

Southend-on-Sea Borough Council

Agenda
Item No.

7

Report of Corporate Director for Corporate Services
to
Audit Committee
on
29th June 2016

Report prepared by: Linda Everard, Head of Internal Audit

Head of Internal Audit Annual Report 2015/16

Executive Councillor – Councillor Mooring

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide, for the 2015/16 financial year:

- the rationale for and an audit opinion on the adequacy and effectiveness of Southend-on-Sea Borough Council's (the Council's) risk management, control and governance processes
- a statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

2. Recommendation

2.1 The Audit Committee accepts the Head of Internal Audit's Annual Report for 2015/16.

3. Background

3.1 The Head of Internal Audit's Annual Report and Opinion provides the Council with an independent source of evidence regarding both the design of its risk management, control and governance framework and how well it has operated throughout the year.

3.2 The opinion is predominantly based upon the audit work performed during the year as set out in the risk based Audit Plan agreed with the Corporate Management Team and the Audit Committee.

3.3 As outlined in the Internal Audit Charter, audit coverage is determined by prioritising the significance of Council's activities to its ability to deliver its Aims and Objectives. This is done:

- using a combination of Internal Audit and management risk assessments (including those set out in risk registers)
- in consultation with Heads of Service, Corporate Directors and the Chief Executive, to ensure work is focused on key risks.

- 3.4 Quarterly meetings are then held with the Chief Executive and Corporate Directors to:
- reflect on the original risk profile and work planned
 - determine whether any changes are required to the Audit Plan.
- 3.5 Organisationally, this reflects a very mature approach to operating an internal audit function.
- 3.6 All individual audit reports are discussed with the relevant Group Managers, Heads of Service and Corporate Directors / Director before being finalised.
- 3.7 The opinion and summary findings from audit reviews are reported to the Corporate Management Team and the Audit Committee throughout the year.

4 Head of Internal Audit Opinion for the year ended 31 March 2016

4.1 *As reported last year, where audits identified the need for improvement, the common theme was managers needing to ensure they have a clear understanding of the:*

- *day-to-day actions taken by their staff; and or*
- *suite of 'management information' needed to inform them of key actions taken by staff and performance achieved; and or*
- *checks and balances needed in day-to-day activity to reduce the chance of error, omission or fraud.*

4.2 *It is opportune for the Council to confirm that risk and performance continues to be managed effectively, day-to-day, by operational managers, in support of the delivery of service objectives.*

4.3 *As part of this work, particular consideration needs to be given to ensuring there is clarity around roles and responsibilities where processes cross team, service, department or organisational boundaries. Without clear accountabilities, processes may not operate as efficiently and effectively as possible.*

4.4 *Otherwise the design and operation of the Council's risk management, control and governance framework is considered to be satisfactory.*

4.5 The basis for forming this opinion is an assessment of:

- the design and operation of the underpinning governance and assurance framework
- the range of individual opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas
- whether management properly implement actions arising from audit work completed, to mitigate identified control risks within reasonable timescales.

4.6 The Head of Internal Audit has not reviewed all risks and assurances relating to the Council's activities in coming to her opinion.

5. Supporting Commentary

- 5.1 **Appendix 1** summarises the audit opinions issued regarding the limited amount of work completed this year.
- 5.2 The following paragraphs then:
- summarise findings from this work
 - highlight the key areas requiring improvement
 - expand on how assurance obtained from other relevant sources has been used to support the overall opinion.
- 5.3 Where necessary, actions have been agreed with services to improve the arrangements where the more serious control issues were identified during the audits.

Governance and Assurance Arrangements

Service Delivery Risks

- 5.4 A key objective for Internal Audit is to give a view on whether the Council's risk management and control processes are robust enough to enable services to effectively contribute to the delivery of its corporate aims and objectives.
- 5.5 The remainder of the report therefore, structures the audits undertaken of services areas under the corporate aims they help deliver so this connection can be made.

SAFE

- 5.6 The **licensing** policy framework satisfactorily set out the basis for assessing applications for all types of licence. Clearer document version control would further improve this framework.
- 5.7 The team liaises appropriately with external agencies when assessing application to confirm the accuracy of the information provided.
- 5.8 No issues were identified with the sample of licenses checked however, the process is not provide regular evidence that this delegated authority was being consistently and properly discharged.
- 5.9 Therefore, going forward, management will be independently checking that staff have assessed applications correctly and promptly. Arrangements are also being put in place to ensure all income due from licenses is received or missing payments are chased effectively. This includes regularly reconciling the Licensing IT System (Uniform) with the Financial Accounting System (Agresso) and dealing with historic, "parked" debt.

