

# **INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2006-2007**



## **1. 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 2003. 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”.

1.2 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.

1.3 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. To carry out this role the Audit and Performance Division’s Internal Audit Service (IAS) aims to:

- satisfy legal requirements and professional standards;
- examine, evaluate and report objectively on the adequacy of arrangements to secure proper economic, efficient and effective use of resources;
- assist management with its responsibility for establishing and maintaining internal control systems and for ensuring that resources are properly applied, risks are appropriately managed and outcomes are achieved;
- investigate allegations of fraud and corruption in line with the Council’s Anti-Fraud and Corruption Strategy; and
- provide an annual opinion to Members and Officers on the adequacy of the Council’s control environment, and regular reports on key audit findings.

1.4 The key service objectives for the IAS as set out in the 2006/07 Council Plan (Corporate Resource Planning and Management 1.4) are to:

- develop the Council’s approach to corporate governance and give an assurance on the Council’s internal controls through the delivery of the annual risk based audit plan;
- Improve risk management through pro-active audit involvement in service developments.

1.5 The delivery of these objectives is underpinned by the Audit and Performance Divisional Business Plan and the objectives agreed with individual members of the IAS through the performance appraisal process.

## 2. Risk assessment

2.1 The County Council's audit strategy is updated annually. This is based on a risk assessment of all the County Council's major systems and other auditable areas and allows us to prioritise those areas to be included within the plan on the basis of risk.

2.2 The risk assessment and update of the annual plan has relied more heavily upon management's own strategic and departmental risk assessment (which are now assessed to be more mature) and Appendix E provides a summary of internal audit coverage against the County Council's Strategic Risk Management Log. Our planning has also been informed by extensive consultation with the following stakeholders, to ensure that their views on risks within their departments are reasonably identified and reflected within the plan, where appropriate:

- the Deputy Chief Executive and Director of Corporate Resources;
- members of the Audit and Best Value Scrutiny Committee;
- Departmental Management Teams (including Chief Officers);
- key contacts within departments and lead officers for key corporate projects;
- E-business managers;
- the Council's external auditors, the Audit Commission, to ensure that audit resources are used to the best effect, reliance can be placed on the work of internal audit and duplication is avoided; and
- other bodies internal audit providers, where joint working is proposed.

2.3 In times of significant transformation organisations must both manage change effectively and ensure that core controls remain in position. The Council is currently engaged in a challenging transformation programme and therefore internal audit must be in a position to give an opinion/assurance that covers the control environment in relation to both new developments and existing systems. This has been a key driver in developing this strategy and plan.

2.4 The key factors, which have driven our assessment of risk and audit needs for 2006/07, are:

- **Governance Arrangements** – The Council's overarching governance framework covers all aspects of its business, including risk management, internal control and ethical standards. Internal audit has a key role to play in giving assurance that this framework operates effectively and its work is a key source of assurance for officers and Members in approving the Council's annual assurance statement (Statement of Internal Control);
- **Risk Management** – Corporate risk management arrangements have developed significantly over recent years and internal audit has drawn directly on both Strategic and Operational risk assessments in its own planning. Internal audit has a key role to promote effective risk management and to assess the adequacy of controls put in place by management to manage risks. From 2006/07, this will include an audit of a sample of departmental risk assessments;
- **Financial Excellence** – the adequacy of controls within key financial systems, budgetary control and management remain at the core of our work and inform the Section 151 officer's Statement of Internal Financial Control and the external audit of the Council's accounts. This will include reviews of those finance modules of SAP already implemented and provision of appropriate advice and support to future developments;

