

Public Document Pack
SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 27th March, 2019

Time: 6.30 pm

Place: Committee Room 1 - Civic Suite

Contact:

Email: committeesection@southend.gov.uk

AGENDA

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on 16th January 2019**
- 4 BDO: Grant Claims and Returns Certification report for the year ending 31st March 2018 (Pages 5 - 22)**
Report of the Chief Executive
- 5 Deloitte: Audit Plan to the Audit Committee, Audit for the year ending 31st March 2019 (Pages 23 - 24)**
Report of the Chief Executive
- 6 Counter Fraud and Investigation Directorate: Quarterly Performance Report (Pages 25 - 36)**
Report of the Chief Executive
- 7 Internal Audit Service, Quarterly Performance Report (Pages 37 - 54)**
Report of the Chief Executive
- 8 Internal Audit Charter, Strategy and Audit Plan for 2019/20 (Pages 55 - 96)**
Report of the Chief Executive
- 9 Audit Committee Self-Assessment 2018/19 - Verbal Briefing**
Report of the Chief Executive

10 Information Item (Pages 97 - 182)

CIPFA Better Governance Forum

- Audit Committee Update, Helping Audit to be Effective, Issue 27
- Local Government Application Note for the UK PSIAS (2019 Edition)

Audit Committee Self-Assessment Checklist

Members:

Cllr M Davidson (Chair), Cllr N Folkard (Vice-Chair), Cllr B Ayling, Cllr A Bright, Cllr K Buck, Cllr L Burton, Cllr D Nelson, Cllr C Willis, Cllr R Woodley and K Pandya

SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 16th January, 2019

Place: Committee Room 1 - Civic Suite

3

Present: Councillor M Davidson (Chair)
Councillor N Folkard (Vice-Chair), Councillor B Ayling, Councillor A Bright, Councillor K Buck, Councillor L Burton, Councillor D Nelson, Councillor R Woodley, Councillor A Jones* and K Pandya
*Substitute in accordance with Council Procedure Rule 31.

In Attendance: J Chesterton, C Gamble, E Allen, C Fozzard and D Kleinberg, C Weston (Deloitte).

Start/End Time: 6.30 pm - 7.45 pm

591 Apologies for Absence

Apologies for absence were received from Councillor Willis (Substitute: Councillor Jones).

592 Declarations of Interest

(a) Councillor Davidson – Agenda item 4 (Treasury Management Policy 2019/20) – Non-pecuniary interest: Non-Executive Director of South Essex Homes.

(b) Councillor Woodley – Agenda item 4 (Treasury Management Policy 2019/20) – Non-pecuniary interest: Non-Executive Director of South Essex Homes.

593 Minutes of the Meeting held on 26th September 2018

Resolved:-

That the Minutes of the Meeting held on 26th September 2018 be confirmed as a correct record and signed.

594 Treasury Management Policy 2019/20

The Committee received a report of the Strategic Director (Finance and Resources) presenting the treasury management policy for 2019/20 comprising the following documents:

- Treasury Management Policy Statement for 2019/20;
- Treasury Management Strategy for 2019/20;
- Annual Investment Strategy for 2019/20

The Committee asked a number of questions which were responded to by officers.

Resolved: That the treasury management policy for 2018/19, be endorsed.

595 External Audit Planning 2019/20

The External Auditor representative provided the Committee with an outline of the external audit work plan.

596 Update to Counter Fraud, Bribery and Corruption Policy and Strategy and the Counter Money Laundering Policy Strategy

The Committee received a report by the Strategic Director (Finance and Resources) providing an update on the revisions made to the Counter Fraud, Bribery and Corruption policy and strategy and the Counter Money Laundering policy and strategy.

The Committee asked a number of questions which were responded to by the officers.

Resolved:

1. That the revised Counter Fraud, Bribery and Corruption policy and strategy be approved.

2. That the revised Counter Money Laundering policy and strategy be approved.

597 Counter Fraud and Investigation Directorate Quarterly Performance Report

The Committee received a report of the Strategic Director (Finance and Resources) providing an update on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and work programme for 2017/18.

On consideration of the report, the Assistant Director for Fraud and Investigation undertook to prepare a report on cyber fraud for submission to the next meeting of the committee.

The Committee asked a number of questions which were responded to by the officers.

Resolved: That the performance of the Counter Fraud & Investigation Directorate over the last year, be noted.

598 Internal Audit Service Quarterly Performance Report

The Committee received a report of the Strategic Director (Finance and Resources) updating Members on the progress made in delivering the Internal Audit Strategy for 2018/19.

Members noted the progress made in addressing the actions arising from the 2017/18 assessment of compliance with professional standards. In this connection, the Head of Internal Audit undertook to prepare a report on the results of the Audit Committee self-assessment for submission to the July meeting.

The Committee asked a number of questions which were responded to by officers.

Resolved: That the progress made in delivering the 2018/19 Internal Audit Strategy be noted.

599 Information Item

The Committee received and noted the CIPFA Audit Committee Update (issue 26).

Chairman: _____

This page is intentionally left blank

Southend-on-Sea Borough Council

Agenda
Item No.

4

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

27th March 2019

Report prepared by: BDO External Auditor

BDO: Grant Claims and Returns Certification Report for the Year ended 31 March 2018

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Grant Claim and Return Certification Report for 2017/18 to the Audit Committee.

2. Recommendation

- 2.1 The Audit Committee accepts the Grant Claim and Return Certification Report for 2017/18.**

3. Background

- 3.1 The Public Sector Audit Appointments Limited (PSAA) mandates that the results of certification work will be produced annually by February each year to highlight errors, adjustments and qualifications arising in claims.

4. Corporate Implications

- 4.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

- 4.2 Financial Implications

BDO act as an agent of PSAA in the certification of grant claims and returns work. Fee scales for certifying the Housing and Council Tax Benefits grant claim is set by PSAA. The scale fee set for 2017/18 was £22,226.

- 4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the National Audit Offices' Code of Audit Practice (the Code). By considering this report, the Committee can satisfy itself that this requirement is being discharged.

- 4.4 People Implications

None.

4.5 Property Implications

None.

4.5 Consultation

None.

4.6 Equalities and Diversity Implications

None.

4.7 Risk Assessment

The Council receives significant funding streams that require external audit to certify that the funding has been used in accordance with the funders' expectations. This funding would be at risk if external audit were not able to provide that certification.

The report includes an action plan to address issues identified in the report which will be monitored by officers.

4.8 Value for Money

None.

4.9 Community Safety Implications

None.

6.11 Environmental Impact

None.

5. Background Papers

- National Audit Offices' Code of Audit Practice 2015
- The PSAA Work Programme and Scales of Fees 2017/18

6. Appendix 1:

BDO's Grant Claims and Returns Certification Report for the Year ended 31 March 2018



SOUTHEND-ON-SEA BOROUGH COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Audit for the year ended 31 March 2018
13 March 2019

INTRODUCTION

PURPOSE AND USE OF THIS REPORT

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2018.

Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

Other certification work

A number of other grant claims and returns are not within the scope of our appointment by PSAA, but Departments may still seek external assurance over the accuracy of the claim or return. These assurance reviews are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has engaged us to carry out the following for the year ended 31 March 2018:

- 'Agreed-upon procedures', based on the instructions and guidance provided by the Ministry of Housing, Communities and Local Government (MHCLG), of the Pooling of housing capital receipts return
- 'Agreed-upon procedures', based on the instructions and guidance provided by the Department for Education, of the Teachers' pensions return.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

AUDIT QUALITY

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

More details can be found in our Transparency Report at www.bdo.co.uk

CONTENTS

INTRODUCTION.....	1
CONTENTS	2
KEY FINDINGS	3
DETAILED FINDINGS.....	4
APPENDICES	11
APPENDIX I: STATUS OF 2016/17 RECOMMENDATIONS	12
APPENDIX II: FEES SCHEDULE	13

KEY FINDINGS

Below are details of each grant claim and return subject to certification by us for the financial year ended 31 March 2018. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided on the following pages. An action plan is included at Appendix I of this report.

