

Southend-on-Sea Borough Council

Agenda
Item No.

6

Report of Corporate Director for Corporate Services
to
Audit Committee
on
25 June 2014

Report prepared by: Linda Everard, Head of Internal Audit

Head of Internal Audit Annual Report 2013/14

Executive Councillor – Cllr Ron Woodley

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide:

- the rationale for and an audit opinion on the adequacy and effectiveness of Southend-on-Sea Borough Council's (the Council's) framework of governance, risk management and control for the 2013/14 financial year
- a statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

2. Recommendation

2.1 The Audit Committee:

- **accepts the Head of Internal Audit's Annual Report for 2013/14**
- **ensures that the contents of this report are appropriately reflected in the Council's Annual Governance Statement.**

3. Background

- 3.1 The Head of Internal Audit's Annual Report and Opinion provides the Council with an independent source of evidence regarding both the design of its governance, risk management and control framework and how well it has operated throughout the year.
- 3.2 The opinion is predominantly based upon the audit work performed during the year as outlined in the risk based audit plan agreed with the Corporate Management Team and the Audit Committee. All individual audit reports are agreed with the relevant Group Managers, Heads of Service and Corporate Directors / Director before being finalised.
- 3.3 The opinion and summary findings from audit reviews are reported to the Corporate Management Team and the Audit Committee throughout the year.

3.4 The Head of Internal Audit has not reviewed all risks and assurances relating to the Council's activities in coming to her opinion.

4 Head of Internal Audit Opinion for the year ended 31 March 2014

4.1 ***In my opinion, the governance, risk management and control framework designed and operated by the Council throughout the year in order to deliver its objectives is adequate.***

4.2 **The basis for forming this opinion is an assessment of:**

- the design and operation of the:
 - underpinning governance and assurance framework
 - key financial systems.
- the range of individual opinions arising from risk based and other audit assignments that have been reported during the year taking into account the relative significance of these areas
- whether management properly implement recommendations to mitigate identified control risks within reasonable timescales.

5. Supporting Commentary

5.1 **Appendix 1** summarises the opinions issued on the audit work undertaken this year and assurance obtained from other relevant sources. Overall this shows that the majority of areas audited had operating environments that were either well or adequately controlled. Where necessary, recommendations have been made to improve the control environment.

5.2 The following paragraphs:

- summarise findings from blocks of work undertaken during the year
- highlight some the areas requiring improvement
- include details of assurance obtained from other relevant sources.

Governance and Assurance Arrangements

5.3 The **Good Governance Group** was established in November 2013, with a clear Terms of Reference that has been agreed by Corporate Management Team which requires it to ensure:

- the Council maintains arrangements that are fit for purpose and comply with good practice requirements
- that sufficient assurance is available throughout the year to support the production of the Annual Governance Statement.

5.4 The Group has an appropriate membership of senior officers who are responsible for maintaining the main corporate business management processes (governance processes) that are then applied at service level.

5.5 The main areas of work for the Group to date have been to:

- complete an evaluation of compliance with the CIPFA / SOLACE Delivering Good Governance guidance

- sign off on the Manager Assurance Statements used in 2013/14 and review a summary of the results
 - challenge the draft Annual Governance Statement prior to its submission to Corporate Management Team for consideration.
- 5.6 As its work develops, this Group has the potential to provide a good level of assurance on the adequacy of the Council's key governance processes.
- 5.7 Key activities on the Group's work programme for 2014/15 include:
- determining whether any action is required as a result of the exercise to compare the Council's arrangements with the Delivering Good Governance guidance
 - reviewing the arrangements for getting assurance from services regarding their application of these arrangements throughout the year, as the current Manager Assurance Statements need updating.
- 5.8 The Council continues to maintain a **Corporate Risk Register** that is regularly taken to the Corporate Management Team, and twice a year to the Audit Committee. Heads of Service are required to identify key risks in their service plans although there is no standard template for service group or team plans so it is less clear how well these are identified and managed at that level. Risks are also expected to be considered when undertaking projects and drafting reports for senior management or members to consider.
- 5.9 Nevertheless, the Council's **risk management arrangements** have not been subject to review for the last few years during which time there have been organisational restructures and changes in roles for some staff.
- 5.10 Action is planned in 2014/15, to:
- refresh and update where necessary the Risk Management Policy, Strategy and any other supporting guidance that is still relevant and useful
 - integrate a way of evaluating risk appetite and tolerance into the framework, building on the initial awareness raising sessions already delivered.
- 5.11 There is a need to clarify expectations of **how to report 'risk' when producing reports for management or members**. At present, the approach is inconsistent at best and may not provide the information required for the decision makers to fully understand the risks involved (either mitigated or residual). This will be considered in the broader context of reviewing the format of the reporting template currently being used.
- 5.12 A potential risk that management needs to be aware of relates to managers taking on responsibility for activities they are less familiar with as the organisation contracts. An important source of evidence that service, process and systems are operating as they should is obtained through targeted and proportionate management checks undertaken by managers. If managers aren't clear what checks need to be undertaken, the assurance available to management that controls within services are adequate and effective could be weakened.
- 5.13 The **Information Commissioner's Office** confirmed during the year that good progress has been made implementing the recommendations arising from the original review, thus further strengthening the arrangements in this area.

