

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of Corporate Director Support Services

to

**Audit Committee**

on

**26 September 2012**

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## Summary Audit Progress Report

Executive Councillor – Councillor Moring

*A Part 1 Public Agenda Item*

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### 1. Purpose of Report

- 1.1 To present the final summary progress report on the delivery of Internal Audit's strategy and performance targets for 2011/12 and the current position with regards to 2012/13.

### 2. Recommendation

- 2.1 **The Audit Committee accepts the report.**

### 3. Performance Targets

- 3.1 **Appendix 1** reflects the year end performance against the key targets for the financial year 2011/12, which shows that:

- productivity for the joint team was above target at 76% and time lost through sickness absence remained low
- 78% of the audit plan was either complete or substantially complete by 31 March 2012
- External Audit was able to rely on Internal Audit's work and build upon it for its own purposes and the service was compliant with the CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (as reported in June 2012).

- 3.2 **Appendix 2** reflects current performance against the targets for the financial year 2012/13 which shows that at 31 August 2012:

- productivity for the joint team was above target at 84% and time lost through sickness absence remains low
- work continued for the first six months of 2012/13, to complete the financial systems audit relating to the 2011/12 financial accounts
- the planning phase has been completed for a number of jobs and start times are being agreed for this work
- clients have been satisfied with work completed.

### ***Change in target***

- 3.3 The target for delivering 90% of the audit plan by 31 March each year has been changed to 30 April. This is to reflect the fact that in recent years, financial systems reports issued have covered blocks of financial systems rather than individual ones, which is a change in approach.
- 3.4 As audit testing needs to include March's transactions, reports are drafted and finalised in April. As this block of work is approximately 30% of the audit plan, the target has been amended to reflect this timetable.

### ***Change in priorities***

- 3.5 The Audit Plan was reprioritised in year to focus on two key areas of work, of financial systems and schools.

### ***Financial systems***

- 3.6 In 2011/12 and 2012/13, a significant amount of time has been spent on auditing financial systems. A major part of this was producing robust flowcharts for each system that define their critical control actions and management controls.
- 3.7 The flowcharting took a considerable amount of time as in some cases processes were still being finalised following Agresso's implementation. To create the flowcharts, Internal Audit worked with operational staff and the Agresso Support Team to identify and document the complete series of controls in systems.
- 3.8 Following this work, there is now a suite of flowcharts covering the key work flows within each of the significant financial systems.

### ***Schools***

- 3.9 Impacting on planned work during 2011/12 and 2012/13 was two unplanned investigations into financial management and governance arrangements at schools. Once the investigations have been completed, a full audit of their financial and governance arrangements will need to be completed and an action plan agreed with the respective Governing Bodies to move the schools forward.
- 3.10 The Audit Programme for 2012/13 already reflects a change in the manner in which Internal Audit is going to work with Children and Learning Department regarding schools audits. The themes arising from these investigations have been taken into account in producing a joint programme of work.

## **4. 2012/13 Audit Plan**

- 4.1 The Local Safeguarding Children Board has requested that Internal Audit co-ordinate an audit of whether actions arising from a serious case review have been implemented properly by all the relevant partners. This work is currently being initiated and is planned to start in October 2012.
- 4.2 Internal Audit has also been in discussion with the relevant services about the up and coming changes to the:
- council tax benefits arrangements
  - National Non-Domestic Rates / Universal Credit arrangements.

- 4.3 The intention is to work with these services, reviewing and challenging system design as it evolves.
- 4.4 A review is currently being undertaken of the impact on the 2012/13 audit plan of recent changes in the audit staff resources available, completing the 2011/12 systems work and unplanned investigations. An updated position will be reported to the January 2013 Audit Committee.