- **E-Government and ICT** – this will include reviews of risks and controls relating to both existing systems and services, including SAP (reflecting the significant investment over recent years), and proactive review and assessment of new developments;
- **Partnerships** – the Council is increasingly operating and delivering services jointly through partnerships and the management of partnership risks is a key focus of the CPA Use of Resources assessment. We will continue to build on our previous work on pooled budgets, external funding etc and will deliver this through joint working where appropriate.
- **Service Performance and Efficiency** – there is increased emphasis on efficiency and value for money due to the Council's financial situation and the Gershon Agenda and this is reflected in the CPA 2005. Internal audit reviews will continue to reflect this through the assessment of BVPIs and other performance targets and the achievement of economy, efficiency and effectiveness by services.
- **Project Management and Procurement Arrangements** – the Council's use of project management and changing approaches to procurement and contract management are a key part of delivering improved services. We will continue to work alongside managers to ensure that risks are managed and effective controls embedded in our processes, services or contracts.

2.5 The key risk issues within each department which are included in the audit plan for the coming year are set out below:

***Corporate Body (including ICT audit):***

- SAP – to provide advice, support and challenge on the control environment as part of future SAP developments, including Employee and Manager Self Service, Electronic Buyer Professional (EBP) and Property modules;
- Fundamental Accounting Systems – to provide appropriate audit coverage in line with the managed audit approach, taking into account the introduction of International Standards for Auditing;
- Pension Fund – a number of reviews planned specific to the Council's role in administering the East Sussex Pension Fund;
- National Fraud Initiative (NFI) – production and submission of ESCC data as part of the National Fraud Initiative. To then review and investigate any issues arising from the output from this exercise and to respond to requests for information from other participating authorities;
- E-government – a range of specialist ICT audit reviews and support for major system developments across the County, including the Next Generation Network.

***Chief Executive's***

- Corporate Governance – reviewing the adequacy of the ESCC code, the process in place to ensure it is effective and up to date and to assess how the arrangements conform to the CIPFA/SOLACE best practice guidance due in summer 2006;
- Employee CRB checks – a follow up on the audit work carried out in 2005/06 with particular reference to the use of agency, supply and other non permanent staff in schools;
- Employee Appointment – to review the arrangements and guidance in place for candidate assessment, short listing, probation and appointment support;
- Community Fund – provide assurance that the Fund operates projects effectively and co-ordinates funding across relevant policy areas with minimum risks to ESCC;
- Registrars – use a controlled self assessment approach similar to that adopted for Libraries.

### **Children's Services**

- Children's Centres – assessing the governance and financial arrangements for the second phase of Children's centres due to commence in 2006/07;
- School business systems interfacing with CBOSS – to provide advice and support for this project which is to improve the exchange of data between schools and the centre;
- Schools Audit Strategy – to determine the impact of the new financial standards to be used in schools following the recent DfES paper and support the rollout to secondary schools in 2006/07.

### **Transport and Environment**

- Integrated Waste Services Management Contract – ongoing advice and support through joint internal and external audit meetings and a review to assess the integrity of data supplied by waste collection authorities used in calculating contract payments;
- Renewal of Outsourced Contracts (ROCS) – ongoing support as new arrangements develop plus extended testing of the payments process following the implementation of a new contractor self-certification system;
- Passenger Transport - a review of the arrangements for the procurement of transport for Adult Social Care clients;
- Street Lighting – reviewing the adequacy of the arrangements relating to the introduction of a new contract for the provision of street lighting.

### **Adult Social Care**

- Transformation Project – providing support and assurance that new system initiatives/revised work practices are introduced in a controlled environment;
- Agewell - continuation of support, advice and guidance to the Project Board. Provision of assurance at key project milestones as part of the project sign-off process;
- Pooled Budgets – review of governance arrangements in relation to a sample of pool budgets;
- Direct Payments – review of controls over the direct payments process, including consistency of controls relating to both adults and children.

