

# Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**14 January 2015**

Report prepared by: Linda Everard, Head of Internal Audit

**Agenda  
Item No.**

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## **Internal Audit Services**

### **Quarterly Performance Report**

**Executive Councillor – Councillor Ron Woodley**

***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 2014/15.

#### **2. Recommendations**

- 2.1 **The Audit Committee notes the progress made in delivering the 2014/15 Internal Audit Strategy.**

**The Audit Committee approve the amendments made to the Audit Plan.**

#### **3. Internal Audit Plan Status (Appendix 1)**

- 3.1 Since the last committee, two additional contract management audits will be added to the plan (the areas to be reviewed are still to be finalised) as well as the real time review of the preparations to let three new contracts. These will be delivered by a contracted in contract audit specialist. Staff have also got involved in:

- feeding into the update of Contract Procedure Rules
- working with the Local Safeguarding Children's Board Case Review Panel to develop an action plan from a serious case review report.

- 3.2 The team's in-house auditors have undertaken more business support-related tasks since the resignation of its Business Support Officer at the end of June 2014. It is unlikely this post will be filled before the end of the financial year. Therefore this reduced auditor capacity is reflected by the removal of three audits from the Audit Plan and the recalculation of the productivity target (refer section 6). The audits selected are:

- Asset Management (given the existing arrangements in place to manage counter parties to leases to ensure they adhere to lease terms and conditions)
- Library Services (given the changes made to the previously proposed model for using volunteers to deliver the service)

- one of the two planned audits on Direct Payments (given there will be some coverage through the remaining audit and planned follow up of the previous related audit work).

3.3 These activities will be included in the risk assessment undertaken to support the production of the 2015/16 Audit Plan.

#### 4. Audit Opinions and Themes (Appendix 2)

4.1 During the last quarter, reports or interim feedback has been issued with regards to:

- four “managing the business” audits
- seven “managing service risk” audits
- two "follow up" audits
- one grant claim audit
- four school full audits and two follow up reviews.

4.2 The team has also:

- responded to one Procurement Review Group request
- completed the testing for three key financial systems audits
- provided advisory feedback on proposed Building Control joint working arrangements.

4.3 Services and schools that have been revisited during the period to follow up reports are listed in Section 5.

4.4 **Appendix 3** summarises all the 2014/15 audit opinions issued to date, providing an ongoing record of the strength of the Council's overall control framework.

#### 5. Implementing Recommendations

5.1 Internal Audit decides which action plans to revisit on a risk basis. Where it is determined that further work is required to ensure recommendations have been properly implemented, this will involve re-testing to ensure this is the case and the strengthened control arrangements are firmly established in the day to day running of the service.

5.2 The reports followed up by Internal Audit this quarter are:

Report Name and Date Original Report Issued	Agreed			Outstanding				
	H	M	Total	H	M	N/A	Total	
Disabled Facilities Grants	September 2013	2	11	13	0	0	0	0
Public Health Contract Management	November 2013	2	5	7	0	0	0	0

Report Name and Date Original Report Issued		Agreed			Outstanding			
		H	M	Total	H	M	N/A	Total
Chase High School	June 2013	9	5	<b>14</b>	0	0	0	<b>0</b>
Barons Court Primary School	November 2013	2	7	<b>9</b>	0	0	0	<b>0</b>

5.3 The supporting explanations where recommendations remain outstanding are summarised in Appendix 2.

## 6. Internal Audit Performance Targets (Appendix 4)

6.1 The suite of indicators reported on, if delivered, provide evidence the Council is maintaining an adequate and effective internal audit service that operates in accordance with proper internal audit practices, but also adds value and helps it improve its operations.

### *Delivery of the Audit Plan*

6.2 The team are marginally under the target for delivering the Audit Plan as at 5 December 2014. The service continues to use a significant amount of resource from an external framework contract to deliver aspects of the work. Time has been required to establish long-term working relationships with the new supplier. A number of audits originally scheduled to be completed by them earlier in the year are still in progress. This is a key factor impacting on the delivery of this target.

### *Productivity*

6.3 This indicator reflects the productivity of all the resources used, both internal and external, at all clients the team provides a service to.

6.4 Therefore, although the in-house team's productivity target has been amended slightly from 75% to 73% to reflect the impact of losing the team's Business Support Officer in late June 2014, overall the service is meeting its productivity target.

6.5 The improvement in performance from last quarter's report reflects:

- work undertaken by contractors, whose time is not included until jobs are substantially complete
- the expected increased productivity of in-house staff after the summer holiday period.

6.6 This indicator is sensitive to timing issues that can have a relatively large impact on the reported performance in any one quarter, but is deliverable over a whole year.

## *Resources*

- 6.7 In December 2014, two auditors resigned from the combined team. In the short term, this resource will need to be replaced from a framework contract. This will reduce the number of days available to allocate to audit work for the remainder of 2014/15.
- 6.8 The impact on the number of audits that can now be delivered is currently being assessed. The 2014/15 work plan already takes into account the significant impact on staff for the remainder of the year of supporting a new trainee auditor who started in August 2014 and a new senior auditor who started in November 2014.

## **7. UK Public Sector Internal Audit Standards (the Standards) (Appendix 5)**

- 7.1 These Standards came into effect in April 2013. The Head of Internal Audit reported upon her first assessment of compliance with these requirements in January 2014 and then provided an end of year position in her annual report in June 2014. **Appendix 5** sets out the current status of those areas that were still outstanding at this time (as highlighted in **bold** for ease of reference).
- 7.2 The work on updating the audit manual is still in progress. The aim is now to have it completed and fully implemented by 1 April 2015 (rather than 30 September 2014 as originally planned).
- 7.3 Corporately, work is underway to update aspects of the risk management framework. Internal Audit is in the process of:
- identifying the strategic aspects of the Council's assurance framework
  - evaluating their effectiveness and the reliance that can be placed on them for audit purposes.
- 7.4 Work in evaluating the Council's ethical governance framework is planned to start in December 2014.
- 7.5 The Head of Internal Audit will undertake a full assessment of compliance with the Standards, taking into account any updated guidance on its implementation to inform her annual report which will be presented to the June 2015 Audit Committee.

## **8. Corporate Implications**

### 8.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

### 8.2 Financial Implications

The audit plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

### 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 is covered in the Head of Internal Audit's Annual Report.

The UK Public Sector Internal Audit 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.

#### 8.4 People and Property Implications

People and property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

#### 8.5 Consultation

The audit risk assessment and the Audit 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.

#### 8.6 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.

#### 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 internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risk the team continues to manage is the possibility that the external supplier won't 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.

#### 8.8 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.

#### 8.9 Community Safety Implications and Environmental Impact

These issues are 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 Government 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

- Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework.

## **10. Appendices**

**Appendix 1: Internal Audit Plan 2014/15**

**Appendix 2: Audit Opinions and Themes of audits completed since last meeting**

**Appendix 3: Summary table of all 2014/15 audit opinions**

**Appendix 4: Internal Audit Performance Indicators 2014/15 as at 28 November 2014**

**Appendix 5: UK Public Sector Internal Audit Standards, Outstanding Actions**