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?	NET IMPACT OF AMENDMENTS(£)
Housing benefit subsidy	£80,205,932	YES	YES*	£8,788 Decrease in subsidy claimed by the Council
Pooling of housing capital receipts	£2,807,400	YES	YES**	£0
Teachers' Pensions***	£4,185,681	TBC	TBC	TBC

*The amendments made largely relate to manual adjustments identified by the Council after the initial claim was submitted.

**The amendment made (detailed on page 10) did not impact the level of subsidy being received.

***Please note that the work on the Teachers' Pensions Return is still underway. Please see page 10 for further details.

DETAILED FINDINGS

HOUSING BENEFIT SUBSIDY

Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.

Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A.

The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied.

The draft subsidy return provided for audit recorded amounts claimed as subsidy of £80,205,932. The final submission was reduced by £8,788 to £80,197,144.

FINDINGS AND CONCLUSION

Our audit of 60 individual claimant files highlighted a number of errors the Council made in administering benefit and calculating subsidy entitlement.

Guidance requires auditors to undertake extended '40+ testing' if initial testing identified errors in the benefit entitlement calculation or in the classification of expenditure. Such testing is also undertaken as part of our follow-up of prior year issues reported. This additional testing, combined with the original testing where there has been an overpayment of benefit, is extrapolated (or extended) across the population. Where the error can be isolated to a small population, the whole population can be tested and the claim form amended if appropriate. Where there is no impact on the subsidy claim, for example where the error always results in an underpayment of benefit, we are required to report this within our qualification letter.

This resulted in 10 areas of '40+ testing', 5 areas of '100% testing' and 3 amendments to the claim form. All areas of '40+' and '100% testing' were performed by the Council and re-performed by BDO.

PSAA's methodology requires auditors to re-perform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily recorded. We were able to rely on the conclusions drawn by the Council.

Our work was completed and the claim was certified before the Government's deadline of 30 November 2018. Our audit certification was qualified and we quantified the effect of the errors identified on the Council's entitlement to subsidy (based on our extrapolations) in a letter to the Department of Work and Pensions (DWP). The Council is awaiting the outcome of the DWP review of our qualification letter on its final subsidy amount for the year.

The claim form has been amended for all errors identified from the '100% testing'. A summary of our audit findings from the '40plus testing' and the potential impact if amendment were to be made can be found on the next page.

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Misclassification of overpayments: Local Authority Error	<p>In 2016/17 our testing identified 3 cases where the Council misclassified overpayments as Local Authority Error when they should have been classified as Eligible overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified 7 cases in 2017/18 where the overpayment should have been classified as an Eligible overpayment and 1 case where the overpayment should have been classified as a Prior Year Eligible overpayment. Therefore an extrapolation was included within our Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Local Authority Error overpayments by £27,151, understated Eligible overpayments by £27,274 and overstated Prior Year Eligible Overpayments by £123.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £10,860.</p>
Rent Allowances- Misclassification of overpayments: Eligible	<p>In 2016/17 our testing identified 4 cases where the Council misclassified an overpayment as an Eligible overpayment when it should have been classified as a Local Authority Error overpayment. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>No errors were identified.</p>	Not applicable.
Rent Allowances- Misclassification of overpayments: Eligible (Prior year)	<p>In 2016/17 our testing identified 3 cases where the Council misclassified overpayments as Eligible overpayments when they should have been classified as Local Authority Error overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>No errors were identified.</p>	Not applicable.

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Standard Income	<p>In 2016/17 our testing identified 4 cases where the Council had incorrectly entered the claimant's income (other than earned income) in benefit calculations.</p> <p>This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified that income had been incorrectly entered into benefit calculations in 6 cases resulting in benefit being underpaid in 2 cases and overpaid in 4 cases.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £20,271. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £20,271.</p>
Rent Allowances- Earned Income	<p>In 2016/17 our testing identified 6 cases where earned income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified that earned income had been incorrectly applied in benefit calculations in 4 cases resulting in benefit being underpaid in 2 cases and overpaid in 2 cases.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £17,978. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £17,978.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Allowances- Non dependant Income	<p>In 2016/17 our testing identified 9 cases where the non-dependant income had been incorrectly entered in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified 9 cases where non dependant income had been incorrectly entered in benefit calculations resulting in benefit being underpaid in 2 cases, overpaid in 4 cases, and 3 cases where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £9,399. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £9,399.</p>
Rent Allowances- Cases excluded from the requirement to refer to the Rent Officer	<p>In 2016/17 our testing identified 4 cases where the weekly rent had been incorrectly entered in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified 7 cases where the weekly rent had been incorrectly entered in benefit calculations resulting in benefit being underpaid in 4 cases and overpaid in 3 cases.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £6,820. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £6,820.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Rebates- Standard Income	<p>In 2016/17 our testing identified 7 cases where income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified 12 cases where income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 1 case, overpaid in 6 cases and 5 cases where it had no effect on the benefit paid.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £6,652. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £6,652.</p>
Rent Rebates- Earned Income	<p>In 2016/17 our testing identified 6 cases where earned income had been incorrectly applied in benefit calculations. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified 7 cases where earned income had been incorrectly applied in benefit calculations resulting in benefit being underpaid in 3 cases and overpaid in 4 cases.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated the Council overstated benefit expenditure by £7,666. The corresponding adjustment is to Local Authority Error overpayments.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would decrease the subsidy receivable by £7,666.</p>

BENEFIT TYPE	ERROR TYPE	IMPACT ON CLAIM
Rent Rebates- Misclassification of overpayments: Technical	<p>In 2016/17 our testing identified 54 cases where the Council misclassified overpayments as Technical overpayments when they should have been either Eligible overpayments or Local Authority Error overpayments. This year '40+ testing' was carried out to determine whether this issue had continued in 2017/18 and to quantify the results.</p> <p>Our testing identified 4 cases where the Technical overpayment should have been classified as an Eligible overpayment and 2 cases where the Technical overpayment should have been classified as Local Authority Error.</p> <p>An extrapolation was included within the Qualification Letter.</p>	<p>Based on our extrapolation of the errors identified, we estimated that the Council overstated the amount of Technical overpayments by £11,374, understated Eligible overpayments by £8,369 and understated Local Authority Error overpayments by £3,005.</p> <p>If DWP decide to adjust for the extrapolated error reported, this would increase the subsidy receivable by £3,348.</p>

POOLING OF HOUSING CAPITAL RECEIPTS

Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received.

The return provided for audit recorded total receipts of £2,807,400 all of which was payable to DCLG.

DCLG requires that this return is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide an 'agreed-upon procedures' assurance report before the Government's deadline of 11 January 2019 for submitting the audited return.

FINDINGS AND IMPACT ON RETURN

The return was amended to include the actual amount of new-build expenditure, which was initially included at an incorrect value in the return. After making the amendment, there was a remaining difference of £36.41 between the value of prior period expenditure in the return, and the value reported in the prior period return. The Council were unable to explain this difference. This was noted in our 'agreed upon procedures' assurance report.

TEACHERS' PENSIONS

Local authorities that employ teachers are required to deduct pension contributions and send them, along with employer's contributions, to the Teachers' Pensions office (the body which administers the Teachers' Pension Scheme on behalf of the Department for Education). These contributions are summarised on form EOYCa, which the Council is required to submit to Teachers' Pensions.

The Department for Education requires that Form EOYC is certified but the work is not part of PSAA's certification regime. We therefore agreed a separate letter of engagement to provide an 'agreed-upon procedures' assurance report before the Government's deadline of 30 November 2018 for submitting the audited return.

FINDINGS AND IMPACT ON RETURN

Our work is ongoing for this return and is expected to be completed by mid-April 2019.

Our testing to date identified that the total employer's contributions had been incorrectly included in the teacher's pension disclosure in form EOYC and that the total teacher's contributions had been incorrectly included in the employer's contributions disclosure in form EOYC.

