

Report to: **Cabinet**

Date: **8 July 2008**

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

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

Purpose of report: **To give an opinion on the County Council's control environment for the year from 1 April 2007 to 31 March 2008**

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## **RECOMMENDATIONS**

**Cabinet is recommended to:**

**(a) note the internal audit service's opinion on the Council's control environment.**

**(b) consider whether the Council's system for internal audit has proved effective during 2007/08**

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### **1. Financial Appraisal**

1.1 The work referred to in this report was carried out as part of the 2007/08 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 2007 to 31 March 2008 in accordance with the Internal Audit Strategy for 2007/08.

### **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 audit activity in the following areas:

- Adult Social Care Business Transformation Programme;
- Financial Management Standard in Schools;
- Fundamental Accounting Systems.

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 and the effectiveness of the Council's system of internal audit**

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. No further guidance on this process has been provided but the information set out in section 5 of Annexe A should provide a sound basis for making this assessment.

5.2 In addition, following the Audit Commission's annual assessment of the Council's performance on Use of Resources (UoR) for 2007, the County Council received an overall maximum score of 4 out of 4, an increase from 3 out of 4 compared to the previous year. Whilst this is excellent news for the Council, it is also particularly pleasing to note that our sub score for internal control has also improved to the maximum of 4 out of 4. Whilst it remains management's responsibility for managing its business risks and operating a sound system of internal control, these results also reflect particularly positively of the Internal Audit Service which has a key role in reviewing these arrangements for adequacy and recommending improvements accordingly. Further analysis of performance against agreed key performance indicators is included in Annexe A.

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Background documents  
Strategic Audit Plan 2007-08  
Internal Audit Progress Report Q1  
Internal Audit Progress Report Q2  
Internal Audit Progress Report Q3

Annexe A

**INTERNAL AUDIT SERVICES  
ANNUAL REPORT AND OPINION  
2007/2008**



## **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 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.

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 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 full scope and responsibility of the IAS is set out within Internal Audit Charter and Terms of Reference which was approved by the Audit and Best Value Scrutiny Committee in November 2007 and which is attached as Appendix C.

## **2. Delivery of the Internal Audit Plan**

2.1 In accordance with the 2007/08 annual audit plan, approved by the Director of Corporate Resources and endorsed by the Audit and Best Value Scrutiny Committee, a programme of audits, based on an assessment of risk, was carried out, covering all County Council departments. This programme was reviewed during the year and revised to reflect changes in risk and resources available to deliver the plan, in particular:

- Financial Management Standards in Schools (FMSiS) – a review of the time required to deliver support to schools and the agreed programme revealed that it was not possible to complete the work to the required standard within the Department for Children, Families and Schools (DCFS) recommended timescale of 2 days per school. An increase in the time allocation for this work was therefore required;

- Adult Social Care Business Transformation – due to the risks associated with such a large scale transformation and systems implementation programme, internal audit input was significantly increased to ensure appropriate assurance can be provided on the internal control environment;
- Material Financial Systems – a lowering of the level above which a system is determined as being a ‘material financial system’ for external audit purposes, resulted in additional internal audit coverage on a number of systems which were not included in the original audit plan;
- Investigations – there have been a number of highly resource intensive audit investigations during 2007/08 which exceeded the contingency allowed for such activities;
- Maternity Leave – a significant number of productive audit days were lost as a result of maternity leave.

2.2 The adjustments to the audit plan were based on risk and resulted in an overall reduction of approximately 100 days. All adjustments were agreed with the relevant departments, the Director of Corporate Resources and external audit. Despite the overall reduction, it is not felt that this has significantly impacted on internal audit’s ability to provide an adequate level of assurance to the County Council. The actual internal audit coverage across departments compared to the revised audit plan has been summarised in Appendix A.

2.3 As well as progress reports made during the year to both COMT and Audit and Best Value Scrutiny Committee, separate reports have been made to each departmental management team which include an opinion on that department’s internal control system.

### 3. Audit Opinion

3.1 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.***

The level of assurance given takes into account:

- All audit work completed during 2007/08;
- Follow up of actions from previous years audits;
- Management’s response to the findings and recommendations;
- Effects of significant changes in the Council’s systems;
- The extent of resources available to deliver the audit plan;
- Quality of the internal audit service’s performance;
- The extent to which resource constraints may limit the ability to meet the full audit needs of the County Council;
- Any limitations that may have been placed on the scope of internal audit.