CLEAN

- 5.10 An unqualified opinion was given on the Repair and Renew (Flooding) Grant.

HEALTHY

- 5.11 The **Adult Social Care File Audit Framework** was still in the early stages of development in August 2015 when this review was undertaken. Internal Audit shared sources of good practice identified that could be used to develop the framework with Adult Social Care.

- 5.12 The Adult Social Care team was to update the Safeguarding Vulnerable Adults Board with the current position in developing the framework, and keep it updated with progress until it is implemented.
- 5.13 Internal Audit will work proactively with the **Child Sexual Exploitation** service to:
- redraft actions in the action plan where necessary, to make them SMART and ensure they address the cause of the issue not the symptom
 - provide some guidance and or training on how to do this more effectively, for future reference
 - in future, help translate issues identified from investigations into targeted actions that will permanently improve systems and processes, whilst the action plans are being created.
- 5.14 Good arrangements were in place to ensure:
- **Special Educational Needs**(SEN) pupils were adequately identified and funded
 - statutory censuses were completed on time and follow-up and advice was available to schools.
- 5.15 Guidance on the use of Element 1 and 2 funding needed consolidating, and then reviewing regularly to ensure it remains current. Guidance on how to set funding levels for Element 3 funding needs to be produced.
- 5.16 The processes supporting the annual assessments by caseworkers, where decisions were made about whether to escalate additional funding requests to the Education, Health and Care Panel, were sound. The Panel played a significant and effective role in ensuring appropriate decisions were made regarding assessments and funding.
- 5.17 Annual reviews of SEN statements were completed by the schools. The Council needs to implement a monitoring process to confirm that all pupils had an annual review of their SEN statement.
- 5.18 The arrangements for awarding **Essential Living Fund** (ELF) grants and managing expenditure from the fund are generally sound. Management reporting was being developed to show how claims or awards made support the delivery of the published aims of the ELF scheme.
- 5.19 Legal advice should have been sought prior to entering into the contract for Allpay cards in 2013, given the potential implications of some of its clauses. Once this advice has been obtained, working practices will be revised as necessary.
- 5.20 Good progress had been made in implementing the actions contained in the original **Children's Social Care Services, Internal Assurance Processes report**. As a result:
- the Quality Audit Plan Framework (the framework) and the associated key processes required to address identified areas for improvement have been strengthened
 - engagements with the external auditors have also been formalised and an appropriate review of their performance introduced.

- 5.21 Going forward, management will periodically benchmark the number of file audits to be completed each month to ensure the Council's approach is in line with others and then ensure this is delivered. A greater degree of independent review still needs to be introduced when quality assuring Fostering and Adoption files.
- 5.22 Action is being taken to ensure all social workers' and line managers' regular supervision takes account of the results of file audits and identifies any support and training needed. This is key to ensuring standards improve where necessary and are consistently applied across the service.

PROSPEROUS

- 5.23 Strong controls were in place to ensure **planning applications** are:
- properly, correctly and promptly assessed by the relevant officer or, where necessary, referred to the Development Control Committee for a decision
 - processed in compliance with the government-set timescales for all different types of application.
- 5.24 Unqualified opinions were given on the:
- Southend City Deal Grant
 - Local Transport Plan, A127 and Pothole Repair Grants
 - Local Sustainable Transport Fund Grant.
- 5.25 The Expanded **Troubled Families Programme, Payments by Results Scheme for Local Authorities** returns continued to be audited. The Scheme's Financial Framework requires Internal Audit to verify a 10% representative sample of claims before they are made to ensure there is supporting evidence to confirm families:
- met the required criteria to be considered for entry to the expanded Troubled Families Programme
 - have achieved either continuous employment or significant and sustained progress as defined by the Council's agreed Family Outcomes Plan.
- 5.26 All three claims audited under the new arrangements have been partially compliant opinion.
- 5.27 The Family Outcome Plan now details all the evidential expectations required to claim a PBR outcome under each of the six headline areas. Internal Audit will continue to work with the team to develop this further as new issues affecting families emerge.
- 5.28 In addition, the quality assurance processes being developed by the service should ensure only valid claims are presented for audit in the future.
- 5.29 The majority of the recommendations raised within the original **Capital Project Management** report had been implemented fully. The action taken has strengthened the operational framework that sets out expectations of how projects of different sizes, will be managed. Evidence was also seen of these amended arrangements operating effectively, in practice.
- 5.30 Whilst Project End Report and Lessons Learnt Log templates had been produced, their effective implementation could not be tested at the time of the audit as there were no projects at this stage of the process.

