

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**25th March 2015**

Report prepared by: Linda Everard, Head of Internal Audit

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**Internal Audit Charter, Strategy and Audit Plan 2015/16**

**Executive Councillor – Councillor Woodley**

***A Part 1 Public Agenda Item***

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## **1. Purpose of Report**

- 1.1 To present the Internal Audit Charter with the supporting Strategy, Audit Risk Assessment and proposed Audit Plan for 2015/16 to the Audit Committee for consideration.

## **2. Recommendation**

- 2.1 **The Audit Committee approves the Charter, Strategy and proposed Audit Plan for 2015/16.**

## **3. Background**

- 3.1 From 1 April 2015, a new statutory framework comes into place which covers, amongst other things:
- the appointment etc of local auditors (i.e. external auditors)
  - the conduct of local audit which includes:
    - provisions regarding the external auditors role
    - requirements of the Council with regards to internal control (including internal audit) and published accounts and audit as set out in the supporting Accounts and Audit Regulations 2015 (Regulations).
  - data matching (i.e. the ongoing operation of the National Fraud Initiative).
- 3.2 The Regulations now make it a requirement for internal audit to take into account public sector internal auditing standards or guidance in delivering the service.
- 3.3 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 aims, priorities and objectives.

3.4 The rest of the report outlines how these requirements are being met.

#### 4. Charter, Strategy and Audit Plan

4.1 The proposals are set out in the:

- Charter that defines the purpose, authority and responsibility of the service
- Strategy that outlines how the service will be delivered in line with the Charter so as to meet the requirements of the Standards, and it includes the Audit Plan.

4.2 The following paragraphs explain key amendments to the documents which were last presented to the Audit Committee in March 2014. These are also highlighted in **bold** within the documents themselves for ease of reference.

#### 5. Charter (Appendix 1)

5.1 Amendments made to the Charter are minor:

- setting out the new legislative framework applying from 1 April 2015 in the 'Statutory Role' section
- reflecting the new working arrangements the Council has with Thurrock Council to provide both organisations with a counter fraud and investigation service.

#### 6. Strategy (Appendix 2)

6.1 The Strategy 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 The Strategy now contains an extract of the **Internal Audit Risk Assessment (Appendix 2a)** that lists those services that are considered to be significant to the Council in terms of delivering its objectives. This **does not** mean there are concerns about service performance. Just that their importance justifies the need for periodic, independent review to reassure senior management that the operational risks associated with them are being properly managed. The opportunity has also been taken to clarify the risk based approach being adopted regarding the audit of:

- business management processes
- financial systems

- previous audit work
  - schools.
- 6.3 The section on the Assurance Framework has been simplified but the way in which assurance will be identified, evaluated or used has not changed from previous years.
- 6.4 Some minor amendments have been made to:
- the Audit Plan section, to better explain the different types of audit that will be included in the work programme
  - the Resources section, to include the level of resources available in the current year and what that means the team may be able to deliver over a three year period.
- 6.5 These amendments are primarily designed to help demonstrate that the service complies with specific requirements in the professional standards.
- 6.6 The coverage provided within the proposed **Audit Plan** for 2015/16 (**Appendix 2b**) is based upon the audit approach outlined in the Strategy which complies with the requirements of the Standards. It has been discussed and agreed with senior management.
- 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 The following appendices have been updated where necessary (e.g. to reflect current corporate risks) but otherwise remain unchanged:
- Audits Planned linked to Corporate Risks (**Appendix 2c**)
  - Internal Audit Performance Indicators 2015/16 (**Appendix 2d**)
  - How We Will Work With You Statement (**Appendix 2e**).

## 7. Corporate Implications

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

Audit work contributes to the delivery of all corporate aims, priorities and objectives.

### 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 Accounts and Audit Regulations 2015, Section 5 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

The Standards require:

- the Audit Committee to approve (but not direct) the annual internal Audit Plan and this report discharges that duty
- the Audit Committee to then receive regular updates on its delivery, as provided by the quarterly performance report

- the Head of Internal Audit to provide an annual audit opinion on the Council's risk management, control and governance arrangements and report on this to the Audit Committee, which is delivered to its June meeting.

#### 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

This is set out in the Strategy.

#### 7.6 Equalities Impact Assessment

Not applicable to these documents.

#### 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, priorities and objectives.

The key team risks are:

- its inability to recruit or retain staff
- 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.

Internal Audit maintains an audit risk assessment which is explained in the Strategy.

#### 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 Regulations 2015
- 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.

## 9. Appendices

- Appendix 1: Internal Audit Charter
- Appendix 2: Internal Audit Strategy
  - Appendix 2a: Internal Audit Risk Assessment Summary
  - Appendix 2b: Internal Audit Plan for 2015/16
  - Appendix 2c: Audits Planned linked to Corporate Risks
  - Appendix 2d: Internal Audit Performance Indicators 2015/16
  - Appendix 2e: How We Will Work With You Statement