Our work to date also identified some differences between the Council's payroll records and the form EOYC as follows:

- A difference of £321,240.38 between the total contributory salary reported by the Council's payroll records and the value reported in form EOYC.
- A difference of £23,792.46 between the total employer's contributions reported by the Council's payroll records and the value reported in form EOYC.
- A difference of £45,445.76 between the total teacher's contributions reported by the Council's payroll records and the value reported in form EOYC.

The Council is working to explain these differences before we issue our report to the Department for Education. The deadline of 30 November 2018 has been missed due to the additional time required to investigate these differences.

APPENDICES

APPENDIX I: STATUS OF PRIOR PERIOD RECOMMENDATIONS

RECOMMENDATION	PRIORITY	RESPONSIBILITY	TIMING	PROGRESS	STATUS
HOUSING BENEFITS					
Complete increased, targeted sample checks on the work completed by benefit assessors to identify any particular training needs and to ensure that any known errors are being addressed.	High	Benefits Manager	April 2016 Onwards	We have been able to evidence that increased and targeted checking is now undertaken by the Quality & Assurance Team with monthly performance monitoring reports to the Director of Finance. This report includes the type of errors and resulting training given.	Open Our 2017/18 audit evidences that the volume of errors identified has reduced significantly in comparison to 2016/17. It is possible that continuation of this checking process in 2018/19 will further reduce this volume.
Provide specific targeted training to the benefits team on how to classify overpayments.	High	Benefits Manager	April 2016 Onwards	We have been able to evidence that training has been provided to staff and forms part of the annual refresher training programme.	Open Our 2017/18 audit evidences that the volume of errors identified has reduced significantly in comparison to 2016/17. It is possible that continuation of this training process in 2018/19 will further reduce this volume.
TEACHERS' PENSION					
Identify a more efficient way to extract the required information from the Agresso system.	High	Marie Kohler and Mike Miller	April 2017	The extraction process remains challenging and our work identified potential errors in the transfer of data from the payroll records to the EOYC form.	Open Further work needs to be undertaken to improve the process of extracting the data from the Agresso payroll records to the EOYC form.
Set up a new process or function on Agresso to take into consideration the back payment and allocate to the month the missing pay is relevant to.	Medium	Marie Kohler and Mike Miller	April 2017	No evidence of a new process or function on Agresso has been provided.	Open However, no matters of this nature arose from our work in 2017/18.
Undertake training for any new employees or where there have been any changes to the Teachers' Pension guidance.	Medium	Marie Kohler	January 2017 and on - going	No evidence of any additional training being undertaken has been provided.	Open Key staff absences caused difficulties in form EOYC completion and review processes, demonstrating the importance of clear training guidance being available so that other officers can address requirements during these absences.

APPENDIX II: FEES SCHEDULE

	2017/18 FINAL	2017/18 PLANNED	2016/17 FINAL	EXPLANATION FOR VARIANCES
	£	£	£	
PSAA regime				
Certification fee (Housing benefit subsidy claim)	22,226	21,284	21,284	N/A
TOTAL PSAA REGIME FEES	22,226	21,284	21,284	
Other certification work				
• Pooling of Housing Capital Receipts return	3,500	3,500	3,500	N/A
• Teachers' pensions return	TBC	7,000	7,000	Final fee to be determined
TOTAL CERTIFICATION FEES	TBC	10,500	10,500	

FOR MORE INFORMATION:

LISA CLAMPIN
Engagement lead

T: +44 (0)1473 320 716
E: lisa.clampin@bdo.co.uk

LIANA NICHOLSON
Senior Manager

T: +44 (0)1473 320 715
E: liana.nicholson@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2019 BDO LLP. All rights reserved.

www.bdo.co.uk

This page is intentionally left blank

Southend-on-Sea Borough Council

Agenda
Item No.

5

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

27th March 2019

Report prepared by: Deloitte External Auditor

**Deloitte: Audit planning report to the Audit Committee,
Audit for the year ending 31 March 2019**

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Audit planning report for 2018/19 to the Audit Committee.

2. Recommendation

- 2.1 The Committee notes Deloitte's Audit planning report for 2018/19.**

3. Background

- 3.1 As required by the National Audit Office's Code of Audit Practice (the Code), the external auditor must produce an audit planning document. This should set out how the auditors intend to carry out their responsibilities in light of their assessment of risk.
- 3.2 A senior representative of Deloitte (the appointed External Auditor to the Council) will present this report to the Audit Committee and respond to Members' questions.

4. Corporate Implications

- 4.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

- 4.2 Financial Implications

The prescribed requirements of what needs to be undertaken by the external auditor is defined by the National Audit Office. The plan and fees proposed reflect the application of these requirements to this Council based upon an assessment of risk which is set out in the Audit Plan for 2018/19.

The cost to the Council of external audit for 2018/19 is planned to be £109,968 for the audit work delivered under the NAO's Code of Audit Practice.

4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Code. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People Implications

None

4.5 Property Implications

None

4.5 Consultation

The planned audit work has been discussed and agreed with the Strategic Director (Finance and Resources).

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Poor performance by the Council in the areas subject to review could result in either a qualified audit opinion or value for money conclusion and may also impact adversely on any corporate assessment.

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirements of the Code.

4.8 Value for Money

The Public Sector Audit Appointments Limited sets the fee formula for determining external audit fees for all external auditors, taking into account the results of the outsourcing of their audit practice and market testing the audit work that is now fully delivered by private sector audit firms.

4.9 Community Safety Implications

None

4.9 Environmental Impact

None

5. Background Papers

- The National Audit Office's Code of Audit Practice
- Public Sector Appointments Limited Work Programme and Scales of Fees 2018/19

6. Attachment:

- Deloitte's Audit Plan to the Audit Committee, Audit for the year ending 31 March 2019



Southend-on-Sea Borough Council

Audit planning report to the Audit Committee for the year ending 31 March 2019

Issued 19 March 2019 for the meeting on 27 March 2019

Contents

01 Planning report

Introduction	3
Our audit explained	6
Scoping	7
Continuous communication	10
Significant risks	11
Purpose of our report and responsibility statement	16

02 Appendices

Appendix 1 - Fraud responsibilities and representations	17
Appendix 2 - Independence and fees	19

Introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our planning report to the Audit Committee for the 2019 audit. We would like to draw your attention to the key messages of this paper:

Scope of our work

Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office ("NAO") on behalf of the Comptroller and Auditor General.

The Code sets the overall scope of the audit which includes an audit of the accounts of the Council and work to satisfy ourselves that the Council has made proper arrangements to secure value for money ("VFM") in its use of resources. There have not been any changes to the Code itself, and therefore the scope of our work is broadly similar to the scope of work set for your auditor in the prior year.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "*PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies*", published by Public Sector Audit Appointments Limited.

Areas of focus in our work on the accounts

At the date of this report, our planning, risk assessment and fraud enquiry procedures are in progress. We have met with key officers, reviewed financial information and attended the first stage of our interim audit field work with the second stage planned for mid-March 2019. Based on procedures performed to date, we summarise below the areas of significant audit risk we have so far identified. These may be subject to change following completion or our remaining planning work. We will update the Audit Committee on any changes to our risk assessment at the next Audit Committee meeting.

- Valuation of properties – there is significant judgement over subjective inputs to the valuation.
- Capitalisation of expenditure – there is judgement over the appropriate classification of spend as capital and not revenue. The Council has greater flexibility over the use of its revenue compared to its capital resources. This provides a potential incentive to inappropriately classify spend as capital which does not meet the accounting criteria for classification as such.
- Management override of controls – auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance.

