Activity

5.7   During 2023/24, 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;
- The Department for Levelling Up, Housing and Communities deep-dive into the South-East Local Enterprise Partnership; and
- Sea Change Sussex

And attendance at, and support to:

- Statutory Officers' Group
- Finance Management Team
- Departmental Management Teams
- BSD Business Partners Group
- Pension Board and Pension Committee

5.8   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

5.9   During 2023/24, 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

5.10   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 2023/24, including the results of our most recent independent PSIAS assessment (2022), our latest self-assessment (2023) 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 was assessed as achieving the highest level of conformance available against professional standards, with no areas of non-compliance identified. Our most recent self-assessment against the standards in 2023 found that this continued, with only minor areas for improvement 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 through service liaison and annual consultation meetings with Chief Officers.

6.5   Over the course of the year, we have received positive feedback on a range of completed audit assignments from management within services. The following 'word cloud'

identifies some of the key, positive phrases used to describe our service and that contributed to a 100% satisfaction rate being recorded in the year:

6.6   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.

6.7   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 2023/24

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	2023/24 Internal Audit Strategy and Plan formally approved by Audit Committee 31 March 2024
	Annual Audit Report and Opinion	By end July	G	2022/23 Annual Report and Opinion presented to Audit Committee 7 July 2023
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	91.2%
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	Dec 2022 - External Quality Assurance completed by the 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: • 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

November 2023 - Updated self-assessment against the |

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
			G	Public Sector Internal Audit Standards completed, the service was found to be fully complying with 319 of the standards and partially complying with 2 of the standards, in both cases proportionate arrangements remain in place. November 2023 - Quality Review exercised completed, no major areas of non-conformance identified. The need to ensure consistency in the quality of the evidence contained within a small number of audit working papers was identified; this will be addressed at auditor development days during 2024/25.
	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	94%[2]

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[2] Includes part-qualified staff and those undertaking professional training

Summary of opinions for Internal Audit final reports issued during 2023/24

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

Audit Title	Department
Pension Fund Investments and Accounting	BSD
Pension Fund Cyber Security	BSD
Annual Governance Statement – Directorate Assurance Statements and Policy Review	Corporate
General Ledger	BSD
Treasury Management	BSD
Home to School Transport Follow-Up	CET
Children's Services – Quality Assurance Framework	CSD

Reasonable Assurance:

Audit Title	Department
Accounts Payable (Procure to Pay) 22/23	BSD
Pension Fund Cash Management	BSD
Pension Fund Administration of Pension Benefits	BSD
Health and Safety Framework	Corporate
Subject Access Requests and Freedom of Information Reporting Arrangements	Corporate
Cyber Security	BSD
Adults Safeguarding	ASC
Risk Management	Corporate
Milton Grange Nursing Home Establishment Review	ASC
Adult Services Data Handling	ASC
Firle Church of England Primary School	CSD
Pevensey and Westham Church of England Primary School	CSD
Pension Fund Collection of Contributions	BSD
Procurement of IT Systems	BSD
Children's Services Data Handling Follow-Up	CSD
Children's Disability Service Direct Payments	CSD
St. Mary's Catholic Primary School	CSD
Mobile Device Management	BSD
Business Continuity Planning	Corporate
Integrated Waste Management Services – Contract Management	CET
Robotic Process Automation Governance Arrangements	BSD
Forest Row Church of England Primary School Follow-Up	CSD
Beckley Church of England Primary School	CSD

Partial Assurance:

Audit Title	Department
Appointeeship and Deputyship Process	ASC
External Funding	CET / Corporate
St Richard's Catholic College	CSD
Contract Management	Corporate
Techforge IT Application Controls	BSD
Supplier Failure	Corporate

Audit Title	Department
Ukraine Funding	ASC
Mental Health Services – Compliance with Corporate and Local Procedures	ASC

Minimal Assurance:

Audit Title	Department
None	

Non-Opinion:

Audit Title	Department
Accounts Receivable (Interim Review)	BSD
Accounts Payable (Interim Review)	BSD
Payroll (Interim Review)	BSD
Sea Change Sussex	CET
MBOS – Programme Assurance and Ad-Hoc Advice	Corporate
MBOS – Cutover Arrangements	Corporate
MBOS – Key Control Testing	Corporate
MBOS - Security, Roles and Permissions	Corporate
MBOS - Business Continuity	Corporate
Supporting Families Programme Grant Certification (Quarterly)	CSD
Broadband Grant Certification	CET
Local Authority Bus Subsidy (Revenue) Grant / Bus Services Operators Grant	CET
Transport Grant Capital Block Funding (Integrated Transport and Highway Maintenance Blocks) Grant	CET
Bus Recovery Grant Certification	CET
Migration of SAP to Azure	BSD
SAP Support Pack – Key Control Testing	BSD
New Declaration of Interest System	Corporate

2023/24 Audit Plan - Audits in Progress at Year-End

Audit Title	Planned/ Unplanned	Department	Status
ASC Debt Management and Recovery	Planned	ASC	Draft Report
Parking – Procurement and Monitoring of External Service Providers	Planned	CET	Draft Report
Vehicle Use Follow-Up	Unplanned	CET	Draft Report
Contract Management Group Cultural Compliance Follow-Up	Planned	CET	Draft Report
Climate Change Follow-Up	Planned	Corporate	Draft Report
LAS/Controcc	Planned	ASC	Draft Report
Pension Fund Cash Management	Planned	BSD	Draft Report
Sea Change Sussex	Unplanned	CET	Draft Reports
Health Visiting Contract – Contract Management	Unplanned	ASC	Fieldwork
Domestic Violence and Abuse Refuge Contract – Contract Management	Unplanned	ASC	Fieldwork
Health and Safety Compliance	Planned	Corporate	Fieldwork
Highways Contract Management	Planned	CET	Fieldwork
Workforce Capacity and Working Arrangements	Planned	Corporate	Fieldwork
Pension Fund Investments and Accounting	Planned	BSD	Fieldwork
Pension Fund Administration of Pension Benefits	Planned	BSD	Fieldwork
System Change Control and Release Management	Planned	BSD	Fieldwork
IT Asset Records Management	Unplanned	BSD	Fieldwork
Cyber Security – Response and Resilience	Planned	BSD	Fieldwork
Greenwood Residential Care Home Establishment Review	Unplanned	ASC	Fieldwork
Grangemead Residential Care Home Establishment Review	Unplanned	ASC	Fieldwork

Audits added to and removed from the plan during 2023/24

Audits Added:

Audit Title
Greenwood Residential Care Home Establishment Review
Grangemead Residential Care Home Establishment Review
Sea Change Sussex
Bus Recovery Grant Certification
Migration of SAP to Azure
SAP Support Pack Key Control Testing
Health Visiting Contract – Contract Management
IT Asset Records Management
Broadband Grant Certification
Domestic Violence and Abuse Refuge Contract Management
New Declarations of Interest System
Procurement Cards (Proactive Counter Fraud Work)

Audits Removed/Deferred:

Audit Title	
Managing Service Demand	The focus of this review was to be in Children's Services due to the significant pressures that the Department is facing. However, during the year, the Council engaged a consultant, IMPOWER, to look at ways to mitigate spend pressures and improve outcomes for children. Given this work, the planned audit was not considered necessary. We will undertake work as part of the 24/25 audit plan to assess whether the recommendations arising from this have been implemented.
Procurement Regulatory Changes	The Procurement Act 2023 received Royal Assent on 26 October 2023, but the new regime will not come into force until October 2024. As a result, Internal Audit support for the updating of Procurement and Contract Standing Orders (PCSO) has not yet been required.
Adult Social Care Regulatory Changes	Regulatory changes were expected in 2024 in relation to Social Care Reform. These were postponed but remain in consideration for audit work in 2024/25.
New Home to School Transport System	System not fully implemented this year. Included in 24/25 audit plan.
Property Asset Management System (PAMS) Replacement	No requirement for additional support for the implementation project as originally expected.
Procurement Data Analytics Follow-Up	Included in 24/25 audit plan.
External Funding Follow-Up	Included in 24/25 audit plan.
Contain Outbreak Management Fund – Grant Certification	No requirement for certification this year.
Schools Basic Needs Allocation – Grant Certification	No requirement for certification this year.

Property Services Programme Management	The focus of this review was to look at the arrangements for the effective management of the programme of work in Property Services. Prior to starting this work, Property engaged a consultant to support them with making improvements in this area. Therefore, the planned audit was not considered necessary.

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.