## 5. Implementing recommendations made

- 5.1 As part of completing the financial systems work for 2011/12, an exercise has been undertaken to cleanse the database of outstanding recommendations and:
- close those that are no longer relevant (mainly because they related to systems and processes no longer used due to the implementation of the new integrated financial ledger (Agresso) during the year)
  - close those relating to previous years that have also been included in reports this year as they were identified as still to be addressed
  - roll forward those that are still relevant but did not arise during the audit work undertaken this year.
- 5.2 Financial system action plans issued this year now reflect all the outstanding control issues that need to be dealt with.
- 5.3 The table below shows the profile of recommendations that were due to be implemented this round and whether this was achieved:

	<b>PRIORITY 1 (HIGH)</b>	<b>PRIORITY 2 (MEDIUM)</b>	<b>TOTAL</b>
Due to be implemented in the quarter	13	35	<b>48</b>
Less those relating to key financial systems (see paragraph 5.1 above)	10	33	<b>43</b>
Number left to be audited this quarter	3	2	<b>5</b>
Fully implemented – see 5.4 below	1	2	<b>3</b>
Further work required - see 5.5 below	2	0	<b>2</b>

**Note: Only two categories of recommendations are now reported upon.**

- 5.4 The priority 1 recommendation regarding Energy Management to update and approve the Energy Management policy (now the Low-Carbon Energy Strategy) has now been completed with the Low-Carbon Energy Strategy being approved by Cabinet on 4 September 2012.
- 5.5 The two priority 1 recommendations that require further evidence and or further work before they can be signed off as fully implemented are regarding the Local Safeguarding Children Board – Serious Case Reviews. The recommended submission of evidence to the Case Review Panel to support the implementation of recommendations from a serious case review has not been completed by all agencies. An approach will be agreed with the Local Safeguarding Children Board to ensure this is addressed.

## **6. Other work**

6.1 Other activities Internal Audit has been involved in since the last report to the Audit Committee in March 2012, includes:

- completing work outstanding from the 2011/12 audit plan where they were still relevant, including unplanned work started during the period
- completing the audit programme for South Essex Homes as well as producing all the yearend reports for its management team and Audit Committee
- setting up audit work for the new year for the two councils and South Essex Homes
- dealing with issues arising from the Head of Internal Audit assuming line management responsibility for the Corporate Fraud Investigation Team, which includes reviewing working practices and undertaking a joint team restructure
- starting work on an updated Anti Fraud Service Strategy
- working on a project at Castle Point Borough Council to simplify and better integrate business management arrangements for service managers, which includes updating the approach to risk management that will also be of relevance to the Council
- producing a role profile for the co-opted Audit Committee member vacancy and approaching public sector partners for potential expressions of interest.

## **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 will be delivered within the approved resource budget.

7.3 Legal Implications

The Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6 states:

1. A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
2. Any officer or member of a relevant body must, if the body requires:
  - a. make available such documents and records as appear to that body to be necessary for the purposes of the audit; and
  - b. supply the body with such information and explanation as that body considers necessary for that purpose.
3. A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.

4. The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control by the relevant committee or body this has been delegated to.

The standards required of internal audit are set out in the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy.

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 Regulations. The Code of Practice for Internal Audit in Local Government in the UK (2006) CIPFA (the Code) recommends that progress against the audit plan is regularly reported to Members. This report contributes to discharging this duty.

#### 7.4 People and Property Implications

People issues that are relevant to delivering the Audit Plan are raised in the body of the report.

#### 7.5 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.

#### 7.6 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.

#### 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 which may impact of the Council's ability to deliver its corporate, aims, priorities and objectives.

Failure to complete the Audit Plan due to:

- the external supplier not delivering contracted in work within the required deadlines to the expected quality standards
- temporary or permanent reduction in staff resources either through budget cuts, departures or sickness without additional funds to purchase cover or
- a significant number of unplanned investigations arising meaning staff time is spent on those investigation rather than the reviews included in the audit plan.

#### 7.8 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.

#### 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 (England) Regulations 2011
- CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010.

## **9. Appendices**

- **Appendix 1: 2011/12 Performance Indicators**
- **Appendix 2: 2012/13 Performance Indicators**
- **Appendix 3: Delivering the 2012/13 Audit Plan**