

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Chief Executive and Town Clerk

to

Audit Committee

on

16 June 2010

Report prepared by: Linda Everard, Head of Internal Audit

Head of Internal Audit Annual Report 2009/10

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To provide an opinion on the adequacy and effectiveness of the Council's systems of internal control for 2009/10.

2. Recommendation

- 2.1 The Committee approves the Head of Internal Audit's Annual Report for 2009/10.**

3. Audit Opinion for 2009/10

- 3.1 The purpose of the Head of Internal Audit Opinion is to contribute to the assurance available to the Council when undertaking its annual assessment of the effectiveness of its systems of internal control.
- 3.2 The opinion is predominantly based upon and limited to the audit work performed during the year on the overall adequacy and effectiveness of the Council's risk management, control and governance processes. This is outlined in the risk based audit plan that was agreed with the Corporate Management Team (CMT) and the Audit Committee. Internal Audit has not reviewed all risks and the assurances available relating to the Council's key business management, governance or service delivery processes.
- 3.3 In 2009/10, the audit programme was curtailed significantly. As a result very limited risk based work of service activities was completed. The audit opinion needs to be viewed in the light of this caveat.

HEAD OF INTERNAL AUDIT OPINION FOR THE YEAR ENDED 31 MARCH 2010.

- 3.4 My opinion is set out as follows:

- Overall opinion
- Basis for the opinion

- A commentary explaining the rationale for the opinion

3.5 MY OVERALL OPINION IS THAT:

The systems of internal control designed to support the delivery of the Council's objectives remain sound and that controls are generally being applied.

Further work is required to better integrate key business management processes consistently within service areas so they actively support service delivery. There remains scope to improve the management processes in some areas that ensure action is taken to mitigate control weaknesses identified.

3.6 THE BASIS FOR FORMING THIS OPINION IS AS FOLLOWS:

- an assessment of the design and operation of the underpinning business management, governance and assurance processes;
- an assessment of the range of individual opinions arising from risk based audit assignments that have been reported during the year taking into account the relative significance of these areas;
- an assessment of whether management implement recommendations to mitigate identified control risks within reasonable timescales; and
- cumulative audit knowledge and other available information regarding the Council's systems of internal control.

3.7 The **commentary** below provides the context for my opinion and together with the opinion should be read in its entirety.

BUSINESS MANAGEMENT. GOVERNANCE AND ASSURANCE PROCESSES

3.8 *A sound framework has been established that will provide cost effective assurance of how well key business management and governance processes are operating and therefore supporting service delivery.*

3.9 The Council's business management, governance and assurance arrangements are set out in the Local Code of Governance, and supported by a corporate risk assurance register.

3.10 Elements of the framework that have been audited this year and therefore provide the basis for this view include:

- Cabinet, Scrutiny Committees, the Standards Committees and the Audit Committee's operating arrangements by following up improvement opportunities identified in 2008/09 review;
- key business management and governance processes used by service areas to proactively support service delivery;
- Southend Together's Key Strategic Partnerships governance processes, the focus being whether they are effectively and consistently applied to support the delivery of the outcomes contained within the Sustainable Community Strategy / Local Area Agreement;

- the performance management of the 13 local area agreement three year stretch targets to ensure this was effective;
- National Performance Indicators, to assess whether systems have been designed to collect relevant and reliable information and the indicators are correctly calculated;
- Contract Procedure Rules to ensure they are complied with when contract values are below the European Union procurement threshold;
- Belfairs Building Schools for the Future, by maintaining a watching brief over the progression of the contract;
- Southend Association of Voluntary Services (SAVS) funding and its links to delivering specific services or activities; and
- SAVS governance processes to ensure they are robust and consistently applied.

3.11 A sample of the annual management assurance statements have also been challenged to assess whether supporting evidence is available to support the met, partially met, not met assertions. They have not been subject to a full audit and therefore an audit opinion has not been given on this work.

ASSURANCE PROVIDED BY INTERNAL AUDIT REVIEWS

3.12 *Systems of internal control reviewed were generally designed to meet the achievement of service and corporate objectives and operated consistently. In some areas opportunities to strengthen the control environment were identified and actions agreed to address this.*

3.13 The main sources of evidence supporting this view are that:

- internal controls within the Council's significant financial systems remain sound;
- of the ten schools assessed for compliance with the financial management standard, 7 have met the standards, 1 has not and two currently have a conditional met assessment;
- the control environment operated by Street Scene, Self Directed Support & Direct Payments for Vulnerable Adults and Building Control Services was assessed as being adequate;
- the control environment for the majority of IT work was assessed as adequate or good. This work covered Virus Protection and Spyware, PC End User Controls, Change Control and the Covalent Application; and
- Supporting People Statement of Grant Usage was given an unqualified audit opinion which provides assurance that monies have been spent on eligible activities in accordance with the terms and conditions of the grant.