Key Financial Systems

- 5.14 The objective of the financial systems work changed this year to just focus on those significant key controls that would help prevent or detect material errors in the financial statements. Therefore the audit opinions no longer give a view on whether the whole system is appropriately designed and operating effectively.
- 5.15 Nevertheless, it was possible to conclude that the key controls in majority of systems reviewed have operated consistently and produced information that the Section 151 Officer can place reliance on when producing his statement of accounts for 2013/14.
- 5.16 The main areas requiring attention include:
- further improving the rolling programme of independent, secondary checks of processed Housing Benefit applications and changes of circumstances for compliance with relevant regulations
 - further developing the bank reconciliation process so all component parts are fully reconciled (General Ledger system)
 - automating the arrangements for authorising and paying Foster Carers', Adoption Allowances and Residence Orders (Accounts Payable)
 - automating a number of payroll processes that are currently being performed manually. Project implementation is planned for 1 April 2015.

Service Delivery Risks

- 5.17 The arrangements for both project and change management with regard to the **Agresso implementation project**, improved throughout the year. By July 2013, the Agresso Change Advisory Board was established and operating well and has continued to do so. This type of change management control now needs to be applied to all of the other Council IT systems, as this remains a critical potential weakness in the control framework. The last phase of the overall Agresso project assurance audit work was satisfactorily completed in August 2013.
- 5.18 A report was issued in December 2013, concluding that all the recommendations made to strengthen the design and operation of the automated control framework within Agresso, had been implemented.
- 5.19 It was possible to conclude as at the 31 March 2014, that a good level of control is in place to support the security, resilience and integrity of Agresso processing and related operations.
- 5.20 A key objective for **South East Alliance of Landlords (SEAL)** is to improve the quality of housing in the rented sector. An initial review identified that some performance management arrangements had been established but that they should be strengthened in a proportionate and focused way. This would enable SEAL to more effectively demonstrate the impact of its activities to the Council and other interested parties. The improvements suggested mainly involved agreeing who performance was going to be reported to and how:
- SEAL member compliance with the requirements of the Code of Conduct was going to be evidence and checked
 - improvements in reducing anti social behaviour and minimising refuse problems were going to be measured and reported.

- 5.21 During the year, opportunities were identified to further strengthen arrangements for making all direct payments, which included:
- the Council satisfying itself that the mental health care assessment have been independently verified
 - improving controls so that the same person can't set and authorise care packages
 - clarifying performance expectations of the contractor used by the Council for providing advice, support and payroll services if required, to clients receiving a direct payment.
- 5.22 Action was taken to strengthen the controls within the system promptly as the audit progressed.
- 5.23 The Policy on **resident parking management schemes** clearly sets out the decision making process and requires a strong mandate from the local population before a scheme will be approved. Action is being taken to ensure there is greater management control over the development, implementation and management of any future schemes.

