

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director for Corporate Services

to

Audit Committee

on

26 March 2014

Report prepared by: Linda Everard, Head of Internal Audit

Internal Audit Charter, Strategy and Audit Plan 2014/15

Executive Councillor – Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present to the Audit Committee the Internal Audit Charter with the supporting Strategy and proposed initial Audit Plan for 2014/15.

2. Recommendation

- 2.1 **The Audit Committee approves the Charter, Strategy and proposed initial Audit Plan for 2014/15.**

3. Background

- 3.1 The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a risk based plan that:
- takes into account:
 - the requirement to produce an annual internal audit opinion
 - the Council's assurance framework
 - incorporates or is linked to a strategic or high level statement of how:
 - the service will be delivered and developed in accordance with the Charter
 - it links to the Council's objectives and priorities.
- 3.2 The rest of the report outlines how these requirements are being met.
- ## **4. Charter, Strategy and Audit Plan**
- 4.1 The details of the service proposed for 2014/15 are set out in the:
- Charter (Appendix 1) that defines the purpose, authority and responsibility of the service
 - Strategy (Appendix 2) that outlines how the service will be delivered in line with the Charter so as to meet the requirements of the Standards. The Strategy includes the:
 - Proposed Initial Audit Plan for 2014/15 (Appendix 2a)
 - Audit Assurance in relation to Corporate Risks (Appendix 2b)

- Performance Indicators (Appendix 2c)
- How We Will Work With You Statement (Appendix 2d).

5. Charter

5.1 Amendments made to the Charter, which was presented to the Committee in September 2013, have been highlighted in bold for ease of reference. These are minor, but are intended to clarify:

- what is meant by 'consultancy work' and how this will be dealt with should it arise
- the link to the Strategy in setting out the framework to be used for evaluating the Council's governance, risk management and control arrangements
- the Head of Internal Audit's relationship with the statutory officers of the Council (i.e. the Head of Paid Service, the Monitoring Officer and the Section 151 Officer).

6. Strategy and Audit Plan

6.1 The Strategy is a new document which sets out:

- the ethical framework audit staff are expected to comply with
- the basis for the audit opinion and the audit approach to be adopted
- the approach to assessing risk and assurance as part of the audit planning process
- the audit plan, resource assessment and performance indicators
- how the service will work with key staff, members and groups within the Council
- how the team will operate on a day to day basis
- how it will assess its compliance with relevant professional standards and report upon this.

6.2 As part of this work, the ethical statement used by the service has been updated in line with the Standards. All staff will have signed a new statement by the 31 March 2014.

6.3 The basis for the audit opinion has not changed but the framework used for evaluating the Council's governance, risk management and control arrangements is now much more explicit. In discussion with management, audit assignments will be designed to provide assurance in respect of one or more of the following:

- the adequacy of system design
- whether key controls within a system, process or service are operating effectively
- whether outcomes from systems, processes or services are in line with expectations.

6.4 The opportunity has been taken to completely update the audit risk assessment to take into account restructures that have occurred in recent years, changes in the manner in which services are now delivered and the impact of budget cuts on levels of spend.

- 6.5 All operational services have been assessed against six key risks i.e. financial, public impact, operational importance, legal and political, people and property and inherent. This information has been used to determine the level of assurance required on an ongoing basis regarding the operation of each service (i.e. very high, high, medium or low). Independent sources of assurance regarding the operation of services have also been identified, including previous audit reports. These will be evaluated when activities are identified as requiring an audit.
- 6.6 The audit plan attached at Appendix 2a is an initial assessment of the work to be completed this year. It is possible that additional resources may become available and therefore jobs can be added into the plan, later in the year once:
- staffing structures and operational working arrangements for the service have been finalised between the Council and Castle Point Borough Council
 - working arrangements have been established with a new external supplier and the first batch of work has been delivered
 - the proposed recruitment exercise has been completed and the impact on the potential resources available to the team have been assessed
 - the new working arrangements with the Counter Fraud & Investigations service to be provided by Thurrock Council are established
 - there is greater clarity about the opportunities going forward, for external audit to rely on internal audit work.
- 6.7 As is usual practice, any proposed future amendments to the audit plan will be reported to the Audit Committee for approval.
- 6.8 For the first time, a separate appendix has been produced that identifies where audit reviews provide some assurance regarding the management of corporate risks.

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

Financial risk is one of the categories used when assessing the risk profile of all the activities that the Council delivers.

The audit plan will be delivered within the agreed budget for the service.

7.3 Legal Implications

The Council is required, by the Accounts and Audit (England) Regulations 2011, Section 6, to maintain an adequate and effective internal audit function, that complies with the relevant professional standards and report upon this annually to the Audit Committee.

The Standards require the Audit Committee to approve (but not direct) the annual internal audit plan and then receive regular updates on its delivery. Therefore this report discharges that duty.

7.4 People and Property Implications

People and property risk is another of the categories used when assessing the risk profile of all the activities that the Council delivers.

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

Equality Impact Assessments are completed on relevant internal audit service 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 that may impact on the Council's ability to deliver its corporate aims and priorities. This risk will be mitigated going forward by the work of the Good Governance Group.

The key team risks are:

- its inability to recruit to a vacant post
- that external suppliers won't deliver contracted in work within the required deadlines to the expected quality standards.

Time has been built into the audit plan for managing external contactors. A further recruitment exercise is planned for April / May 2014. The impact of both of these factors is to reduce the days available to deliver the audit work.

Internal Audit maintain an audit risk assessment which covers all the services that the Council delivers. It uses this to evaluate how important it is for the Council to have independent assurance over their operation. This is discussed with senior management and then used to inform the audit plan that is produced for the year.

7.8 Value for Money

Internal audit undertook a service review in 2013/14 which demonstrated that the cost of the service was competitive. This, taken in conjunction with the other indicators reported upon quarterly, demonstrates that the service provides value for money.

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 Charter
- Appendix 2: Internal Audit Strategy
 - Appendix 2a: Internal Audit Plan for 2014/15
 - Appendix 2b: Audit Assurance in relation to Corporate Risks
 - Appendix 2c: Internal Audit Performance Indicators 2014/15
 - Appendix 2d: How We Will Work With You Statement