Schools Audits

- 5.31 The 2015/16 Schools Audit Programme covered the adequacy and effectiveness of finance, management and governance arrangements.
- 5.32 Five **schools were audited** during 2015/16, of which:
- four were assessed as having good or adequate arrangements overall
 - one needed to significantly improve its overall arrangements.
- 5.33 Of the seven **schools revisited** this year, the majority had satisfactorily implemented most of their action plan actions. In the remaining instances, it was possible to establish that they were being or would soon be addressed.

EXCELLENT

- 5.34 The arrangements for ensuring that the **Family Mosaic contract** delivered the services expected, to the required quality standards and price, needed strengthening significantly. This contract was valued at £5.1M over six years.
- 5.35 Officers had already identified some shortcomings in the contract management arrangements and developed this understanding further as the audit progressed.
- 5.36 Before a decision was required as to whether to extend this contract into 2016/17, an exercise was to be undertaken to assess whether it was delivering value for money.
- 5.37 Contract management and performance monitoring arrangements were being fundamentally challenged and improved so, going forward, the Council can evidence services are being delivered and targeted effectively. These revised arrangements were to be formalised via a contract variation order, approved at an appropriate management level in line with the Scheme of Delegation.
- 5.38 Finally, both departmental and wider reporting requirements regarding the delivery of this and other Supporting People Programme contracts were being revisited.
- 5.39 During the year, action was taken to significantly strengthen the arrangements for managing and monitoring the **contract for cleaning** various premises within the Borough. This work included:
- defining the role of the Contracts Manager so he was responsible for and involved in all matters relating to the contract
 - introducing a formal change control process
 - confirming the precise cleaning requirements for each location and incorporating them into the contract using a formal Variation Order
 - further developing contract management and monitoring arrangements and a formal process for measuring and reporting on performance, including the management of risk
 - involving client representatives at all sites in more proactively in managing contract delivery and signing off on the service provided.
- 5.40 The rationale for the **changes made to ICT staffing structures and operational processes** was clearly documented. However approximately half of the required benefits from the restructure could have been defined more specifically.

- 5.41 There is satisfactory evidence that the required benefits have been achieved. However, there could have been more formal and regular reporting to senior management on their delivery.
- 5.42 There was a need to define, in formal standards, the Council's expectations of:
- when third party hosting of IT software would be considered appropriate
 - what features must be included in any new contract, which should include:
 - the data security standards required from the third party host
 - the exit strategy if the Council stops using the host to ensure all data is returned completely and accurately.
- 5.43 The Digital Strategy Programme Board was well placed to effectively enforce the requirements of the formal third party hosted strategy when developed.
- 5.44 With regard to contracts involving **third party software hosts**, there was evidence that Contract Procedure Rules had been complied with, contract managers had been assigned and the majority of the contractual requirements expected were included. Arrangements were being strengthened to ensure contract documentation is always available to staff.
- 5.45 Existing IT data security standards were being used to produce the minimum contractual requirements that must be applied when procuring software services where a third party will hold the Council's data. The Digital Strategy Programme Board was well placed to effectively enforce the requirements of the formal third party hosted strategy, when it is developed. Action was also being taken corporately to clarify what should be included in such contracts regarding Data Governance and an exit strategy.