## **3. Audit Needs Assessment**

3.1 The risk assessment process identifies all auditable areas and assesses the level of risk associated with each. As explained above, this work is also supplemented with management's own assessment of risk. In order produce the County Council's audit needs assessment the following key principles are then applied:

- All core financial systems are subject to annual audits of compliance against key controls;
- All systems and auditable areas which are identified as high risk in our risk analysis are reviewed each year (except where the risk is short term e.g. exit arrangements from a current contract or new systems development) – this may include the use of shorter interim audits in some years;
- Systems assessed as medium or low risk - resources will be directed to higher risk areas, therefore low risk systems in particular, will not be subject to regular review;
- Systems assessed as weak or unsatisfactory during 2005/06 which are not subject to annual audit will be considered for a follow up review to assess the effective implementation by management of agreed audit recommendations;
- Where common areas of risk are identified across several departments then the use of corporate themed reviews is considered to ensure an approach which is both consistent and makes effective use of resources;

- Where a system is assessed having risks which require both systems audit and ICT audit input then joint reviews will be carried out to ensure an approach which is both consistent and makes effective use of resources;
- The development of new systems or significant changes to existing systems will be separately identified within the audit needs assessment.

3.2 As part of the 2006/07 audit planning process we have taken the opportunity to improve the presentation of the audit plan in order make it clearer what we plan to deliver in the year ahead, what the focus of individual reviews will be and how we will go about delivering them. Whilst we continue to plan over a number of years (as set out above), the published plan will now be limited to one year but will be subject to ongoing review over this period to ensure our work takes into account emerging risks. A list of potential review areas already identified for inclusion in the 2007/08 plan is attached at Appendix D.

#### **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 provide an appropriate level of assurance for each directorate and for the County Council as a whole.

4.2 The audit needs assessment has been matched with available internal audit resources to produce the annual plan for 2006/07. Resource planning assumptions for 2006/07 have been fully reviewed following consultation with staff to ensure that sufficient time is allocated for indirect work, for example training and development. It is assumed that some audit work will be carried forward from 2006/07 for completion within resources available in 2007/08 and that this will not exceed that carried forward from 2005/06. This reflects a reasonable level of work in progress.

4.3 Resources have also been allocated to the two external bodies for whom Audit and Performance Division provides internal audit services: East Sussex Fire and Rescue Service and Plumpton College.

4.4 The IAS has been reduced by one Auditor post as part of the Reconciling Policy and Resources process which will have the effect of reducing audit coverage by approximately 150 days for 2006/07 onwards. Despite this reduction, it is not anticipated that there will be any material impact on the ability of the IAS to provide assurance on the organisation's control environment.

4.5 The resource plan reflects this reduction and assumes successful recruitment to one current vacancy during the year. We will continue to use agency staff where appropriate to help deliver the plan and for 2006/07 and will be receiving 47 days from West Sussex County Council Internal Audit to reciprocate the days delivered by ESCC IAS during 2005/06. Consideration will also be given to using specialist external resources potentially including forensic computer work and security reviews of the new SAP system. When fully staffed, the IAS will have 12.2 full time equivalents, in addition to the Chief Internal Auditor role of the Assistant Director (Audit and Performance).

4.6 The total number of planned audit days for 2006/07 is 1,990. This level of resource is sufficient to allow the IAS to deliver its risk based plan in line with the standard set out in 2003 Code of Practice for Internal Audit in Local Government.

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

	2002/03	2003/04	2004/05	2005/06	2006/07
Plan Days	2,598	2,294	2,129	2,126	1,990
Actual Days	2,191	2,047	1,993.5	2,071	-

## **5. Audit Approach**

5.1 The approach of internal audit is to use systems based reviews, supplemented in some areas by the use of regularity audits, control self-assessment and themed reviews. All audits have regard to management's arrangements for:

- securing the proper, economic, efficient and effective use of resources;
- achieving key performance indicators, where appropriate;
- preventing fraud and irregularity.

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 areas:

- Contingency – an allowance of 250 days to provide capacity for anti-fraud and corruption work including special audits and the investigation of potential irregularities. This contingency also allows some flexibility within the plan for any unplanned audit work and for the completion of work in progress from the 2005/06 plan;
- Discretionary and development work – an allowance of 40 days to support:
  - the development of the corporate approach to governance and risk management;
  - the work of the Audit and Best Value Scrutiny Committee, and;
  - the development of an e-learning package and other work on Ethical Standards.
- Advice to departments – an allowance against each department to cover the provision of ad hoc advice on audit and control issues.

