

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**8 January 2014**

Report prepared by: Linda Everard, Head of Internal Audit

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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 update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2013/14.

### 2. Recommendation

- 2.1 **The Audit Committee notes the progress made in delivering the Internal Audit Strategy for 2013/14.**

### 3. Internal Audit Performance Targets

- 3.1 **Appendix 1** contains details of performance against the 2013/14 targets as at 22 November 2013. In summary this shows that:
- the cost of the service is competitive
  - productivity is on target and time lost through sickness absence remains very low
  - the audit plan is being delivered in line with expectations
  - overall clients remain satisfied with the service provided and the quality of the work.

### 4. Audit Plans

- 4.1 **Appendix 2** shows the current status of audits planned to be delivered in the 2013/14 financial year. Where this has changed since the last report, it has been highlighted in bold for ease of reference. Those audits left blank are still to be resourced and commence.
- 4.2 The last phase of the overall Agresso project assurance work was completed in August 2013. Internal Audit will carry out an assessment of operational security, processing and resilience controls in January 2014.
- 4.3 Two unplanned reviews commenced during the period on the Direct Payments for Mental Health Services system and the Council's operating arrangement with the South East Alliance of Landlords (SEAL).

4.4 **Appendix 3** summarises the key themes arising from:

- the audits of Barons Court and Edwards Hall Primary Schools
- Schools Thematic Review: Purchasing and Procurement
- Public Health Contract Management
- Penetration Testing of Council IT Systems
- Continuous Auditing and Assurance Techniques (CAATs)
- Local Transport Plan Grant
- Safer Modes of Transport for Elderly Road Users Grant
- Troubled Families Programme, Payments by Results Scheme for Local Authorities Grant.

4.5 Since the last Audit Committee, no limited assurance opinions have been issued with regard to Council audits and the three grants claims have been satisfactorily signed off. At the time of reporting, one school had received a limited assurance opinion as did another with regards to the site visit undertaken as part of the schools' thematic review of purchasing and procurement.

4.6 Good progress is being made in designing and implementing a range of recurring data analytics in relation to the Council's core financial systems.

*Resourcing*

4.7 The current external supplier has been unable to provide all the additional resources required for the remainder of the financial year. Arrangements have been made to secure staff from an alternative source.

**5. Implementing recommendations made**

5.1 The reports followed up this quarter are:

REPORT NAME	AGREED			OUTSTANDING			
	H	M	Total	H	M	N/A	Total
Agresso Software Application, Automated Control Framework	6	4	<b>10</b>	0	0	0	<b>0</b>

*N/A = no longer applicable*

5.2 Satisfactory arrangements have been established to address all the control issues identified in the original Agresso Software Application, Automated Control Framework report.

**6. UK Public Sector Internal Audit Standards**

6.1 The UK Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013, supplemented by a CIPFA Local Government Application Note which was published in April 2013. The internal audit service is required to apply the requirement of both of these documents.

6.2 The Head of Internal Audit now has to state annually whether the service 'conforms with' the PSIAS. In the original Institute of Internal Audit Standards, (which the PSIAS are based upon), 'non-conformance' only had to be disclosed when it impacted on the overall scope or operation of the internal audit activity.

However, the UK PSIAS require all instances of non-conformance to be reported to the Audit Committee. Therefore the Head of Internal Audit annual report must include:

- the results of the quality assurance and improvement programme, as well as progress made in implementing action contained in prior improvement plans
- any instances of non-conformance with the PSIAS.

6.3 In addition, the more significant deviations from the PSIAS may be included in the Council's Annual Governance Statement.

6.4 At present, further guidance is anticipated on:

- how strictly the requirement to report upon 'any instances of non-conformance' needs to be applied in practice
- how to define 'significant deviations from the PSIAS' in relation to the Council's Annual Governance Statement.

6.5 Otherwise the requirements of the PSIAS are not significantly different from the CIPFA: Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the previous standards). Appendix 5 of the CIPFA Application Note compares the two sets of requirements and is available if required.

6.6 The Head of Internal Audit has undertaken an initial assessment of compliance with the new PSIAS. As expected, the internal audit service operating arrangements substantially comply with the requirements. Given the more explicit nature of some of the standards, the main issues that have come out of this review, are the need to:

- amend where necessary, the team's operational documentation to ensure it references to and reflects the terminology of the new standards
- review the level and type of evidence currently being produced to ensure this is still sufficient and suitable to demonstrate compliance with the PSIAS.

6.7 Therefore, in summary, the main actions required include:

- ensuring consistency between the Internal Audit and Audit Committee documentation taking into account the PSIAS and new guidance on audit committees due out this year
- refreshing the team's ethical standards statement, strategy, audit approach, quality assurance and improvement programme and content of the Head of Internal Audit's annual report to reflect the requirements of the PSIAS
- determining the arrangements for involving the Chief Executive and Chair of the Audit Committee in the Head of Internal Audit's annual appraisal
- adding a standard review in the work programme covering the Council's ethical governance arrangements
- in due course, arranging for an appropriate external assessment of the team's performance against the PSIAS.

6.8 The full Action Plan is contained in **Appendix 4**.

6.9 The assessment will be updated towards the end of the financial year and reported upon in the Head of Internal Audit's Annual Report for 2013/14.

## **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 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.

From 1 April 2013, internal audit services are required to comply with the Public Sector Internal Audit Standards (the Standards).

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 Standards require that progress against the Audit Plan is regularly reported to Members. This report contributes to discharging this duty.

Therefore failure to do so would be a breach of a statutory duty.

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

People and property 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 / Director, 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 / Director 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.

Equality Impact Assessments are completed on relevant policy / strategy documents whenever they are updated.

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

The main risk the team is currently managing which could impact on its ability to complete the Audit Plan is the possibility that the external supplier will not deliver contracted in work within the required deadlines to the expected quality standards. Additional time has been built into the Audit Plan this year for managing this contract.

## 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 periodically.

## 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
- 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
- CIPFA / SOLACE: Delivering Good Governance in Local Government - Framework.

## 9. Appendices

- **Appendix 1: Internal Audit Performance Indicators 2013/14**
- **Appendix 2: Internal Audit Plan 2013/14**
- **Appendix 3: Key Themes Arising from Audit Reviews**
- **Appendix 4: Compliance with the UK Public Sector Internal Audit Standards (PSIAS) 2013/14: Action Plan**