Areas of focus in our work on the accounts continued

We note the following changes to the equivalent summary of risks identified by our predecessor for the audit of the 2017/18 accounts:

- In the prior year, our predecessor identified a significant risk in relation to the pension scheme liability. The process of estimating the quantum of the pension liabilities is usually complex and small changes in assumptions can have a significant impact on the estimated liability. However, the Essex County Council ("ECC"), who run the scheme in which Southend-On-Sea Borough Council is a participating employer, has engaged a reputable actuary and we understand that there are no significant changes in the membership of the scheme or significant transactions in the pension scheme which impact on the valuation. For these reasons, our preliminary assessment is that the risk of material misstatement is towards the higher end of the range, but is not significant. We will update our assessment when we have received and evaluated further information on the actuary's approach and assumptions. Of particular interest this year is the impact on the valuation of the recent ruling that all schemes must equalise Guaranteed Minimum Pensions ('GMP') between males and females. Although there have been interim measures to bring about equalisation it is unclear how this will be factored in by actuaries in calculation of the IAS 19 liability. The impact for individual pension schemes will vary. At the current time it is estimated that, in nearly all cases, the potential impact of the ruling will be between 0-2% of the defined benefit obligations of a scheme. We note the communication from ECC, in discussion with their actuary, stating that this equalisation has been applied to the scheme since 2016 and therefore the ruling will not lead to any further action for the Southend context. We will ask our actuaries to evaluate this. We have also noted the £8m corrected difference in the prior year with regard to the scheme assets. This related to a reissue of the actuary statement by ECC after the pension scheme audit that identified estimation issues with the value of scheme assets. Whilst this is a direct issue for the ECC pension scheme and the timing of their audit, to the extent that it impacts the Southend statement of accounts, it will be considered as part of the risk assessment related to pension scheme asset valuation.
- We have identified an additional risk in relation to the appropriate capitalisation of expenditure as the capital plan continues to be substantial at a planned amount of £52.6m for 2018/19 (£65m in 2017/18).

Auditing standards also presume there is a risk of fraud in revenue recognition. Following an analysis of the Council's income streams, we have rebutted this presumption. The key factors considered include: the amount of annual income from each source; the transaction size; the extent of any estimates; and the complexity of the recognition principles. Our conclusion is the same as that reached by our predecessor last year.

Areas of focus in our work on VFM

The Code and supporting auditor guidance note require us to perform a risk assessment and to carry out further work where we identify a significant risk.

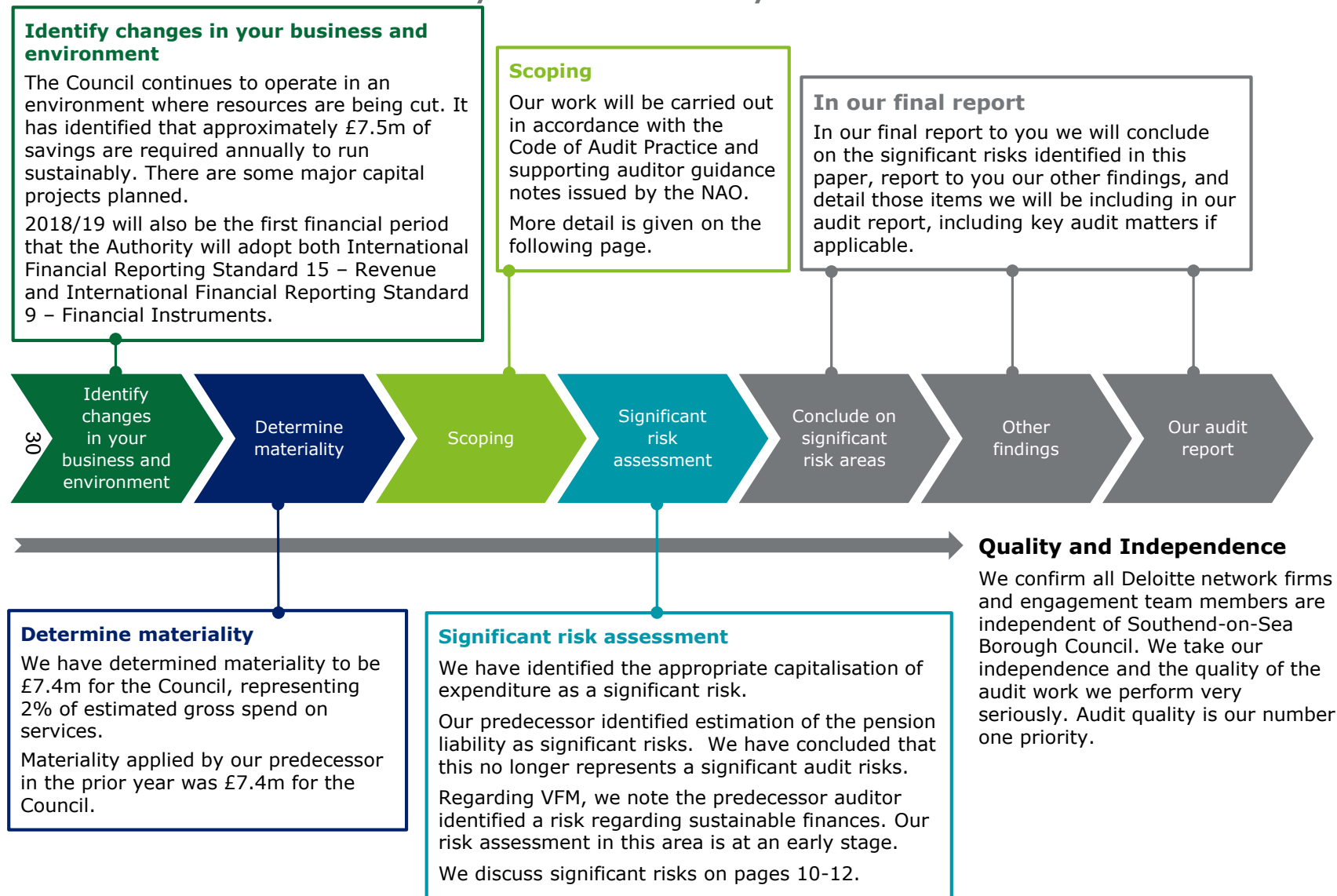
Our risk assessment to determine whether there are any significant risks is at a very early stage. We expect to carry out the majority of our risk assessment procedures in the remainder of March and early April. We will then perform update procedures in June, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics including the Medium Term Financial Strategy and the outcome of any findings from the work of regulators. We note the predecessor auditor included a significant risk in the 2016/17 audit plan in relation to sustainable finances. The conclusion was that there are appropriate arrangements to manage the budget gap and remain financially sustainable. We have not yet concluded as to whether this is a significant VFM risk for 2018/19 as further work is required to assess this.

Brexit

The arrangements following the UK's exit from the EU are not yet clear. Our audit plan does not include any risks or procedures in respect of the impact upon the Authority, whether on Value-for-Money (VfM) arrangements, or more widely. We will update the Audit Committee if any risks are identified as the eventual circumstances of the UK's exit become clear.

Our audit of the statement of accounts explained

We tailor our audit to your Authority



Scope of work and approach

We have the following areas of responsibility under the Code of Audit Practice

Opinion on the Council's financial statements

We will conduct our audit in accordance with the Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO") and International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB").

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

Opinion on other matters

We are required to report on whether other information published with the audited financial statements is consistent with the financial statements.

Other information includes information included in the statement of accounts, in particular the Narrative Report. It also includes the Annual Governance Statement which the Council is required to publish alongside the Statement of Accounts.

In reading the information given with the financial statements, we take into account our knowledge of the Council, including that gained through work in relation to the body's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources.

Whole Government Accounts

For Councils in scope, we are required to issue a separate assurance report on the Council's separate return required to facilitate the preparation of the Whole of Government Accounts. We note that in the prior year, Southend fell below the threshold for WGA and was therefore out of scope for these requirements. Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of the return with the Council's financial statements, together with the validity, accuracy and completeness of additional information about the Council's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Value for Money conclusion

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We carry out a risk assessment to identify any risks that, in our judgement, have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. The risk assessment enables us to determine the nature and extent of further work that may be required. This means that if we do not identify any significant risks, there is no requirement to carry out further work.

We also consider the impact of findings of other inspectorates, review agencies and other relevant bodies on their risk assessment, where they are relevant and available.

Our responsibilities as auditor, and the responsibilities of the Council, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by PSAA

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We plan to meet with the Head of Internal Audit to discuss the internal audit work performed and we will review the internal audit reports issued in the period. We will consider the findings from their work and where significant control weaknesses are identified, we will consider the impact on the scope of our own work.

