

# **INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2016-2017**

**East Sussex**  
County Council



## 1. Role of Internal Audit

1.1 The full role and scope of the County Council's Internal Audit Service is set out within the Internal Audit Charter and Terms of Reference, which was last approved by the Audit and Best Value Scrutiny Committee (ABVCSSC) in June 2014.

1.2 The following mission statement sets out the basis for the delivery of internal audit services at ESCC:

*'Internal audit is an independent assurance function which conducts reviews and provides advice, support and challenge to the organisation on risk, governance and internal control matters. In achieving this, the service aims to:*

- *Deliver a high quality, cost effective service in line with best practice and professional standards;*
- *Work constructively with management to support new developments and major change programmes;*
- *Be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls;*
- *Be flexible and responsive to the needs of the organisation in all its work.'*

## 2. Risk Assessment and Audit Planning

2.1 The County Council's Internal Audit Strategy is updated annually and is based on a number of factors, especially management's assessment of risk (including that set out within the departmental and strategic risk registers) and our own risk assessment of the Council's major systems and other auditable areas. This allows us to prioritise those areas to be included within the audit plan on the basis of risk.

2.2 The update of the annual plan for 2016/17 has involved extensive consultation with a range of stakeholders, to ensure that their views on risks and current issues, within individual departments and corporately, are identified and considered. In order to ensure that the most effective use is made of available resources, to avoid duplication and to minimise service disruption, every effort has been made to identify, and where possible, rely upon, other sources of assurance available. The following diagram sets out the various sources of information used to inform our 2016/17 audit planning process:



2.3 In order to ensure audit and assurance activity is properly focussed on supporting the delivery of the Council's Promise, and to reflect its aim to act as a single unified organisation delivering corporate outcomes, the format of the audit plan has been aligned to the four key corporate priorities of:

- Driving economic growth;
- Keeping vulnerable people safe from harm;
- Helping people to help themselves;
- Making best use of our resources.

2.4 In producing the audit plan (which is set out in Appendix A to this report) the following key principles continue to be applied:

- All key financial systems are subject to a cyclical programme of audits covering compliance against key controls;
- Previous reviews which resulted in either 'no assurance' or 'minimal assurance' audit opinions will be subject to a specific follow up review to assess the effective implementation by management of agreed recommendations. This will also include a number of previous reviews with a 'partial assurance' opinion where the area under review is of a higher risk nature.

2.5 In addition, formal action tracking arrangements are in place to monitor the implementation by management of all individual high risk recommendations, with the results of this work reported to CMT and ABVCSSC on a quarterly basis.

2.6 During the past year, the County Council has been working with Surrey County Council, and more recently Brighton and Hove City Council, to develop and form the Orbis Partnership, covering a range of business services, including internal audit. This work is progressing well, with a clear project plan in place aimed at integrating the three internal audit teams into a single service over the next two years. In advance of this, early opportunities to co-ordinate our audit work in areas common to all three local authorities have been identified as part of the audit planning process, particularly where this enables more effective use of the knowledge and skills available across the three internal audit teams.

### **3. Key Issues**

#### Major Change

3.1 In times of significant transformation, organisations must both manage change effectively and ensure that core controls remain in place. In order to respond to the continued reduction in financial resources and the increased demand for services, the Council needs to consider some radical changes to its service offer in all areas.

3.2 Internal Audit must therefore be in a position to give an opinion and assurance that covers the control environment in relation to both existing systems and these new developments. It is also essential that this work is undertaken in a flexible and supportive manner, in conjunction with management, to ensure that both risks and opportunities are properly considered. During 2016/17, a number of major organisational initiatives are featured within the audit plan, with the intention that Internal Audit is able to provide proactive advice, support and assurance as these programmes progress. These include:

- Better Together;
- Orbis;
- Procurement and Property - improvement and transformation initiatives.

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 2016/17 audit plan once again includes a proportion of time classified as 'Emerging Risks'. This approach has been adopted to enable Internal Audit to react appropriately throughout the year as new risks materialise and to ensure that expertise in governance, risk and internal control can be utilised early in the change process.