- 3.14 The only limited assurance opinion given during the year related to the control environment established for the Local Land and Property Gazetteer. Key aspects of legislative compliance needed to be strengthened. Data input controls and data quality also needed to be improved before it could be considered as a primary data source for other applications.
- 3.15 Internal Audit continued to provide Enterprise, Tourism and the Environment with targeted support to help improve aspects of its governance arrangements.
- 3.16 The opinion and summary findings from audit reviews have been reported throughout the year to the Audit Committee.

IMPLEMENTING AGREED RECOMMENDATIONS

- 3.17 Recommendations are made to address internal control weaknesses identified during all audit reviews. Internal Audit then periodically assesses whether services have ensured that these actions are implemented, properly by the agreed date.
- 3.18 Timely implementation of recommendations continued to be an area of concern during 2009/10, as:
- 41% were not actioned by their due date re the June 2009 report (55 out of 134)
 - 54% were not actioned by their due date re the September 2009 (76 out of 141)
 - 53.5% were not actioned by their due date re the January 2010 report (70 out of 131)
- 3.19 Arrangements need to be strengthened in some areas so there is more active monitoring that recommendations made to mitigate control risks are implemented in a timely manner. Further work is required with directorates to ensure roles and responsibilities with regard to this are understood. Issues around the use of the Council's performance management software (Covalent) to support this management process will also be pursued.

INTERNAL AUDIT PERFORMANCE

- 3.20 Finally, a key part of the Council's governance framework is the maintenance of an adequate and effective internal audit service (as required by The Accounts and Audit (Amendment) (England) Regulations 2006 Regulation 6). The Council is required (by Regulation 4) to complete an annual assessment then present the findings to a committee or Council as part of the annual review of the system of internal control.
- 3.21 For this purpose, "proper practice" is considered to be the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy (the Code).
- 3.22 In order to discharge this duty, the Head of Internal Audit undertakes an assessment against the requirements of the Code. This year, this assessment and the supporting evidence will be subject to independent challenge from:
- external audit; and

- South Essex Homes Audit Committee Chairman.

3.23 Appendix 1 summarises the outcome of this assessment with the actions required to improve compliance and performance. This demonstrates that Internal Audit continues to be compliant with the requirements of the Code during 2009/10.

4. Issues for inclusion in the Annual Governance Statement

4.1 The main issues that should be included in the Annual Governance Statement are the need to:

- update the Council's overall policy framework and ensure policies and strategies comply with the design guidance which includes having review dates and version controls;
- prepare and regularly review service level risk registers to ensure they remain up to date and mitigating actions are being implemented. All management / team meeting agenda should include risk management and health & safety as a standard item;
- more consistently collate and report on performance information via Covalent (the Council's performance and risk management software);
- map data quality controls in all service areas through each stage of the performance management process;
- identify value for money profiles and performance indicators covering economy, efficiency, effectiveness and staff for all service areas, incorporating this in departmental service plans; and
- strengthen the governance arrangements of Southend Together and its supporting Key Strategic Partnerships.

4.2 Further work is required to ensure business continuity plans are consistently robust at all levels throughout the Council.

5. Corporate Implications

5.1 Contribution to Council's Vision & Critical Priorities

Audit work contributes to the delivery of all Council objectives, priorities and cross cutting themes.

5.2 Financial Implications

The audit plan was delivered within approved budgets.

5.3 Legal Implications

A formal audit plan is required to ensure that Internal Audit coverage is adequate and effective otherwise the Council will be in breach of its statutory responsibilities under the Accounts and Audit Regulations 2003. The Code of Practice for Internal Audit in Local Government in the UK (2006) CIPFA (the Code) recommends that progress against Audit Plans is regularly reported to Members. This report contributes to discharging this duty.

The Accounts and Audit Regulations 2003 and the (Amendment) (England) Regulations 2006, require councils to have an adequate and effective system of internal audit. This is now defined as compliance with proper professional practice i.e. the Code and it requires Internal Audit to report on whether recommendations made are being implemented. Therefore failure to do so would be a breach of a statutory duty.

The Code also requires the Head of Internal Audit to deliver an independent and objective annual opinion on the Council's control environment.

5.4 People and Property Implications

None

5.5 Consultation

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

All terms of reference and draft reports are discussed and agreed with the relevant Corporate Directors and Heads of Service before being finalised.

5.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the audit before the Terms of Reference are agreed.

5.7 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 which may impact of the Council's ability to deliver its corporate objectives.

5.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate. Internal Audit also considers whether it provides a value for money service annually through its Terms of Reference, Strategy, Benchmarking and Performance Indicators.

5.9 Community Safety Implications and Environmental Impact

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

6. Background Papers

- The Accounts and Audit Regulations 2003 & The Accounts and Audit (Amendment) (England) Regulations 2006
- CIPFA, Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

7. Appendices

- **Appendix 1:** Internal Audit performance compared to good practice guidance and Action Plan 2009/10