A summary of the allocation of audit resources across the 2006/07 audit plan is shown at Appendix A. Appendix B shows the coverage of the audit plan in more detail.

## **6. Training and development**

6.1 The effectiveness of 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 as part of the CRD's Training and Development Plan. As well as basic training in audit techniques, and the acquisition of specialist audit skills, the IAS is committed to coaching and mentoring its staff, and to providing opportunities for appropriate professional development. During 2006/07, three members of staff will continue to be supported in studying towards the Institute of Internal Auditors qualification and a fourth will be sitting their final Certified Information Systems Auditor (CISA) examination. The IAS is also providing a work placement for CRD's CIPFA trainee during the year.

## **7. Quality and performance**

7.1 The IAS maintains a Quality Manual, which sets out the standards to which all audit assignments are completed. This manual has now been converted into a fully electronic version available to all staff via our new Internal Audit Homepage on the ESCC Intranet. During 2006/07 we will continue to develop the Manual and working practices further to ensure our work properly reflects current working practices. This will include the implementation of electronic working papers, any recommendations made as a result of the triennial review of internal audit by the Audit Commission (due for completion April 2006) and any improvements flowing from the CPA 2005 assessment.

7.2 The performance of the IAS is measured against the key service targets and objectives set out in the Council Plan, the CRD Business Plan and the Audit and Performance Division's Business Plan. At a detailed level each audit assignment is monitored and customer feedback sought. There is ongoing performance appraisal and supervision for all IAS staff during the year to support them in achieving their personal targets. External review of the IAS is carried out by the County Council's external auditors and reported on in the Audit and Inspection Annual Letter and within the CPA.

7.3 In addition to the individual report to management for each audit assignment, quarterly reports on key audit findings and the delivery of the audit plan against key performance indicators are made to both COMT and the Audit and Best Value Scrutiny Committee. These key performance indicators and targets for 2006/07 are shown in appendix C.

7.4 The IAS will continue to liaise closely with other internal audit services through the Sussex Audit Group, Home Counties Chief Internal Auditors' Group and the County Chief Auditors' Network.

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## Annual internal audit plan by customer

<b>Service</b>	<b>2006/07 Plan Days</b>	<b>% of 2006/07 Plan Days</b>	<b>2005/06 Plan Days</b>
East Sussex County Council			
Corporate Body (incl CRD)	475	23.9%	395
Computer Audit	245	12.3%	260
Children's Services	267	13.4%	419
Social Services - Adults	289	14.5%	300
Transport & Environment	167	8.4%	165
Chief Executives	162	8.1%	200
Contingency (incl. carry forward)	250	12.6%	250
Discretionary and corporate projects	40	2.0%	50
<i>Sub total – internal customers</i>	<i>1,895</i>	<i>95.2%</i>	<i>2,039</i>
Fire Authority	60	3.0%	60
Plumpton College	35	1.8%	27
<i>Sub total - external customers</i>	<i>95</i>	<i>4.8%</i>	<i>87</i>
<b>Total audit days</b>	<b>1,990</b>	<b>100.0%</b>	<b>2,126</b>

**Strategic Audit Plan 2004/07 – Detailed analysis of coverage**

*See attached spreadsheet*

## Internal Audit Performance Indicators

Performance Indicator	Target
Planned days delivered (%)	>90%
Planned audits completed = final reports issued (%)	90% (to be confirmed)
Actual v Plan time on completed audits (%)	<105%
External Audit reliance on internal audit	Achieved
CPA score maintained	Maintain a score of at least 3 / 4 for internal control.
Recommendations accepted (%)	>90%
Overall customer feedback exceeds 80% (i.e. good or very good)	>80%
Reports to Chief Officers and Members	Quarterly