

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of Chief Executive and Town Clerk

to

**Audit Committee**

on

**13 January 2011**

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## **Outline Internal Audit Strategy for 2011/12**

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### ***A Part 1 Public Agenda Item***

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#### **1. Purpose of Report**

1.1 To present an outline internal audit strategy for 2011/12.

#### **2. Recommendation**

**2.1 The Audit Committee approves the outline internal audit strategy for 2011/12.**

#### **3. Background**

3.1 It is normal practice for the internal audit strategy to be presented in September each year covering the following 18 months. This is then updated in March, to look forward for a year. This ensures there is a regular assessment of risk so that internal audit resources can be focused appropriately, as well as providing the team with an agreed work plan for the following six months.

3.2 Given the significant change facing the public sector generally and the Council specifically, it has not been appropriate to adopt this approach to audit planning this year. However, it is necessary to agree an outline internal audit strategy for 2011/12 so that the team can start planning work for the next six months. This will still leave flexibility to change the programme as risks arise but it does help to ensure that staff productivity is maximised.

3.3 Therefore the rest of the report and Appendix 1 summarise the internal audit strategy proposed for 2011/12.

#### **4. Overall Audit Approach**

4.1 It is not intended to fundamentally change the internal audit strategy currently used. The basic principles behind this being that the greater the evidence available that the corporate business management (governance) arrangements are fit for purpose and operating as designed the more likely it is that services will be clear what they are required to deliver and be in a position to manage their risks effectively.

4.2 Therefore the basis for the audit opinion and therefore the internal audit strategy will be to obtain evidence that:

1. the key corporate processes required for managing the business are operating effectively and are embedded across the organisation
2. a selection of services / activities are managing their risks effectively
3. actions required to mitigate risks are being taken, within an appropriate timescale.

4.3 The approach taken to achieving this is to always look for assurance at the high level first before undertaking detailed testing as this is the most cost effective way to work. So for example, the arrangements for monitoring the delivery of capital projects would be assessed (1) before auditing individual contracts for compliance with good practice guidance (2).

4.4 Service / activity risks are assessed via a combination of:

- risk registers where they are complete and up to date
- an audit risk assessment which enables account to be taken of:
  - **Corporate importance:** which it is a measure of the extent to which the Council depends on the correct running of the system to achieve its strategic objectives so it considers:
    - the impact on the Council of any inability to achieve management defined service objectives should the system or process fail
    - the financial exposure or materiality of the area
    - the consequential impact, either directly or indirectly, on other systems and processes.
  - **Corporate sensitivity** which takes into account:
    - the sensitivity and confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output
    - any legal and regulatory compliance requirements
    - any management concerns and sensitivities.
  - **Inherent risk** which considers:
    - the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure
    - the particular service sector, nature of operations, the pace of change and the relative complexity of the system
    - the inherent vulnerability of a system, service or process that cannot be altered only mitigated by the quality of controls in place.

- **Control risk** which assesses:
  - the current level of control risk based upon the results of past audits of the control environment under review
  - the operating history and condition of systems and processes as well as knowledge of management controls to minimise exposure to risk.
- an evaluation of any independent assurance regarding a service obtained from another source e.g. external inspection or assessment against a recognised national standard
- discussions with senior management.

## 5. Internal Audit Strategy for 2011/12

5.1 The internal audit strategy is attached at **Appendix 1** and it structured around the three areas outlined above.

5.2 With regards to **Managing the Business**, the focus will be on ensuring that the Council adequately maintains the critical business management processes that enable it to deliver the services required. This will include some overall assessment of how well these processes are operating at both a strategic (via the assurance statement) and operational level (via manager assurance statements).

5.3 Specific audits will then be considered on the following business management processes, as these are potentially the highest risk areas, to provide some assurance that:

- business continuity arrangements remain fit for purpose during this period of change and sufficient evidence is obtained of this with regard to services provided:
  - internally by the Council
  - by significant contractors, partners and other like the voluntary sector and
- budgetary control and financial reporting continues to operate well during a period of significant financial restraint
- accurate and reliable management information is provided to officers and members on which to make decisions and monitor performance
- partnerships have appropriate arrangements in place to manage their business effectively, particularly regarding the Local Strategic Partnership. Opportunities for further cross partner audit work will also be reviewed
- good project management arrangements are consistently applied as this is critical to the successful delivery of:
  - significant changes to service configuration or service delivery mechanisms

- capital programme schemes which are high risk from a financial and often reputational perspective
- the Council is not exposed to risk where grant funding has been received to resource a project. Compliance with grant instructions will be reviewed in all cases where such funding is significant
- revenue and capital procurement complies with Contract Procedure Rules, providing value for money and where appropriate that there is effective contract management and monitoring. As more services are provided by others the adequacy of service specifications will also be reviewed.

5.4 Annual reviews of the financial systems and schools will also be completed.

5.5 With regards to **Managing Service Delivery Risk**, the intention is to allocate each directorate a block of time so that its work programme can be developed as risks arise. The team will be looking to work closely with Corporate Directors and their Head of Service in order to do this.

5.6 Emphasis will be placed on ensuring that adequate controls are:

- retained within service delivery systems that are considered to critical or high risk
- built into any systems and processes that are subject to significant change e.g. through redesign or changes in staff
- operating effectively within systems that carry high fraud and corruption risks as experience suggests that financial losses increase during periods of hardship. A specific programme of work will be undertaken covering those services identified as high risk in this area that will include some pro-active audit testing.

## 6. Internal Audit Plan for 2011/12

6.1 The impact of next year's financial settlement on individual services won't be known until early on 2011. At this point:

- the risk assessment that supports the internal audit plan will be updated to take account of this based on the criteria outlined above; and
- a decision will be made about where internal audit resources will be allocated in 2011/12.

6.2 This will be reflected in a more detailed internal audit plan which will be produced for the March 2011 Audit Committee. This will also take account of the recently published CIPFA document, The Role of the Head of Internal Audit in Public Services Organisations 2010. A local government specific version is currently being developed to place the CIPFA Code of Practice for Internal Audit in Local Government in the UK (2006).

6.3 However the core areas of work outlined in the internal audit strategy that will start in the final quarter of 2011 and continue into 2011/12 relate to:

- project and contract management

- grant funding
- fraud and corruption.

6.4 Manager Assurance Statements will also be subject to a more robust audit in early April.

## **7. Corporate Implications**

### **7.1 Contribution to Council's Aims, Priorities and Objectives**

Audit work contributes to the delivery of all corporate aims, priorities and objectives.

### **7.2 Financial Implications**

The audit plan will be delivered within approved budgets.

### **7.3 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.

### **7.4 People and Property Implications**

None

### **7.5 Consultation**

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

### **7.6 Equalities Impact Assessment**

The Council's equality policy is applied both in terms of internal operation of the section as well as the manner in which staff interact with other sections. Equality is also an area that is subject to audit scrutiny

### **7.7 Risk Assessment**

Failure to be able to undertake sufficient work to give an opinion or to complete the audit plan due to:

- the external supplier not delivering contracted in work within the required deadlines to the expected quality standards;
- a reduction in staff resources either through budget cuts or sickness without additional funds to purchase cover; or
- a significant number of unplanned investigations arising.

## 7.8 Value for Money

Value for money features in the audit plan as a corporate activity and is also considered within each audit if relevant.

Internal Audit also considers whether it provides a value for money service annually through benchmarking and performance indicators.

## 7.9 Community Safety Implications and Environmental Impact

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

## 8. 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

## 9. Attachments

- Appendix 1: Internal Audit Strategy