

Southend-on-Sea Borough Council

Agenda
Item No.

9

Report of the Chief Executive

to

Audit Committee

on

28th June 2017

Report prepared by: Linda Everard, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present to the Audit Committee, summary results of 2016/17 audit reviews completed.

2. Recommendations

2.1 The Audit Committee:

- **notes the assurance provided by the audit work completed this quarter**
- **approves the appointment of the Institute of Internal Audit to complete the independent, external review of Internal Audit's compliance with the UK Public Sector Internal Audit Standards.**

3. Background

- 3.1 To comply with the UK Public Sector Internal Audit Standards, the Head of Internal Audit's Annual Report includes details of the team's final performance in delivering:

- the Audit Plan
- its targets.

4. Audit Opinions and Themes

- 4.1 **Appendix 1** summarises the results of and where appropriate, the audit opinions given for each audit completed since the March Audit Committee meeting. The majority of the audits reported upon this quarter have been issued with satisfactory audit opinions.

5. Independent External Assessment

- 5.1 The UK Public Sector Internal Audit Standards (1312) (the Standards) require that an external assessment must be conducted at least every five years by a qualified, independent assessor or team from outside the organisation. The Head of Internal Audit must discuss with the Audit Committee:

- the form of external assessment, which can be in the form of a full external assessment, or a self-assessment with independent external validation
 - the qualifications and independence of the external assessor or team, including any potential conflict of interest.
- 5.2 The external assessor or team must be able to demonstrate:
- competence in two areas: the professional practice of internal auditing and the external assessment process. The Head of Internal Audit should use professional judgment when assessing whether an external assessor or team demonstrates sufficient competence to be qualified
 - there is not a real or an apparent conflict of interest and that they are not a part of, or under the control of, the organisation to which the internal audit activity belongs.
- 5.3 The Head of Internal Audit must agree the scope of external assessments with an appropriate sponsor, e.g. the Accounting / Accountable Officer or Chair of the Audit Committee as well as with the external assessor or team.
- 5.4 At the conclusion of the review, the Head of Internal Audit must communicate the results of the quality assurance and improvement programme to senior management and the Audit Committee.
- 5.5 Three quotes were obtained and evaluated taking into account day rates, the experience of reviewers and the potential to add value. On this basis, the Head of Internal Audit is recommending that:
- the Institute of Internal Audits (IIA) is appointed to undertake the review which will include services provided to the Council, Castle Point Borough Council and South Essex Homes. It:
 - does not sell additional services or offer alternative solutions to delivering internal audit services, therefore is truly independent and has no conflicts of interest to declare
 - sets the Standards, so is well placed to assess compliance with them as well as share learning where opportunities to improve are identified.
 - a self assessment is completed, with supporting evidence that is then provided for review as this limits the cost
 - the sponsors are:
 - Cllr Davidson, Chair of the Audit Committee, Southend-on-Sea Borough Council
 - Joe Chesterton, Director of Finance & Resources, Southend-on-Sea Borough Council
 - Devinia Board, Strategic Director, Transformation and Resources, Castle Point Borough Council.
- 5.6 **Appendix 2** contains the profile of the reviewers proposed, which demonstrates the team are suitably qualified to undertake this work.
- 5.7 As South Essex Homes buys its internal audit service from the Council, the results of this work will just be reported to its Audit Committee.

6. Shared Service Board

- 6.1 The first meeting of the Shared Services Board, Internal Audit and Counter Fraud & Investigation Services was held on 18 May 2017 at which it agreed its Terms of Reference.
- 6.2 The objective of the Board is for *"members work effectively together to enable good quality, professionally compliant but proportionate services to be provided that meet each individual organisations needs.*
- 6.3 The purpose of the Board is to provide a forum for members to:
- provide a collaborative, strategic view for the on-going delivery and or development of the two services
 - ensure there is a consistent contractual framework for delivering these services across the organisations that clarifies accountabilities and deliverable outcomes
 - ensure that performance management arrangements are effective and each organisation is receiving the service it is paying for.
- 6.4 It was agreed that this would be an advisory Board which has no decision making powers. It is accountable to each organisation's senior management team and Audit Committee.
- 6.5 The main work for the Board initially is to refresh the various agreements Southend-on-Sea Borough Council, Castle Point Borough Council, Thurrock Council and South Essex Homes have with each other for these services. In order to co-ordinate this work better, it has been agreed to start the new agreements from 1 October 2017 for three years.
- 6.6 As part of this, the opportunity will be taken to standardise the arrangements for obtaining stakeholder feedback by both services. This will then form part of the performance indicators reported to Audit Committee each quarter. Some thought was also given to the type of strategic information on overall service performance that should be reported to the Board.
- 6.7 Finally, consideration was given to the possibility of creating a more self sufficient base for the Counter Fraud & Investigation Directorate at Southend-on-Sea Borough Council and Castle Point Borough Council offices. Unlike any other local authority in the United Kingdom, the Directorate is a recognised agency in its own right with direct access to police systems and techniques (not available to any other local government and most other central government agencies).
- 6.8 Traditionally all the specialist resources and access to confidential systems has been held solely at Thurrock Council as it has specially designed secure offices. These offices satisfy the Home Office Management of Police Information, Government Protective Marking Scheme and the National Technical Authority for Information Assurance standards – IL3.
- 6.9 Now the level of work at the Council has increased, there is a business need to replicate these specialist resources on-site. This will provide some resilience for the service should access to Thurrock Council not be possible. In particular, the co-location of the police national computer on-site will ensure that:

- essential police data can be used by other Council departments to create and increase the opportunity to tackle all crime and regulatory issues they are responsible for (e.g. Trading Standards, Anti Social Behaviour, Social Care and Housing)
- the Counter Fraud & Investigation staff can use police data in Council buildings and not have to travel to Thurrock Council to view and store the data which is very inefficient, as the accommodation will meet the needs of the Government Protective Marking Scheme.

6.10 The Director of Finance & Resources is working with the Directorate to progress this.

7. Corporate Implications

7.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

7.2 Financial Implications

The Audit Plan was delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk were considered through the normal financial management processes.

7.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

7.4 People and Property Implications

People and property issues that were relevant to an audit within the Audit Plan were considered as part of the review.

7.5 Consultation

The audit risk assessment and the Audit Plan were periodically discussed with the Chief Executive, Corporate Directors / Director, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports were discussed with the relevant Corporate Directors / Director and Heads of Service before being finalised.

7.6 Equalities Impact Assessment

The relevance of equality and diversity was considered during the initial planning stage of the each audit before the Terms of Reference were agreed.

7.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its Corporate Aims and Priorities.

The main risks the team has had to manage during the year are the:

- loss of in-house staff and its inability to replace this resource at all or in a timely manner

- lack of resources to manage external suppliers proactively to ensure the quality of work and timeliness of its delivery is maintained
- uncertainties arising as a result of the extended service review.

The realisation of these risks has adversely impacted on the service's ability to deliver its performance targets this year (refer Head of Internal Audit Annual Report 2016/17).

7.8 Value for Money

Opportunities to improve value for money in the delivery of services were identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

7.9 Community Safety Implications and Environmental Impact

These issues were only considered if relevant to a specific audit review.

8. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

9. Appendices

Appendix 1 Audit Opinions and Themes

- a • Satisfactory Assurance
- b • Audits Revisited
- c • Other Audits and Grant Claims

Appendix 2 Chartered Institute of Internal Auditors Review Team