3.2 All audit reports produced have included a management action plan where recommendations have been made which will enhance the level of control, together with an opinion of the systems reviewed. Timescales for the implementation of recommendations have been agreed with the managers responsible for each area reviewed.

3.3 The majority of the key internal controls audited during 2007/08 were found to be in place and functioning satisfactorily. The majority of systems reports resulted in an opinion of satisfactory in relation to the effective operation of controls. Although reports are generally written on an exception basis, good practice, where identified has been highlighted.

#### **4. Key Issues**

4.1 The overall audit opinion should be read in conjunction with the key issues set out in the following paragraphs. These issues should also be taken into account when preparing and approving the Council's Annual Governance Statement.

#### **Adults Social Care Business Transformation Programme (ASC BTP)**

4.2 In recognition of the importance of the Business Transformation Programme and the associated risks, internal audit provided a significant amount of support, advice and assurance to the Programme during 2007/08. This included a pro-active presence on the Programme Board as well as attendance at the fortnightly Project Group meetings.

4.3 As part of our work, internal audit reviewed and reported upon the contingency arrangements that had been put in place at the beginning of the year while the interface between CareFirst and Abacus and the financial assessment module of Abacus was still being developed. The recommendations made as a result of this review were all agreed by management.

4.4 The main area of development during 2007/8 has been the "go-live" of a significant part of Abacus. Internal audit carried out reviews of proposed systems and processes and delivered reports in relation to a number of areas. These included:

- Provider Payments – Residential and Nursing;
- Client Billing;
- Abacus ICT Controls;
- Abacus/SAP Interface Controls – the assurance provided was also used to support the Corporate sign-off of the interfaces;
- CareFirst/Abacus interface for Residential/Nursing Individual Service Agreements.

4.5 Although a number of recommendations were made and agreed with management during the course of year, no significant control issues were found which prevented the developments from progressing.

4.6 ICT Audit support was also provided in respect of ContrOCC (contract management system) implementation, including the development and testing of its Sourcing System (in house development) and the access arrangements for the provider portal.

4.7 Internal Audit will continue to be engaged with the programme, in order to ensure that the risks are effectively managed and a satisfactory control framework is maintained, including through the closing of the project in 2008/09.

### **Financial Management Standard in Schools (FMSiS)**

4.8 During 2007/08, internal audit has continued to carry out external assessments to ensure that schools are meeting the standard laid down by the Department for Children Schools and Families. This is the second year of the programme and the first year in which primary schools are subject to assessment.

4.9 In addition to conducting the external assessments, we have been working with the schools to provide them with advice and support on the implementation of the Standard. Internal audit has issued several circulars to schools during the year giving guidance and information and has continued to provide training, jointly with Children's Services, for Governors, Bursars and Headteachers.

4.10 During the year, the secondary schools outstanding from 2006/07 were also assessed. Of these, three failed to meet the Standard, leaving a total of twenty four, including those from the previous year, accredited as having met the Standard. Internal audit are working with Children's Services Finance and CfBT to support those schools that have yet to pass the Standard to ensure they address the weaknesses identified. These will be subject to re-assessment in due course.

4.11 A total of 64 primary and special schools were due to submit their self assessments by 30<sup>th</sup> September 2007. However, as at 31 March 2008, 20 of these were still outstanding. Overall, internal audit completed 11 primary school external assessments in the year, with only one school failing to achieve the Standard. Once again, this will be re-assessed once the identified weaknesses have been addressed.

4.12 Although a small number of schools from the second and third years of the programme have submitted their self assessments early, it is concerning that overall the submission rate for primary schools is not meeting expectations. Should this pattern continue into 2008/09 and 2009/10, there is a significant risk that there will be a large number of primary schools failing to comply with the Standard within the timescales laid down by the DCSF. Internal audit will continue to monitor this situation closely in conjunction with Children's Services Finance and take every action to encourage schools to complete their self assessments promptly.