Schools Audits

- 5.24 A two year **programme of schools audit** commenced in 2013/14 with a view to providing assurance on the adequacy and effectiveness of the finance, management and governance arrangements of the school.
- 5.25 16 schools were audited in 2013/14, of which:
- 75% were assessed as having good or adequate arrangements overall
 - 25% needed to significantly improve their overall arrangements.
- 5.26 An analysis of the 10 areas reviewed has highlighted some themes which will be reported back to the school community in due course. The following areas most commonly need to be strengthened by schools, so that:
- the governing body is properly formed and governors are effectively recruited and trained
 - roles, responsibilities and powers are clearly defined and enforced
 - confidential, personal and sensitive information is effectively managed and secured
 - assets are secured and maintained
 - there are sufficient, appropriately qualified and experienced finance staff to plan, process and manage financial arrangements effectively and efficiently
 - financial transactions are accurate, complete, authorised, substantiated, made securely and accurately recorded.
- 5.27 Good progress has been made by **Chase High School** to implement outstanding recommendations which have strengthened the controls around governance and financial management. These now need to become embedded in the school's day to day operations. This will be tested in the audit review planned for the Autumn Term 2014.
- 5.28 The **School Support and Improvement Board** was reconstituted early in 2013 into its current form, and now includes representatives from all services that have regular contact with the school community.

- 5.29 During the year, the Board has considered how effectively to:
- produce a risk assessment, in a comparable manner, that summarises each services' view of how each school is performing
 - communicate the results of its work to the school community and the Council.
- 5.30 Now that there is more clarity around this operational framework, the Board has the potential to provide:
- individual schools with a rounded view of their strengths and potential development areas relating to both academic achievement as well as their finance, management and governance arrangements
 - the Council with a more robust and overall view of the performance of schools in the Borough.
- 5.31 A review to assess whether schools were **purchasing and procuring** effectively highlighted that there is significant scope for a number of schools to arrange their biggest areas of non-staffing spend and most frequently used suppliers into formal, on-going contracts. This has the potential to reduce both costs overall and staff time spent on raising individual orders.
- 5.32 **Southend Adult Community College** needed to:
- develop a more formal documented financial management framework
 - improve budget monitoring and reporting by including more forward looking information
 - improve separation of duties and the independent checks undertaken when authorising financial transactions and reviewing reconciliations.
- 5.33 During the year, reasonable progress was made in implementing the recommendations. The college is now well placed to address the remaining issues, which relate to the content and format of financial reporting and authorisation checks of financial transactions, key reconciliations and budgets.

Grant Claims

- 5.34 The main area of work this year has been the audit of the quarterly returns relating to the **Troubled Families Programme, Payments by Results Scheme for Local Authorities**. This primarily involves confirming that those families considered for funding meet the defined criteria for entering and leaving the scheme.
- 5.35 The Internal Audit team has worked very closely with the Head of the Youth Offending Service who administers this scheme to ensure that claims are only made for families where there is suitable evidence to support them. This process has developed over the year and is now starting to be embedded into the service's arrangements.
- 5.36 The Department for Communities and Local Government is starting to audit councils who are submitting claims for this funding. Where councils can not substantiate claims made, there are indications that they may be required to repay some of the grant. As a result of the joint work done to develop the Council's arrangements, it is unlikely that the Council will find itself in this position.

Implementation of Agreed Action Plans

- 5.37 In 2013/14, Internal Audit moved to revisiting action plans in audit reports once the majority of the implementation dates had passed. Progress made is reported to management team and the Audit Committee each quarter. Consideration will be given to ensuring the departmental arrangements for monitoring the implementation of action plans are still robust following the changes in both departmental and service structures in recent years.

6. Internal Audit Service Performance Assessment

Audit Plan

- 6.1 **Appendix 2** shows the final status of the 2013/14 Audit Plan (which is a comparison of actual work completed against work planned).
- 6.2 As previously reported, a key factor in the team's ability to deliver the Audit Plan this year has been the performance of the external supplier. As noted in Appendix 2:
- some audits allocated to the external supplier were not delivered
 - the in-house team has had to do significant amounts of additional and unplanned work in some areas before draft reports could be issued, which has impacted on its ability to deliver fully its own work programme.
- 6.3 This has adversely impacted on the level of assurance the service can provide the Council this year regarding the adequacy and effectiveness of its arrangements.
- 6.4 The service is buying in additional and specialist resources from a new external supplier for 2014/15.

