

Report to: **Cabinet**

Date: **11 July 2006**

By: **Deputy Chief Executive and Director of Corporate Resources**

Title of report: **Internal Audit Services: Annual Report and Opinion 2005/06**

Purpose of report: **To give an opinion on the County Council's control environment for the year from 1 April 2005 to 31 March 2006**

RECOMMENDATIONS

The Cabinet is recommended to:

- (a) note the Annual Internal Audit Report and Opinion; and**
 - (b) consider whether the Council's system for internal audit has proved effective during 2005/06**
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1. Financial Appraisal

1.1 The work referred to in this report was carried out as part of the 2005/06 Internal Audit Plan and was funded from the agreed Audit and Performance Division budget.

2. Supporting Information

2.1 The purpose of this report is to give an opinion on the adequacy of the East Sussex County Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The report covers the audit work completed in the year from 1 April 2005 to 31 March 2006 in accordance with the Internal Audit Strategy for 2005/07.

2.2 This report and annual opinion have already been considered by the Audit and Best Value Scrutiny Committee at its meeting on 20 June 2006.

3. Internal control and the role of Internal Audit

3.1 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 2006. The latter states that authorities must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal controls in accordance with the proper internal audit practices.

3.2 East Sussex County Council has delegated responsibility for ensuring that statutory internal audit arrangements are in place to the Deputy Chief Executive and Director of Corporate Resources. These arrangements form a key element of the County Council's framework for corporate governance. On a day to day basis the Assistant Director (Audit and Performance) serves as the County Council's Chief Internal Auditor and the Audit and Performance Division provides internal audit services to the County Council on behalf of the Deputy Chief Executive and Director of Corporate Resources.

3.3 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.

3.4 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

4. Audit Opinion and key issues

4.1 No assurance can ever be absolute; however this opinion seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's control environment. On the basis of the audit work completed, the Council has in place a satisfactory framework of internal control which provides a reasonable assurance regarding the efficient and effective achievement of its objectives.

4.2 The opinion and the evidence that underpins it is further explained in the full Internal Audit Services Annual Report and Opinion which forms Annexe A of this report. The report highlights key control issues in the following areas:

- Adult Social Care Control Environment;
- CBOSS / SAP;
- Pre-employment and CRB checks;
- Financial Governance Arrangements in Schools;
- Compliance with the Council's core policy and guidance;
- Anti Fraud and Corruption;
- ICT Security Arrangements.

4.3 During the year a number of audits have reported on systems where controls are not satisfactory and these systems are also highlighted in the Annexe A.

5. Performance

5.1 The Accounts and Audit Regulations 2006 require the Council to carry out an annual review of the effectiveness of its system of internal audit. The Audit Commission is developing detailed guidance on this process but the information set out in section 5 of Annexe A should provide a sound basis for making this assessment.

5.2 In summary a CPA score of 3/4 was obtained for the internal control as part of the revised CPA methodology, placing it in the top 15 of 34 counties in England. In addition, the Audit and Inspection Annual Letter confirmed that the Audit Commission continues to place reliance on the work of Internal Audit., stating that 'the Council is performing well in maintaining an effective system of internal control. We concluded that Internal Audit remains effective and have been able to place reliance on its work consistently during the audit year'. Further analysis of performance against agreed key performance indicators is included in Annexe A.

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Background documents

Strategic Audit Plan 2005-07

<http://esccwebsite/yourcouncil/agendasreportsminutes/scrutinycommittees/auditandbestvalue/reports/SAB24Jun2005Item7StrategyandPlan.pdf>

Internal Audit Progress Report Q1

<http://esccwebsite/yourcouncil/agendasreportsminutes/scrutinycommittees/auditandbestvalue/reports/SAB13Sep2005Item5InternalAuditProgress.pdf>

Internal Audit Progress Report Q2

<http://esccwebsite/yourcouncil/agendasreportsminutes/scrutinycommittees/auditandbestvalue/reports/SABV29Nov05Item10.pdf>

Internal Audit Progress Report Q3

<http://esccwebsite/NR/ronlyres/6D0C6824-624C-4210-B5B1-E268FDAF2551/9921/SAB15Mar2006Item6.pdf>