## **Fundamental Accounting Systems**

4.13 As explained in paragraph 2.1 above, 2007/08 saw a lowering of the level above which a system is determined as being a 'material financial system' for external audit purposes. This resulted in additional internal audit coverage being required on a number of systems which were not included in the original audit plan. These fundamental accounting systems are required to be reviewed in accordance with the International Standard for Auditing with internal audit's work being relied upon by the County Council's external auditors, PKF, as part of their audit of the accounts. A total of 10 such audits were carried out during the year of which 6 have now been finalised:

- General Ledger - satisfactory
- Treasury Management - good
- Pension Processes and Systems - satisfactory
- Pension Fund Investments- satisfactory
- Supporting People (Adult Social Care) - satisfactory
- HR/Payroll - satisfactory

The remainder are in the process of being finalised with management:

- Accounts Receivable
- Accounts Payable
- CarePay (Children's Services)
- Abacus/Aegis (Adult Social Care)

## **Systems with Weak Opinions**

4.14 During the year, a total of 47 formal audit reports (excluding FMSiS and ongoing advice and support activity) were issued across all County Council departments, of which 8 were subject to 'weak' audit opinions. No systems were found to have an 'unacceptable' control environment. In all these cases management have agreed to take action to strengthen the controls in place. These systems, which have all been previously reported to Audit and Best Value Scrutiny Committee, are highlighted below and will all be subject to follow up during 2008/09:

- Software Management – a review of arrangements for managing and controlling use of software across the Authority. Control weaknesses were identified in relation to software checking arrangements and widespread availability of 'local administration' rights on computers which allow potentially uncontrolled installation of software;
- Internet Monitoring – a review specifically covering the arrangements for monitoring of internet usage by staff (arrangements for controlling access to the internet were considered robust). Main control weaknesses related to inadequate monitoring of attempted access to inappropriate sites by staff and the system for blocking and unblocking inappropriate sites;
- Hillcrest School – a follow up review to a previous weak opinion. Control weaknesses continued to be found over budget accuracy, reconciliation and procurement processes.

- SAP User Authorisations – a review covering arrangements for setting up new SAP users and allocating permissions to them. Control weaknesses related to division of duty controls, monitoring of user activity, systems administration roles and responsibilities and high levels of access permitted to non-ESCC users (e.g. SERCO consultants);
- Operational Risk Management – a review covering the adequacy of operational risk management within County Council departments. Whilst CRD, Chief Executive's and Transport and Environment arrangements were considered satisfactory, Children's Services and Adult Social Care risk management at an operational level was found to be weak;
- Adult Social Care Debt Management (Property Ownership) – an audit of the system for making loans to service users for the cost of their care, where this is secured against property. The review found that weaknesses relating to accuracy of records, property insurance and loan recovery arrangements;
- Children's Centres Budgetary Control – a review covering budget and performance management within Children's Centres which identified weaknesses in relation to budget forecasting, general budget management and contract monitoring;
- Building Maintenance – an audit covering the commissioning, monitoring and payment for building maintenance services. Despite improvements being made since the last audit, particularly in the way in which maintenance works are managed and monitored, control weaknesses were identified in relation to the invoice checking arrangements, accuracy of service records and adequacy of invoice supporting records.

4.15 In addition, a total of 4 schools failed to meet the Financial Management Standard in Schools following external assessment, and will be reassessed in due course.

### **Anti Fraud and Corruption**

4.16 Following the publication of best practice guidance by the CIPFA Better Governance Forum on 'Managing the Risk of Fraud', internal audit carried out an assessment of the County Council's arrangements and developed an action plan for improvement. One key aspect of this was a review and update to the County Council's Anti Fraud and Corruption Strategy which is due to be formally approved by the Governance Committee in May 2008. Further work to progress the remaining actions will be carried out in 2008/09 following receipt of additional funding to support this.

4.17 Internal audit has also assessed and, where appropriate, investigated a number of potential instances of fraud and corruption during 2007/08, in each case reporting to management on the outcome. A number of these cases were allegations made under the Confidential Reporting ("whistleblowing") Policy. Internal disciplinary processes and external criminal and civil proceedings have been pursued where appropriate. Such investigations are often complex and lengthy and have accounted for 194 days of internal audit resource in 2007/08.

4.18 During 2006/07 East Sussex County Council submitted data to the Audit Commission as part of the National Fraud Initiative (NFI). This data, which included payroll, pensions, residential care homes and, for the first time creditors, was subsequently matched to the records of other authorities' and the Department of Works and Pensions Benefits Agency, to detect any possible errors or fraud.

4.19 The results of this work were received in 2007/08 (including 1,400 potential payroll matches and a 32,000 potential creditor matches) and internal audit worked throughout the year with staff from the various areas of work to investigate the matches and report on progress to the Audit Commission. Where overpayments have been identified through this work, appropriate recovery arrangements have been put in place. One significant overpayment on pensions is still subject to negotiation on recovery.

## **5. Internal Audit 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. No further guidance on this process has been issued but the following paragraphs provide a sound basis for carrying out such an assessment.