Approach to controls testing

For controls considered to be 'relevant to the audit', our work involves evaluating the design of these controls and determining whether they have been implemented ("D & I").

We do not expect to place reliance on the operating effectiveness of controls in the current year instead gaining assurance from fully substantive procedures. We will however continue to evaluate this to determine potential areas where a controls reliant strategy would be appropriate.

Our assessment of the internal control environment has not been concluded. We will report to the Audit Committee any findings arising from further procedures.

We will consider any major changes to IT systems in year notably the change in the Children & Adults Social Case Management system moving from CareFirst to Liquid Logic. This forms part of our ongoing risk assessment of IT systems and will involve Deloitte IT specialists as required.

Materiality

The audit partner has determined materiality as £7.4m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.

We have used 2% of gross spend on services, adjusted to remove the effect of impairments and reversals of impairments against properties, as the benchmark for determining materiality as this is an area of focus for users of the accounts.

Scope of work and approach

Our approach

Audit considerations regarding the Group Accounts

We have not been appointed the auditor of the material subsidiary trusts and companies within the group. In order to gain sufficient assurance over significant account balances in the group accounts, we will perform further audit procedures at the material components. The key components for audit procedures are shown in the table below. These are based on 2017/18 figures. Based on discussion with management, we do not anticipate significant changes for the 2018/19 audit period. This may be revised based on actual 2018/19 outturn. If 2018/19 actual results indicate a requirement to significantly vary our planned work, additional fees will be advised at that point including approval from the PSAA.

Components	Expenditure 2017/18 £m	Net Assets 31/3/18 £m	%age of total Group Expenditure	%age of group Net Assets	Summary of work to be performed
Council	370.2	490.3	93.7%	98.6%	The Deloitte group audit team will perform full-scope audit procedures under the Code on this component.
Trust Funds	1.4	19.7	0.3%	3.9%	The Trust Funds are audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, material Trust funds will have specified tests performed by the group team focused on assets held.
South Essex Homes Limited	11.9	(6.9)	3%	(1.4%)	SEHL is audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, SEHL will have specified tests performed by the group team.
Southend Care Limited	11.9	(5.8)	3%	(1.1%)	SCL is audited separately by a different firm on a longer timeline. For the purpose of the group audit opinion, SCL will have specified tests performed by the group team.

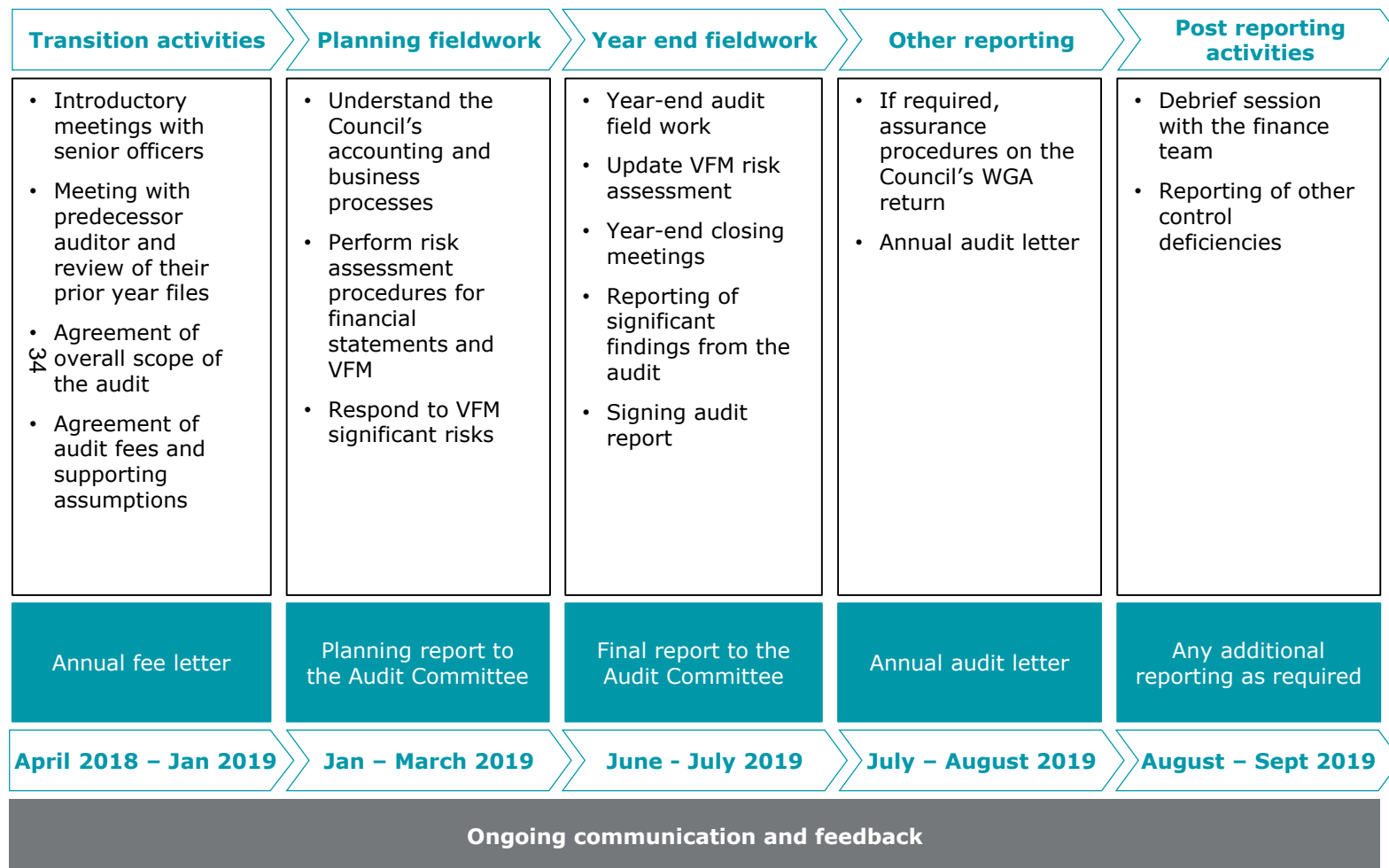
Group Materiality

Materiality for the group is £7.5m in line with, but slightly higher than, the Council level alone of £7.4m. In order to apply meaningful specified procedures to the non-Council, in-scope group entities, component materiality will be reduced accordingly based on the percentage of the group represented by each subsidiary and will be no more than 40% of the group materiality figure of £7.5m.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



Significant risks – statement of accounts

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the narrative report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Deloitte view

IAS 1 requires entities to make disclosures about the assumptions it has made about the future and other major sources of estimation uncertainty at the year end that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

If a matter does not meet this criterion, it should not be included in the disclosure on sources of estimation uncertainty.

We recommend the Council re-examine whether the estimates it disclosed in the prior year meet this criterion.

Inherent Red risks (Jan 2019)

- Funding reductions
- Recruit/Retain staff
- External challenges e.g. Brexit, relationships with key partners
- Changes in government housing policy
- Access to regeneration funding
- Failure to integrate Health and Social Care
- Surface flooding and seafront cliff movement
- Cyber Security
- Waste contracts
- Major infrastructure
- Meet Local Plan deadlines

IAS 1 Critical judgements and accounting estimates

- Future levels of funding
- Recognition of schools on the balance sheet
- PPE valuations
- Pension liability valuation

Prior year significant audit risks (financial statements)

- Valuation of properties
- Management override of controls
- Pension liability assumptions

Changes in your environment

- Upcoming capital projects
- Southend 2050

We have noted above “inherent” risks scored as “Red”. We note the Council Risk Register reflects inherent, current and target risks defined as follows:

Inherent score – the risk scored with no controls, assurances or actions in place.

Current score – the risk scored with controls, assurances and progressed actions.

Target score – the risk score with controls and assurances in place and linked actions completed.

The latest risk register indicated that no risks have a “Current” rating as “Red”.