Key Financial Systems

- 5.46 The objective of this work is to provide the Section 151 Officer with assurance that:
- significant controls within these financial systems effectively prevent or detect material errors on a timely basis
 - information produced by these financial systems can be relied upon when producing the Council's financial statements.
- 5.47 Some progress had been made to address the outstanding actions from previous **Social Care debt** audits. Most notably, key reconciliations between the Council's Agresso system and the records used to monitor debt by the Department for People were being produced.
- 5.48 Whilst the overall level of debt outstanding has been constant over recent years, implementation of outstanding recommendations will particularly:
- improve the arrangements which ensure prompt debt recovery
 - support the Council in meeting the requirements of the Care Act 2014, especially when debts need referring for legal action.
- 5.49 The key areas where improvements are still required include:
- clarifying arrangements so there is a clear pathway for the recovery of debt
 - ensuring those arrangements are properly and consistently applied by staff
 - more fully understanding the profile the debt so that resources can be focused on priority areas

- providing the Department for People's senior management team with appropriate information to monitor overall debt levels and / or challenge performance.
- 5.50 The **Business Rates** system was assessed as providing high assurance overall that this objective would be met.
- 5.51 The integrated HR and **Payroll** system continued to be reliant on manual checks to ensure the accuracy and completeness of its records. The planned improvement of the Agresso payroll module and supporting operational processes will significantly strengthen these arrangements, and is planned for implementation in September 2016.
- 5.52 Overall, satisfactory arrangements were in place regarding the **Housing Rents system**, to both raise and then collect rental income from Council house tenants. The element of the system managed by the South Essex Homes was well controlled. Going forward, tenancy terminations will be independently checked each month to ensure they are valid.

Implementing Action Plans

- 5.53 Action plans from audit reports have only been revisited during the year if the control weaknesses identified were more significant (e.g. where a partial or minimal assurance opinion was given). The result of this work is reported to the Corporate Management Team and the Audit Committee as part of the Quarterly Performance Report.
- 5.54 The process adopted by services to monitor the implementation of action plans was reviewed this year. It was agreed that:
- senior management will continue to sign them off as part of the normal performance management process and periodically provide evidence that this has been done
 - Internal Audit will include this evidence in its quarterly performance report to the Audit Committee.
- 5.55 Internal Audit has worked closely with the Departmental performance leads to develop this corporate process using Covalent (the performance management system). Standard reporting templates are now being developed for services to use once they have signed off on high and satisfactory assurance reports.

Other Work

- 5.56 A brief review was undertaken of the approach auditing schools during the year. Two types of audit can now be undertaken which either focus on:
- governance, information and asset management and financial management and reporting
 - managing the business of the school.

CONCLUSION

- 5.57 As reported last year, an important source of evidence that service, process and systems are operating as they should, is obtained through targeted and proportionate management checks undertaken by managers. Managers need to be clear on the checks needed to be taken to ensure that these controls are adequate and effective. Greater focus is needed to sustain this.

6. Compliance with Professional Standards

Head of Internal Audit Opinion

6.1 *The in-house service has substantially conformed to the relevant professional standards and the Council's operational requirements throughout the year.*

6.2 *I have obtained assurance from the external supplier regarding its conformance with relevant professional standards, but have not independently confirmed this with regards to audit work completed at the Council.*

Background

6.3 In July 2015, Audit Committee were advised of the intention that a review of the Internal Audit Service would be undertaken in 2015/16 so recruitment was stopped until this was completed. At this point, the combined team was carrying four vacancies out of nine permanent auditor posts that were being covered by:

- resources bought in through a framework contract with an external supplier, which was already being used to buy in specialist services that are funded in addition to this
- agency or casual staff and staff on short term contracts.

6.4 This contracted out resource was primarily being managed by the Senior Audit & Resource Manager who resigned in August 2015. Another auditor resigned in May 2016, leaving the combined service with only three permanent staff in post. Therefore, the service is now substantially contracted out.

6.5 The impact of the late allocation of work to the external supplier in 2015/16 and the resourcing issues outlined has been:

- a significant amount of the contracted out work has been undertaken in the last six months of the financial year
- contracted out work has not been supported proactively, to ensure, for example, local knowledge is accounted for and any issues with performance are identified promptly and dealt with
- the Head of Internal Audit role has been curtailed significantly in order to provide some (although not sufficient) resource to set up and sign off contracted out audits and deal with any issues arising from this work.

6.6 All these factors have adversely impacted on the service's ability to deliver its targets this year.

Audit Plan 2015/16

6.7 As at 10 June 2016:

- 57% of planned work (excluding schools) has been delivered
- 36% is at draft report stage
- 96% of schools work planned has been delivered or is at draft report stage.

6.8 The 2015/16 Audit Plan is attached at **Appendix 2**, and is a comparison of actual audit work completed against work planned.