5.2 During the year a self assessment was carried out against the Code of Practice for Internal Audit in Local Government in the UK to assess our compliance with it. This self assessment was an update to that carried out in 2006/07 and showed an overall high level of compliance with further improvements against the previous year. Those outstanding areas relate mostly to the documentation of existing procedures and appropriate actions have been identified and incorporated within the IAS Business Plan for 2008/09. Implementation of these will be monitored and reported on a quarterly basis throughout the year.

5.3 Performance against agreed targets is set out in Appendices B. In total the IAS has delivered 2,114 direct days or 101.3% of the total revised audit plan. This represents a continued improvement and is once again the highest proportion of planned days delivered in a number of years. Actual v. planned time on completed jobs (excluding FMSiS) also continues to improve and again exceeds target. Whilst the number of completed audits is 3.9% below our 90% target, this represents 20 audit assignments (excluding FMSiS) all of which were work in progress at the year end and all of which we are planning to complete in the first quarter of 2008/09.

5.4 Whilst in previous years the IAS has carried a number of vacancies and has used agency staff to backfill, 2007/08 has provided a year of stability with a full compliment of permanent staff in post for the whole year. As explained above, some productive audit days were lost through maternity leave although this was partially offset by some limited use of agency staff.

5.5 Performance against effectiveness targets remains positive and reflects both the quality of work completed and its focus on key areas of risk. Whilst customer satisfaction survey scores remain high and in excess of target, we have recently expanded on their use to include an annual survey of all Chief Officers to gauge their view on the overall quality of the IAS. The results of this are still awaited and will be reported on within the 2008/09 Annual Report and Opinion.

5.6 Internal audit continues to work closely with the Council's appointed external auditors. The Audit Commission reviewed our work on material financial systems as part of the 2006/07 accounts and were again able to place reliance on it in forming their opinion. This reliance is reflected in the high level of risk based discount applied to the external audit fees that the Council pays. We have also worked closely with the Council's new external auditors, PKF, and have established a good working relationship with them.

5.7 Finally, following the Audit Commission's annual assessment of the Council's performance on Use of Resources (UoR) for 2007, the County Council received an overall maximum score of 4 out of 4, an increase from 3 out of 4 compared to the previous year. Whilst this is excellent news for the Council, it is also particularly pleasing to note that our sub score for internal control has also improved to the maximum of 4 out of 4. The following key lines of enquiry were judged as part of the assessment to be "performing strongly - well above minimum requirements":

- The Council manages its significant business risks;
- The Council has arrangements in place to maintain a sound system of internal control;
- The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.

5.8 Whilst it remains management's responsibility for managing its business risks and operating a sound system of internal control, these results also reflect particularly positively of the IAS which has a key role in reviewing these arrangements for adequacy and recommending improvements accordingly.

## Appendix A

### Actual Days delivered against the plan

The following table summarises the internal audit coverage across all County Council departments during 2007/08:

<b>Service</b>	<b>2006/07 Actual Days</b>	<b>2007/08 Original Plan Days</b>	<b>2007/08 Revised Plan Days</b>	<b>2007/08 Actual Days</b>	<b>2007/08 % Plan Days Delivered</b>
<u>ESCC:</u>					
<i>Corporate Body</i>	568.0	477.0	538.4	539.3	
<i>Computer Audit</i>	220.3	215.0	202.5	208.5	
<i>Children's Services</i>	393.3	332.0	395.2	427.3	
<i>Adult Social Care</i>	339.2	364.0	426.6	419.6	
<i>Transport &amp; Environment</i>	182.2	210.0	222.3	233.5	
<i>Chief Executives</i>	206.8	240.0	197.0	180.4	
<i>Contingency<sup>1</sup></i>	-	250.0	-	-	
<i>Discretionary and corporate projects</i>	29.0	-	-	-	
<i>Sub total – ESCC</i>	1,938.8	2,088.0	1982.0	2008.6	101.3%
<i>External contracts<sup>2</sup></i>	111.7	95.0	105.0	105.1	100.1%
<b>Total audit days</b>	<b>2,050.5</b>	<b>2,183.0</b>	<b>2,087.0</b>	<b>2,113.7</b>	<b>101.3%</b>

<sup>1</sup> Contingency of 250 days at the start of the year has been included in the revised plan figure for each department to reflect its allocation throughout the year. Actual days delivered also include use of contingency.