Significant audit risks

Risk 1 – Property Valuation

Risk identified The Council held dwellings of £359m and other land and buildings of £305m at 31 March 2018 which are required to be recorded at current or fair value at the balance sheet date.

The fixed asset portfolio is divided into five key asset categories. The Council's practice is to obtain a specific valuation of approximately 20% of the assets requiring valuation at the start of the year on a cyclical basis. This approach leads to the full asset portfolio being evaluated within each five-year period. In addition to this specific exercise the Council also obtains advice as to whether there has been a material change in the period up to the balance sheet date based on indices. Any changes based on index factors are then applied to the total asset base relevant to each index.

Key judgements include:

- Whether there has been a material change since the date of the last valuation
- In the valuation of dwellings, defining appropriate beacon groups, such that the level of homogeneity of properties within each group is appropriate, and selecting appropriate comparators and, where relevant, making appropriate adjustments
- In the valuation of schools, appropriate selection of the location and design of modern equivalents.
- Assumptions applied to estimating values of "other properties", the category in scope for 2018/19 valuation, including correct application of different valuation methods to different property types.

Our response We will test the design and implementation of key controls in place around the property valuation.

We will use our valuation specialists, Deloitte Real Estate, to review the methodology and approach and to challenge the appropriateness of the year-end valuation, focusing on the key subjective inputs. This will support confirmation that the valuation movements are consistent with expectations seen in other data regarding the property market.

Our specialists will also evaluate the methodology applied in and the outcomes of the full valuation of the "other properties" category, performed as at 1 April 2018 and will assess and challenge the index-based factors applied to the relevant parts of the property portfolio to adjust the overall valuation to the balance sheet date.

Significant audit risks

Risk 2 – Capital Expenditure

Risk identified	<p>As part of the Medium Term Financial Strategy, the Council has a substantial capital programme of £234m to the end of the 2021/22 period. This includes a budgeted amount of £52.6m in 2018/19.</p> <p>Determining whether or not expenditure should be capitalised can involve judgement as to whether costs should be capitalised under International Financial Reporting Standards.</p> <p>The Council has greater flexibility of the use of revenue resource compared to capital resource. There is also, therefore, a potential incentive for officers to misclassify revenue expenditure as capital. We have therefore identified classification of capital expenditure as an area of financial reporting at greater risk of fraud.</p>
Our response	<p>We will test the design and implementation of controls around the capitalisation of costs.</p> <p>We will select a sample of additions in the year to test whether they have been appropriately capitalised in accordance with the accounting requirements. This sample will include Assets Under Construction.</p>

Significant risks

Risk 3 – Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions. The key judgments in the financial statements are those which we have selected to be the significant audit risks; capitalisation of expenditure and valuation of the Authority's estate. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Our response

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

- We will risk assess journals and select items for detailed follow up testing. We do this by using computer-assisted profiling to identify journals which have characteristics of increased interest. We will then test the appropriateness of journal entries selected through this profiling activity, and other adjustments made in the preparation of financial reporting.
- We will review accounting estimates used as part of the financial reporting process for evidence of bias that could, either singularly for a major areas of estimation or in aggregate across several areas of estimation, result in material misstatements due to fraud. Other areas of estimation in addition to the above include provisions (of which the most significant are the provisions for insurance and for NNDR appeals), bad debt provisions and estimation of depreciation based on a selection of useful economic lives.
- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.



Value for money conclusion

Our risk assessment process and significant risks

We are required to provide a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code and supporting auditor guidance note require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Our risk assessment procedures include:

- Reading the annual governance statement
- Considering local and sector developments and how they impact on the Council
- Reviewing the audit report issued by our predecessor in respect of 2017/18
- Meeting with senior officers
- Reviewing reports issued by internal audit
- Reviewing other documentation of the Council including budget setting reports, financial and operational performance monitoring reports
- Reviewing reports issued by regulators.
- Understanding the arrangements in potential areas of significant risk – in particular the planning of the Council's finances and major capital projects.

- Considering any impact of the Southend 2050 plan. Southend 2050 is a change to the strategic planning approach that commenced during the period inviting stakeholders to explore and envision what they would like the area to become and changes required to achieve this.
- Review of effectiveness of working with partners and third parties including subsidiary entities.

Our risk assessment to determine whether there are any further significant risks is ongoing, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics and the outcome of any findings from the work of regulators.

We note our predecessor identified financial sustainability as a significant risk area with regard to the value for money conclusion in their plans for the 2017/18 audit. In their final opinion and linked report to this committee, the predecessor concluded by issuing a clean opinion in this regard for the 2017/18 financial statements noting suitable arrangements in place to address this risk area.

Our risk assessment is at early stages but we will consider financial sustainability as an area of consideration. We expect to carry out the majority of our risk assessment procedures in the remainder of March and early April. We will then perform update procedures in June, in particular to update for the findings of internal audit work completed in the latter part of the year, outturn performance against financial and operational metrics including the Medium Term Financial Strategy and the outcome of any findings from the work of regulators.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our audit plan, including key audit judgements and the planned scope.

⁴⁰Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

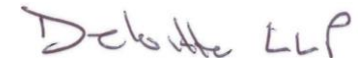
As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.



Deloitte LLP

St Albans | 19 March 2019

Appendix 1 - Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our Responsibilities:

- We are required to obtain representations from your officers regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the statement of accounts as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of valuation of land and buildings, capital expenditure and management override of controls as key audit risks for your organisation.



Fraud Characteristics:

- Misstatements in the statement of accounts can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the statement of accounts is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) officers;
 - (ii) officers who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the statement of accounts.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of accounts communicated by officers, former officers, analysts, regulators or others.

Appendix 1 - Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



Officers:

- Officers assessment of the risk that the statement of accounts may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Officers process for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether officers have knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve officers from outside the finance function in our inquiries.



Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance



- How those charged with governance exercise oversight of officers processes for identifying and responding to the risks of fraud in the entity and the internal control that officers have established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Appendix 2 - Independence and fees

Independence

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2019 in our final report to the Audit Committee.

Non-audit fees

There are no non-audit fees.

Independence Monitoring

We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Appendix 2 - Fees

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 and as set out in our fee letter issued 27 April 2018 alongside some key assumptions regarding are as follows:

	Current year £'000
Audit under the NAO's Code of Audit Practice: Council	110
Total audit	110
Other assurance services – Housing Benefit work	21*
Total fees	131

*The fee for the Housing Benefit Subsidy work is comprised of a £17k base fee and a £4k additional charge for known additional validation procedures required due to errors found in the 2017/18 assurance process and reported by our predecessor.

This document is confidential and it is not to be copied or made available to any other party. Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 1HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This page is intentionally left blank

Southend-on-Sea Borough Council

Agenda
Item No.

6

Report of the Chief Executive

to

Audit Committee

on

27th March 2019

Report prepared by: Michael Dineen, Senior Manager,
Counter Fraud & Investigation Directorate

Counter Fraud & Investigation Directorate: Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and Work Programme for 2018/19.

2. Recommendation

- 2.1 The Audit Committee notes the performance of the Counter Fraud & Investigation Directorate over the last year.**

3. Investigations

- 3.1 For the year 2018/19 good progress has been made in responding to reports of suspected fraud, with:
- **168** reports of suspected fraud have been received in the year
 - **102** reports are currently under investigation
 - **20** reports have been closed with sanctions being delivered
 - **43** reports remain under intelligence review
 - **20** intelligence reports have been disseminated to service areas
- 3.2 The reports provided to the committee this year have been amended to include additional information to demonstrate the entire work of the service. This includes 'intelligence reports' and 'intelligence disseminated.'
- 3.3 Intelligence reports – are information received of suspected fraud but limited in being able to identify an offender or other supporting information. These reports are assessed and kept under constant review in order that any correlative or new information is matched up.
- 3.4 Intelligence disseminated – these reports are where CFID have provided information to service areas or other partners, about known or suspected criminality, in order to prevent crime and stop criminal attacks on the council and its supply chain. Recent examples have included Mandate Fraud – where a

criminal mimics a 'well known' supplier and attempts to change the suppliers bank details at the council to receive money fraudulently.