3.4 In view of the above, Internal Audit will continue to work closely with CMT and senior management throughout the year to identify any new risks and to agree how and where audit resources can be utilised to best effect.

3.5 Other priority areas identified for inclusion within the audit plan include:

- New Highways Contract;
- Special Educational Needs and Disability;
- Commissioning;
- Direct Payments;
- Contract Management;
- New Liquidlogic Systems – Children's and Adults Social Care;
- Anti-Fraud and Corruption.

3.6 Where common themes and findings are identified as a result of our work across the Council, these will be highlighted in our quarterly and annual reports.

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

4.1 The overall aim of the Internal Audit Strategy is to allocate available internal audit resources so as to focus on the highest risk areas and to enable an annual opinion to be given on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

4.2 In addition to this, resources have been allocated to the external bodies for whom we also provide internal audit services at an appropriate charge. These include East Sussex Fire Authority and a number of local academies.

4.3 Internal audit activities will continue to be delivered through a combination of in-house staff and externally provided specialist resources, particularly in areas such as ICT audit. The following table summarises the level of audit resources expected to be available for 2016/17 (expressed in days) compared to the equivalent number of planned days in previous years. The overall level of resource has remained relatively consistent in recent years and is still considered to be sufficient to allow Internal Audit to deliver its risk based plan in accordance with professional <sup>1</sup>standards and to enable the Head of Assurance to provide his annual audit opinion.

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<sup>1</sup> Public Sector Internal Audit Standards (PSIAS)

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

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

## 5. Audit Approach

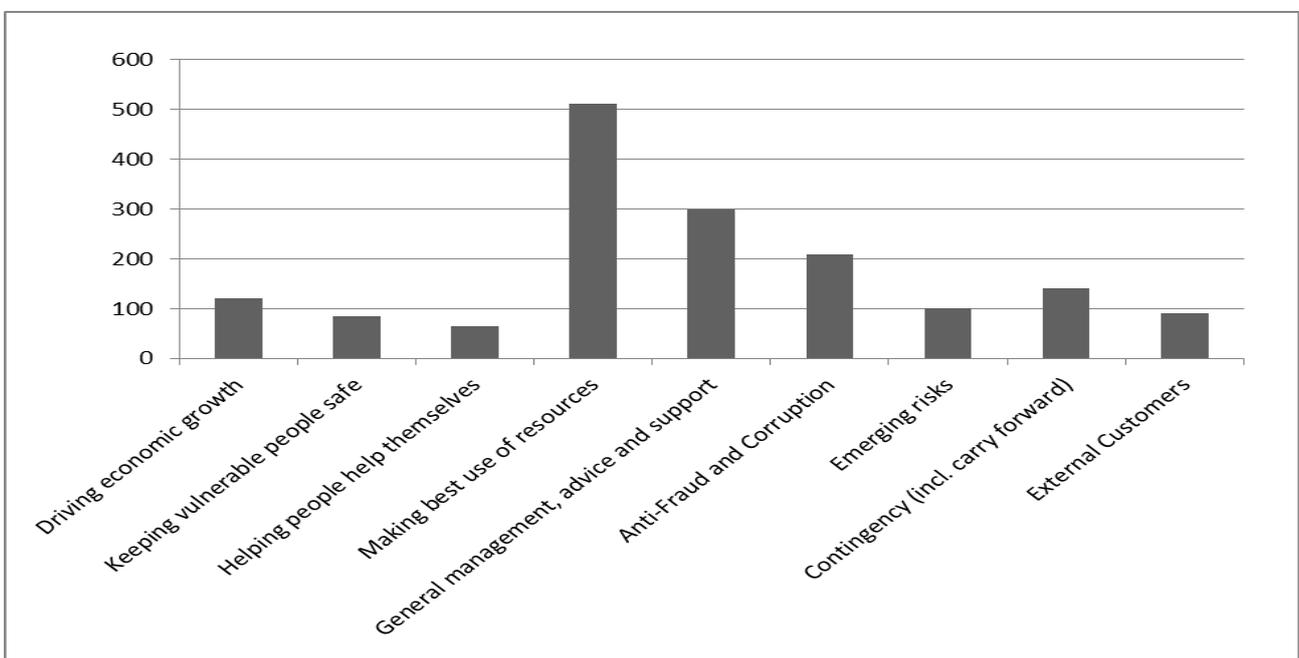
5.1 The approach of Internal Audit is to use risk based reviews, supplemented in some areas by the use of compliance audits and themed reviews. All audits have regard to management’s arrangements for:

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

5.2 In addition to these audits, and the advice on controls given on specific development areas which are separately identified within the plan, there are a number of generic areas where demands upon Internal Audit cannot be planned in advance. For this reason, time is built into the plan to cover the following:

- Contingency – an allowance of days to provide capacity for unplanned work, including special audits and management investigations. This contingency also allows for the completion of work in progress from the 2015/16 plan;
- Advice, Management, Liaison and Planning - an allowance to cover provision of ad hoc advice on risk, audit and control issues, audit planning and annual reporting, ongoing liaison with service management and Members, and audit management time in support of the delivery of all audit work, planned and unplanned.

5.3 A summary of the allocation of audit resources (days) across the 2016/17 audit plan is set out in the following graph:



5.4 In delivering this Strategy, the Head of Assurance has liaised with the Council's external auditors, KPMG, to ensure that the use of audit resources is maximised, duplication of work is avoided, and statutory requirements are met.

## **6. Training and Development**

6.1 The effectiveness of the Internal Audit Service depends significantly on the quality, training and experience of its staff. Training needs of individual staff members are identified through the performance appraisal process and delivered and monitored through on-going management supervision. Use is also made of CIPFA's skills and competencies matrix for internal auditors as part of this process.

6.2 The team is also committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. This is reflected in the high proportion of staff holding a professional internal audit or accountancy qualification.

## **7. Quality and Performance**

7.1 With effect from 1 April 2013, all of the relevant internal audit standard setting bodies, including CIPFA, adopted a common set of Public Sector Internal Audit Standards (PSIAS). These are based on the Institute of Internal Auditors International Professional Practices Framework and replace the previous Code of Practice for Internal Audit in Local Government.

7.2 Included within the new Standards is the requirement for the organisation to define the terms 'Board' and 'senior management' in the context of audit activity. This has been set out within the Internal Audit Charter, which confirms the ABVCSSC's role as the Board.

7.3 The PSIAS require each internal audit service to maintain an ongoing quality assurance and improvement programme based on an annual self-assessment against the Standards, supplemented at least every five years by a full independent external assessment. The outcomes from these assessments, including any improvement actions arising, will be reported to CMT and the ABVCSSC each year, usually as part of the annual internal audit report. For clarity, the Standards specify that the following core principles underpin an effective internal audit service:

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

7.4 In addition, the performance of Internal Audit continues to be measured against key service targets focussing on the following three areas, all of which are underpinned by appropriate performance measures:

- Quality/Customer Satisfaction;
- Cost/Coverage;
- Compliance with Professional Standards (as per 7.3 above).

7.5 At a detailed level each audit assignment is monitored and customer feedback sought. There is also ongoing performance appraisal and supervision for all Internal Audit staff during the year to support them in achieving their personal targets.

7.6 In addition to the individual reports to management for each audit assignment, reports on key audit findings and the delivery of the audit plan are made to both CMT and the ABVCSSC on a quarterly basis. An Annual Internal Audit Opinion is also produced each year.

7.7 Whilst Internal Audit liaises closely with other internal audit services through the Sussex Audit Group, the Home Counties Chief Internal Auditors' Group and the County Chief Auditors' Network, we are continuing to develop joint working arrangements with other local authority audit teams (including as part of Orbis) to help improve resilience and make better use of our collective resources. During 2016, the Head of Assurance has taken up the position of Chair of the County Chief Auditor's Network, the membership of which includes all County Council and unitary council heads of internal audit across the England.

7.8 Finally, in order to ensure compliance with professional standards, alternative management arrangements will be put in place to ensure there is appropriate independence where Internal Audit undertakes audit activity in areas where the Head of Assurance (as the Head of Internal Audit for the County Council) also has operational responsibility. This relates primarily to any audit work on risk management or insurance arrangements.

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