

Southend-on-Sea Borough Council

Agenda
Item No.

Report of the Chief Executive

to

Audit Committee

on

25th April 2018

Report prepared by: Linda Everard, Head of Internal Audit

Internal Audit Charter, Strategy and Audit Plan for 2018/19

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present to the Audit Committee, the Internal Audit Charter with the supporting Strategy and Audit Plan for 2018/19.

2. Recommendation

- 2.1 The Audit Committee approves the Charter, Strategy and Audit Plan for 2018/19.**

3. Background

- 3.1 The Accounts and Audit Regulations 2015 (Regulations) make it a requirement for internal audit to take into account public sector internal auditing standards or guidance in delivering the service.
- 3.2 The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a:
- Charter
 - a risk based plan that:
 - takes into account the:
 - requirement to produce an annual internal audit opinion
 - Council's assurance framework.
 - incorporates or is linked to a strategic or high level statement of how:
 - the service will be delivered and developed in accordance with the Charter
 - it links to the Council's Aims and Priorities.

4. Charter, Strategy and Audit Plan

- 4.1 In order to comply with the Standards, the approach proposed for delivering the service, is set out in the:
- Charter, that defines the purpose, authority and responsibility of the service

- Strategy, that outlines how the service will be delivered in line with the Charter and includes the:
 - Internal Audit Plan for 2018/19
 - statement showing how audit work completed during the year will provide assurance regarding the mitigation of the Council's strategic risks
 - How We Will Work With You Statement.
- 4.2 The following paragraphs explain key amendments to the documents which were last presented to the Audit Committee in March 2017. These are also highlighted in **bold** within the documents themselves for ease of reference.
- 5. Charter (Appendix 1)**
- 5.1 The minor amendments made to the Charter this year relate to:
- clarifying that the service needs to have unrestricted access to records, personnel and physical properties relevant to performing audits
 - making a clearer statement about the need to conform to the Code of Ethics with the Standards
 - deleting the arrangements that had been put in place to maintain independence whilst the Head of Internal Audit was responsible for the Council's Counter Fraud & Investigation team, as this will no longer be the case going forward.
- 6. Strategy (Appendix 2)**
- 6.1 The Strategy sets out:
- the ethical framework audit staff are expected to comply with
 - the basis for the audit opinion and the audit approach to be adopted
 - the approach to assessing risk and assurance as part of the audit planning process
 - the Audit Plan, resource assessment and performance indicators
 - how the service will work with key staff, members and groups within the Council
 - how the team will operate on a day to day basis
 - how it will assess its compliance with relevant professional standards and report upon this.
- 6.2 A few very minor amendments have been made to the Strategy this year. These are cosmetic and don't change the manner in which the audit service provided is delivered under the Collaborative Working Agreement. The Strategy also sets out the team's **performance indicators** for the year.
- 6.3 As outlined in the Strategy, activities are only considered for inclusion in the Audit Plan if:
- they are assessed as being significant enough to require periodic independent review
 - this independent assurance is not being provided elsewhere (e.g. Ofsted).

- 6.4 The coverage provided within the proposed **Audit Plan** for 2018/19 (**Appendix 2a**) is based upon the audit approach outlined in the Strategy which complies with the requirements of the Standards. It has been discussed with the Corporate Management Team.
- 6.5 The Audit Plan looks to provide some assurance regarding the delivery of all Corporate Aims and as many Corporate Risks as possible. Other factors that would influence what is in this year's Audit Plan would include, for example:
- when activities were last reviewed and the results of that work
 - whether there are any significant changes involving an activity e.g. new IT software, loss of key staff etc.
 - the level of spend and corporate profile of the activity
 - emerging risks highlighted by senior management or other sources.
- 6.6 The total audit days figure excludes South Essex Homes, which has a separate Audit Plan and is funded separately and includes a small contingency.
- 6.7 The Audit Plan will be reviewed late summer to assess whether there are any changes to the risk profile and therefore, the work planned for later in the year. As is usual practice, any proposed future amendments to the Audit Plan will be reported to the Audit Committee for approval.
- 6.8 **Appendix 2b** identifies where **audit reviews** provide some assurance regarding the management of the **Council's corporate risks**.
- 6.9 The **How We Will Work With You Statement (Appendix 2c)** has been:
- simplified by taking out the working arrangements adopted when more regularly auditing schools
 - updated to reflect the more proactive inclusion of some Group Managers in the risk assessment and audit planning process
 - amended to reflect slightly different working arrangements for discussing and finalising reports within the Chief Executive's department.

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

Financial risk is one of the categories used when assessing the risk profile of all the activities that the Council delivers.

The Audit Plan will be delivered within the agreed budget for the service.

7.3 Legal Implications

The Accounts and Audit Regulations 2015, Section 5 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Auditing Standards or guidance.

The Standards require:

- the Audit Committee to approve (**but not direct**) the annual internal Audit Plan and this report discharges that duty

- the Audit Committee to then receive regular updates on its delivery, as provided by the quarterly performance report
- the Head of Internal Audit to provide an annual audit opinion on the Council's risk management, control and governance arrangements and report on this to the Audit Committee, which is delivered to its July meeting.

7.4 People and Property Implications

People and property risk is another of the categories used when assessing the risk profile of all the activities that the Council delivers.

Resourcing issues relating to the team are covered in the Strategy.

7.5 Consultation

This is set out in the Strategy.

7.6 Equalities Impact Assessment

Not applicable to these documents.

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 on the Council's ability to deliver its corporate Aims and priorities.

The key team risks are:

- its inability to recruit or retain staff
- that external suppliers won't deliver contracted in work within the required deadlines to the expected quality standards
- that it becomes increasingly difficult to:
 - engage staff in service departments within the audit process
 - obtain information at all or in a timely way, so that a full review can be completed
 - discuss and agree opinions and action plans as the resources to implement them become more stretched.

Additional time has been built into the Audit Plan for managing external contractors.

Internal Audit maintains an audit risk assessment which is explained in the Strategy.

7.8 Value for Money

Internal Audit undertook a service review in 2013/14 which demonstrated that the cost of the service was competitive. This was reconfirmed as part of the external service review completed in September 2016.

This needs to be taken in conjunction with the other indicators reported upon quarterly, when assessing whether the service provides value for money.

7.9 Community Safety Implications and Environmental Impact

These issues are 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 Governance Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committee Practical Guidance for Local Authorities and A Toolkit for Local Authority Audit Committees.

9. Appendices

- Appendix 1: Internal Audit Charter
- Appendix 2: Internal Audit Strategy
 - Appendix 2a: Internal Audit Plan for 2018/19
 - Appendix 2b Audits assurance linked to the Council's corporate risks
 - Appendix 2c: How We Will Work With You Statement