4. Counter Fraud Work Plan

- 4.1 The work plan for the period 2018/19 is shown at **Appendix 1**. This work plan details the current projects of the CFID to sustain the council's security posture and proactively identify suspected fraud.
- 4.2 The work plan for this year included updates and revisions to the council's Counter Fraud, Bribery & Corruption and the Counter Money Laundering policies. These policies take account of the threat the council faces, historical detected cases, national intelligence and legislative changes, such as the 4th Money Laundering Directive. These policies were implemented and a communications release was distributed this month.
- 4.2 All proactive projects planned for this year are on target, with nearly all having been concluded. Two projects remain outstanding as planned as they cover to the end of the municipal year. The first project being the embedding of the Fraud Risk Matrix across the organisation and the second being the staff induction briefings.

5. Fraud Risk Matrix

- 5.1 The Fraud Risk Matrix was implemented earlier in the year and is used to focus and educate the council on the risk it faces, providing a dashboard for monitoring on work to combat fraud.
- 5.2 **Appendix 2** details the top ten fraud risks within the Council, this includes:
- Potential overall risk value of fraud within the top team areas
 - Potential value of fraud under investigation
 - Fraudulent value detected
- 5.3 The total detected fraud this year is **£1,934,940**, with a further **£1,725,988** under investigation.
- 5.4 At the previous audit committee members asked for information on fraud trends to be including in the next audit committee report. The report shown at Appendix 3 outlines a comparison between years 2017/18 and 2018/19.
- 5.5 The service has made significant progress this year in the high-risk areas, particularly the procurement fraud space, where in one case it was widely reported in the press that the offender, a former employee was sent to prison.

7. Corporate Implications

- 7.1 *Contribution to the Southend 2050 Road Map*
- 7.1.1 Work undertaken to reduce fraud and enhance the Council's anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

7.2 *Financial Implications*

- 7.2.1 Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.
- 7.2.2 Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.
- 7.2.3 Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

7.3 *Legal Implications*

- 7.3.1 The Accounts and Audit Regulations 2015 Section 3 requires that:

'The relevant authority must ensure that it has a sound system of internal control which:

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.'*

- 7.3.2 The work of the Directorate contributes to the delivery of this.

7.4 *People Implications*

- 7.4.1 Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings, civil law and criminal prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

7.5 *Property Implications*

- 7.5.1 Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning social housing stock to those in need or recovering the assets of those who seek to profit from their criminal behaviour.

7.6 Consultation: None

7.7 Equalities Impact Assessment: None

7.8 Risk Assessment

- 7.8.1 Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

- 7.8.2 Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

7.9 Value for Money

- 7.9.1 An effective counter fraud and investigation directorate should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

7.10 Community Safety Implications and Environmental Impact: None

8. Background Papers

None.

9. Appendices

- Appendix 1: Work Plan for 2018/19
- Appendix 2: Fraud Risk Matrix
- Appendix 3: Year on Year Fraud Trend Report

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
51 Council-wide	Revised policies for Counter Fraud, Bribery & Corruption and; Counter-Money Laundering to be produced	January 2019	Draft policies were distributed to the statutory officers, which take account of the enhanced strategies in place. The draft documents were also distributed to the council's leadership group for comment and consideration. The final draft are now submitted to the Audit Committee for approval.	David Kleinberg	Completed January 2019
Council-wide	Fraud risk matrix assessment to be delivered to all service areas	Dec 2018 – March 2019	These have been presented to corporate directors, directors and senior departmental management teams. It has now been agreed that service managers will be meeting with the CFID Investigation Manager to discuss the matrix. This will be during the remainder of 2018/19.	Michael Dineen	Initial phase completed in November 2018. On-going meetings with service managers now taking place. Planned dates to be concluded in March 2019.

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Council-wide	UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.	November 2018	The questionnaire was submitted to the council's managers for completion. That data is now being analysed for consideration of further actions for compliance.	Michael Dineen	Completed January 2019
Council-wide	Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.	November 2018	The questionnaire was submitted to the council's managers for completion. That data is now being analysed for consideration of further actions for compliance.	Michael Dineen	Completed January 2019
Proactive Fraud Drives	Conduct proactive activity to disrupt and detect fraud affecting the council.	Throughout 2018/19	Proactive work continues to be undertaken across the high-risk areas. Monthly meetings are taking place with housing and council tax to conduct pro-active operations.	Michael Dineen	Completed. Detected Council Tax Fraud reported in Corporate Matrix. These results are being fed into next year's plan.

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Investigation Review	Review of insider threat investigations with Human Resources to reviews action and learning points	Throughout 2018/19	Meetings took place with Heads of Service & HR to evaluate insider threat cases.	Michael Dineen	Completed.
Fraud Awareness Training	Training to be delivered to high risk areas – housing officers, housing allocations, temporary accommodation and right to buy	Ongoing to March 2019	Training has been delivered to Revenues, Procurement, Childcare, Essential Living Fund, Finance (Payments).	Michael Dineen / Nicola Spencer	Completed
Fraud Awareness Training	CFID to present a Fraud awareness presentation to all new employees during their 'Induction Day'. Highlighting the pathway of reporting fraud/crime and also highlighting their obligations under council policy.	Throughout 2018/19	Training sessions are conducted with all new employees attending the Induction Sessions.	Michael Dineen	Ongoing, until year-end.

This page is intentionally left blank



Southend-on-Sea Borough Council Annual Fraud Impact Measurement Matrix

	Procurement Fraud	Cyber Crime	Housing Tenancy Fraud	Money Laundering	Council Worker Fraud & Corruption
Annual Council Spend	£118,281,000	N/A	£24,544,000	£122,000,000	£65,385,000
Annual Potential Impact Percentage	4.76%	N/A	4.04%	0.89%	1.07%
Annual Potential Impact	£5,630,176	£1,600,000	£991,578	£1,085,800	£699,620
Under Investigation	£826,884	£0	£701,000	£2,000	£6,874
Proven	£726,884	£0	£0	£731,884	£307,401
55	Social Care Fraud	Grants Fraud	Insurance Fraud	Blue Badge Fraud	Revenues Fraud
Annual Council Spend	£78,132,000	£266,333	£1,919,081	£10,584,200	£89,976,000
Annual Potential Impact Percentage	4.70%	3.02%	3.99%	3.86%	1.22%
Annual Potential Impact	£3,672,204	£8,043	£76,571	£408,550	£1,097,707
Under Investigation	£82,800	£5,480	£1,600	£45,900	£53,450
Proven	£6,216	£23,389	£0	£32,000	£107,166

Total Potential Loss Impact £15,270,249

Total Amount Under-Investigation £1,725,988

Total Proven in 2017/18 £1,934,940

This page is intentionally left blank



Report on Detected Fraud Trends Between Years

Years 2017/18 to 2018/19

Crime Area	Procurement Fraud			Cyber Crime			Housing Tenancy Fraud			Money Laundering			Council Worker Fraud & Corruption		
	2017/18	2018/19	Change	2017/18	2018/19	Change	2017/18	2018/19	Change	2017/18	2018/19	Change	2017/18	2018/19	Change
Actual Value Detected	£50,000	£726,884	↑ +1,323%	£0	£0	← 0%	£108,367	£0	↓ -100%	£156,226	£731,884	↑ +368%	£8,500	£307,401	↑ +5,200%
Potential Annual Loss	£5,630,176			£1,600,000			£991,578			£1,085,800			£699,620		

Crime Area	Social Care Fraud			Grants Fraud			Insurance Fraud			Blue Badge Fraud			Revenues Fraud		
	2017/18	2018/19	Change	2017/18	2018/19	Change	2017/18	2018/19	Change	2017/18	2018/19	Change	2017/18	2018/19	Change
Actual Value Detected	£81,600	£6,216	↓ -92.55%	£291	£23,389	↑ +7,937%	£0	£0	← 0%	£90,700	£32,000	↓ -64%	£59,734	£107,166	↑ +79.40%
Potential Annual Loss	£3,672,204			£8,043			£76,571			£408,500			£7,097,707		

57

NOTES: The figures above represent full-year detected figures in year 2017/18, but only 9 months data for year 2018/19.