<sup>2</sup> The actual days delivered on external contracts includes additional contracted days delivered during the year (brought forward from 2006/07) and additional non contract days paid for by external customers.

## Appendix B

### Internal Audit Performance Indicators

<i>Performance Indicator</i>	<i>Target</i>	<i>Actual 07/08</i>	<i>Actual 06/07</i>
<b><i>Economy and efficiency</i></b>			
<i>Planned days delivered (%)</i>	90	101.3%	99.4%
<i>Planned audits completed = final reports issued (%)</i>	90	86.1% <sup>3</sup>	83.5%
<i>Actual v Plan time on completed audits (%)</i>	105	102% <sup>4</sup>	102.9%

<b><i>Effectiveness</i></b>			
<i>External audit reliance on internal audit</i>	<i>Achieved</i>	<i>Achieved</i>	<i>Achieved</i>
<i>CPA score maintained</i>	<i>3/4</i>	<i>4/4 Achieved</i>	<i>3/4 Achieved</i>
<i>Recommendations accepted (%)</i>	90	96.5%	96.8%
<i>Customer feedback forms scoring 3 out of 5 or higher (%)</i>	80	85.5%	88.8%
<i>Reports to Chief Officers and Members</i>	<i>Quarterly</i>	<i>Reports issued for every quarter during 07/08.</i>	<i>Reports issued for every quarter during 06/07.</i>

<sup>3</sup> Excludes FMSiS assessments

<sup>4</sup> Excludes FMSiS assessments



## **ESCC INTERNAL AUDIT CHARTER & TERMS OF REFERENCE**

### **1. RESPONSIBILITIES AND OBJECTIVES**

1.1 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 organisations 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.

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.

### **2. STATUTORY ROLE**

2.1 Internal Audit is a statutory service in the context of the Accounts and Audit Regulations 2003 (as amended in 2006), which state in respect of Internal Audit that:

“A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires:

- make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit; and
- supply the body with such information and explanation as the body considers necessary for that purpose.”

2.2 The statutory role is recognised and endorsed within the Council’s Financial Regulations, which provide the authority for access to officers, members, documents and records and to require information and explanation as necessary.

### **3. INDEPENDENCE AND ACCOUNTABILITY**

3.1 Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities.

3.2 Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Chief Internal Auditor has direct access to, and freedom to report in his own name and without fear of favour to, all officers and Members and particularly those charged with governance.

3.3 Accountability for the response to the advice and recommendation of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

#### **4. INTERNAL AUDIT SCOPE**

4.1 The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and Management risk assessment (as set out within County Council risk registers). Extensive consultation also takes place with key stakeholders.

#### **5. REPORTING LINES AND RELATIONSHIPS**

5.1 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.

5.2 The Chief Internal Auditor reports directly to the Deputy Chief Executive and Director of Corporate Resources. The County Council also has an Audit and Best Value Scrutiny Committee to whom internal audit report on a quarterly basis. These reports cover results of internal audit activity and details of internal audit performance, including progress on delivering the Audit Plan. In addition, internal audit provides an annual report and opinion to Chief Officers and Members on the adequacy of the Council's control environment.

## **6. INTERNAL AUDIT STANDARDS**

6.1 There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect 'the Standards' for local authority internal audit. The guidance accompanying the Accounts and Audit Regulations 2003 (as amended in 2006) makes it clear that 'the Standards are those shown in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The CIPFA Standards have been adopted by East Sussex County Council Internal Audit.

## **7. INTERNAL AUDIT RESOURCES**

7.1 It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and should maintain their professional competence through an appropriate ongoing development programme.

7.2 The Chief Internal Auditor is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills. The Internal Audit Service maintains an annually updated Training and Development Plan, which sets out an ongoing development programme for Internal Audit staff.

7.3 The Chief Internal Auditor is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby they concluded that resources were insufficient, they must formally report this to the Deputy Chief Executive and Director of Corporate Resources and, if the position is not resolved, to the Audit and Best Value Scrutiny Committee.

## **8. FRAUD AND CORRUPTION**

8.1 Managing the risk of fraud and corruption is the responsibility of Chief Officers not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption and will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

8.2 Internal Audit should also be informed of all suspected or detected fraud, corruption or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for his opinion on the control environment.

Councillor David Tutt  
Chairman of the Audit and Best Value Scrutiny Committee

Sean Nolan  
Deputy Chief Executive and Director of Corporate Resources

Duncan Savage  
Assistant Director – Audit and Performance