Other Performance Indicators

- 6.9 Staff productivity of the combined team (including bought in resources) has remained on target at 78.7% compared to 75%. Sickness absence remained very low at 0.78 days per FTE compared to a target of less than 5 days per FTE.
- 6.10 During the year, the service revised its approach to obtaining feedback from stakeholders at the conclusion of audits so it focused more on obtaining evidence of compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards).
- 6.11 The key message from the surveys undertaken is the need for there to be a more seamless service regardless of whether work is undertaken by the in-house Internal Audit team or contracted in resources.
- 6.12 External Audit confirmed that it could rely on Internal Audit's work where it was relevant to its audit of the Council's financial statements.

Cost

- 6.13 The cost of the service remains competitive, as demonstrated by benchmarking and other relevant information obtained as part of the service review process that has gone on throughout the year. The service review will comment on the costs v's benchmark position of the service.

Service Management Arrangements

- 6.14 An assessment was also completed of the team's compliance with Castle Point Borough Council's governance arrangements requirements as set out in the Manager Assurance Statements (which are not dissimilar to those used by the Council). This highlighted some areas where they should be strengthened and actions are in hand to address this.

Quality and Improvement Programme

- 6.15 I can confirm that I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year for the in-house team. As required by the Standards, this consisted of:
- ongoing supervision and review of individual audit assignments
 - reporting on a set of performance targets to the Audit Committee each quarter (for all work done including that of the external supplier)
 - undertaking a self assessment which evaluates conformance with the Standards.
- 6.16 I have received assurance from the external supplier that its arrangements also comply with the Standards.
- 6.17 Due to resource constraints, the contract with the external supplier has not been proactively managed during the year and no independent file reviews have been completed of either in-house or external work.
- 6.18 **Appendix 3** shows the final position statement on the actions taken by the in-house team during the year to address areas that were not fully conformant with the Standards at the end of 2014/15. No new actions have been identified from the 2015/16 assessments outlined above.

- 6.19 Senior management has chosen not to implement the Standard relating to the appointment and removal of the Head of Internal Audit as the Council's normal HR practices would already mitigate this perceived potential risk.
- 6.20 The Internal Audit Service is required to have an external assessment of its compliance with the Standards at least once every five years. The combined service **must** now complete this assessment before 31 March 2018.

Other Disclosures

- 6.21 As required by the Standards, I can confirm that the Internal Audit service has:
- operated in a manner that maintains its organisational independence throughout the year
 - been able to determine the scope of reviews, perform the work and report on its findings without interference neither has there been any inappropriate resource limitations imposed upon it.

Conclusion

- 6.22 Whilst the service has largely operated in the manner set out in the Standards, it has found it difficult to deliver its Audit Plan primarily due to the resourcing issues outlined above.
- 6.23 The service will continue to maintain an action plan that captures opportunities to strengthen its operating arrangements as and when they arise. The results of this work will be reported to the Audit Committee periodically.

7. Issues for the Annual Governance Statement

- 7.1 **No issues** have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.

8. Corporate Implications

8.1 Contribution to Council's Aims and Priorities

Audit work contributed to the delivery of all Council Aims and Priorities

8.2 Financial Implications

The Audit Plan was delivered within the approved resource budget.

8.3 Legal Implications

The Council is required, by the Accounts and Audit Regulations 2015 (the Regulations) Section 5, 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. Professional Standards require that the Head of Internal Audit to report on compliance with this annually to the Audit Committee. This report satisfies this requirement.

8.4 People and Property Implications

People issues that were relevant to delivering the Audit Plan were raised in the quarterly progress reports.

8.5 Consultation

All terms of reference and draft reports were discussed with the relevant Corporate Directors and Heads of Service before being finalised. This annual report has also been presented to and discussed with senior management.

8.6 Equalities Impact Assessment

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

8.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the governance, risk management and control arrangements which may impact of the Council's ability to deliver its corporate objectives.

8.8 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 periodically undertakes a service review to assess whether its costs remain competitive. This was reported upon to the January 2014 Audit Committee. Its regular suite of performance indicators cover cost, process delivery, staff productivity and effectiveness and so enable a view on whether the service delivered provides value for money.

8.9 Community Safety Implications and Environmental Impact

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

9. 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

10. Appendices

- Appendix 1: Assurance Summary 2015/16
- Appendix 2: Internal Audit Plan 2015/16, Status as at 10th June 2016
- Appendix 3: Compliance with the UK Public Sector Internal Audit Standards 2014/15 Action Plan as at May 2016