Conformance with Professional Standards

- 6.5 As reported during the year, Internal Audit was required to adopt the UK Public Sector Internal Audit Standards (the Standards) from 1 April 2013. As the guidance notes supporting the Standards were issued after April 2013, it was not possible for the service to fully meet these requirements for the whole year.
- 6.6 The initial internal performance assessment by the Head of Internal Audit did not identify any significant areas that did not conform to the Standards, as reported to the Audit Committee in January 2014. Attached at **Appendix 3**, is the current status of the actions arising from this which shows that substantial progress has been made in addressing them.
- 6.7 The main areas still requiring some attention in 2014/15 are:
- amending aspects of the Audit Manual to reflect the new or more explicit requirements of the Standards and the working practices currently being used
 - reporting upon the assurance mapping work undertaken:
 - as part of the audit planning exercise
 - when mapping corporate oversight and management groups.
 - evaluating the design, implementation and effectiveness of the Council's ethic related objectives, programmes and activities.

Disclosures

- 6.8 The Standards require the Head of Internal Audit to include certain disclosures in the Annual Report. Therefore I can confirm that:
- I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year. As required by the Standards, this consisted of:
 - ongoing supervision and review of individual audit assignments
 - reporting on a set of performance targets to the Audit Committee each quarter
 - undertaking an internal performance assessment which evaluates conformance with the Standards.
 - the Internal Audit service has:
 - operated in a manner that maintains its organisational independence throughout the year
 - been able to determine the scope of reviews, perform the work and report on its findings without interference neither has there been any inappropriate resource limitations imposed upon it.
- 6.9 Senior management has chosen not to implement the Standard relating to the appointment and removal of the Head of Internal Audit as the Council's normal HR practices would already mitigate this perceived potential risk.

Performance Indicators

- 6.10 The team have delivered against the majority of the 2013/14 performance indicators (refer to **Appendix 4**) in that:
- the cost of the service remains competitive
 - staff productivity has been high and sickness absence low throughout the year
 - although the 31 May 2014 target was missed, 92% of planned work was completed by 14 June 2014. Given the significant resourcing issues experienced during the year, this was still a good performance overall by the team
 - the external auditors confirmed that they could rely on Internal Audit's work
 - there has been substantial conformance with the Standards during 2013/14
 - clients remain satisfied with:
 - the manner in which Internal Audit worked with them to deliver the work
 - the focus and quality of the work undertaken.
- 6.11 An assessment was also completed of the team's compliance with both Councils' governance arrangements requirements as set out in the respective Manager Assurance Statements. This highlighted some areas where the team's arrangements should be strengthened and actions are in hand to address this.

Conclusion

6.12 Therefore it is possible to conclude that the:

- service has substantially operated in accordance relevant professional and internal operational requirements throughout the year
- level of assurance available to the Council regarding the adequacy and effectiveness of its arrangements has been reduced this year due to the impact of the resourcing issues experienced.

7. Issues for the Annual Governance Statement

7.1 No issues have come to my attention this year other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.

8. Corporate Implications

8.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all Council Aims and Priorities

8.2 Financial Implications

The Audit Plan was delivered within the approved resource budget.

8.3 Legal Implications

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

8.4 People and Property Implications

People issues that were relevant to delivering the Audit Plan were raised in the quarterly progress reports.

8.5 Consultation

All terms of reference and draft reports were discussed and agreed with the relevant Corporate Directors and Heads of Service before being finalised. This annual report has also been presented to and discussed with senior management.

8.6 Equalities Impact Assessment

The relevance of equality and diversity was considered during the initial planning stage of every audit before the Terms of Reference were agreed.

Any significant changes in the Charter and Strategy would also be subject to assessment.

8.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the governance, risk management and control arrangements which may impact of the Council's ability to deliver its corporate objectives.

8.8 Value for Money

Opportunities to improve value for money in the delivery of services were identified during some reviews and recommendations made as appropriate.

Internal Audit periodically undertakes a service review to assess whether its costs remain competitive. This was reported upon to the January 2014 Audit Committee. Its regular suite of performance indicators cover cost, process delivery, staff productivity and effectiveness and so enable a view on whether the service delivered provides value for money.

8.9 Community Safety Implications and Environmental Impact

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

9. 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 Committees, Practical Guidance for Local Authorities and Police 2013.

10. Appendices

- Appendix 1: Sources of Audit Assurance for 2013/14
- Appendix 2: Internal Audit Plan 2013/14
- Appendix 3: Compliance with the UK Public Sector Internal Audit Standards 2013/14 Action Plan Update
- Appendix 4: Performance Indicators 2013/14 as at 17 June 2014