This page is intentionally left blank

Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

27th March 2019

Report prepared by: Andrew Barnes, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2018/19.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2018/19 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 15 March 2019. This highlights where audits contained in the original plan considered by the Audit Committee in March 2018 have changed and why.
- 3.2 **Appendix 2** sets out the results of the work completed since the last progress report to the Audit Committee in January.
- 3.3 In addition to the originally planned audit work, the team has also been assisting the organisation with the work being undertaken to deliver Transforming Together, providing challenge and advice to the teams working on delivering the outcomes required for the Council to change. Different members of the audit team have been involved in different aspects of this work, each helping to shape the direction of travel being pursued by the Council.
- 3.4 The team has also been providing challenge, advice and support on a number of other issues, initiatives and projects that the Council is undertaking and dealing with, as outlined in Appendix 1 under “Advice and Support”. Further to this the team has also been providing assistance to the Council’s wholly owned subsidiary company Southend Care.

4. Performance Targets and Resourcing

- 4.1 As outlined in the Strategy presented to the March 2018 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.
- 4.2 As at 15th March 2018:
- the team has had 15 days of sickness absence since 1st April 2018 (which impacts on productivity) and equates to 2.11 days per FTE
 - in terms of the jobs in the plan:
 - 68% of audits have finalised reports issued
 - 8.5% of audits are completed with the reports drafted and being discussed with the service managers
 - 6.5% of audits are completed with the reports drafted and being reviewed by internal audit management
 - 8.5% of audits have fieldwork nearing completion or the draft report being produced
 - 8.5% of audits remain work in progress.
- 4.3 Stakeholder surveys are completed throughout the year as audits are completed. **Appendix 3** reflects the results of the eight surveys covering 13 audits undertaken since April 2018. The feedback obtained remains positive overall, with the results showing that stakeholders feel informed, consulted, and satisfied with the ability of the Internal Audit team to effectively articulate and evidence audit findings, desired outcomes and actions required. As a result of feedback given last quarter, the team has improved the support given to junior Auditors regarding articulating their understanding of services' strategies, objectives and risks when scoping potential audit work.
- 4.5 Since the last report to the Audit Committee in January 2019 one of the audit managers has resigned and left the Council. That leaves the combined team with six vacancies. The salaries of the vacant posts are currently being used to fund audit resource brought in from external suppliers to deliver the audit plan.
- 4.6 The expected requirements of the internal audit service into the future have been assessed to determine the most appropriate team model utilising the resources available. A restructure proposal of the current team arrangement, is being developed that will be implemented once approved, resulting in an appropriate mix of experienced staff and trainees to deliver the internal audit service required by the organisations that it serves.
- 4.7 The Council participated in the most recent National Fraud Initiative (NFI) exercise in October 2018 by extracting and uploading its datasets on Creditors, Payroll, Housing, Council Tax, and Licences. As a result, the Council has received a total of 2,969 matches to date as part of the NFI exercise 2018/19. An analysis of these matches is provided at **Appendix 4**, and the 'high risk' matches are now being allocated for investigation.

5. Reasons for Recommendations

5.1 Internal audit are an assurance function providing assurance to assist the Audit Committee to effectively discharge its responsibilities as per its Terms of Reference. The delivery of the internal audit plan will assist the Audit Committee with obtaining assurance that the Annual Governance Statement appropriately reflects the conditions at the Council.

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

6.2 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.

6.3 Legal Implications

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. This report contributes to discharging this duty.

6.4 People Implications

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

6.5 Property implications

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

6.6 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Deputy Chief Executives and Directors before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Deputy Chief Executives and Directors before being finalised.

6.7 Equalities and Diversity Implications

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

6.8 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 risks the team continues to manage are the:

- potential loss of in-house staff and the ability of the service to replace this resource in a timely manner

- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners while the service is being rebuilt.

6.9 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.

6.10 Community Safety Implications

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

6.11 Environmental Impact

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

7. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendices

Appendix 1 Internal Audit Plan 2018/19

Appendix 2 Audit Assurance and Themes

a Satisfactory Assurance

b Partial Assurance

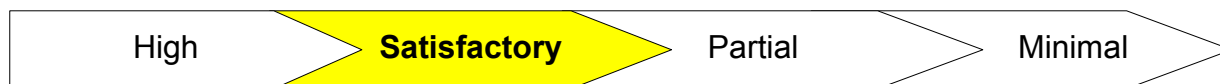
c Other Audits and Grants

Appendix 3 Stakeholder survey results

Appendix 4 National Fraud Initiative

Appendix 2a: Assurance and Themes

Assurance



Data Quality of Children's Services Key Performance Indicators

Objective

To assess whether there are adequate and effective arrangements in place to produce accurate, complete and timely performance indicators for the Senior Management Team and / or Board.

Themes

There were no exceptions found in the calculations for the four Key Performance Indicators (KPIs). This is mainly due to the Operational Performance & Intelligence team implementing a well-controlled KPI process with recognised good practice data quality procedures.

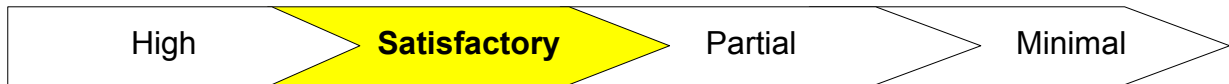
However, there is an opportunity to improve the consistency in documenting quality assurance (QA) outcomes to ensure senior management can be fully confident that the data produced has been through appropriate QA procedures to ensure it is accurate.

While the process for producing the KPIs is Satisfactory, the audit did identify issues with the timeliness of data entered by social workers that could have significant impact on the information produced.

This page is intentionally left blank

Appendix 2a: Assurance and Themes

Assurance



Data Quality of Children's Services Key Performance Indicators

Objective

To assess whether there are adequate and effective arrangements in place to produce accurate, complete and timely performance indicators for the Senior Management Team and / or Board.

Themes

There were no exceptions found in the calculations for the four Key Performance Indicators (KPIs). This is mainly due to the Operational Performance & Intelligence team implementing a well-controlled KPI process with recognised good practice data quality procedures.

However, there is an opportunity to improve the consistency in documenting quality assurance (QA) outcomes to ensure senior management can be fully confident that the data produced has been through appropriate QA procedures to ensure it is accurate.

While the process for producing the KPIs is Satisfactory, the audit did identify issues with the timeliness of data entered by social workers that could have significant impact on the information produced.

This page is intentionally left blank

Appendix 2b: Audit Assurances and Summaries

Assurance



Building Control (Feb 2019)

Objective

To assess the robustness of arrangements to ensure a consistent, effective and commercial Building Control service is delivered to the residents of Southend in accordance with the statutory requirements of the Building Act 1984 and Building Regulations 2010.

Summary

Building Control continue to deliver a suitable service to the residents of Southend, but their market share of Building Control applications is reducing each year.

There is a need for the Building Control team to introduce a strategy to set out the overall objectives for the service, performance quality targets that can be used to assess the quality of the service that Building Control deliver and how Southend-on-Sea Borough Council will respond to market changes so that it can retain a stable market share.

Number of actions agreed: 10

Information Governance - GDPR (Feb 2019)

Objective

To assess whether Southend on Sea Borough Council (the Council) has an appropriate programme of work to ensure compliance with General Data Protection Regulations (GDPR) and the Data Protection Act 2018.

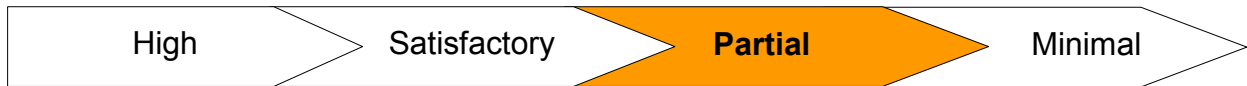
Summary

A comprehensive programme of work was scoped in advance of GDPR, supported by a specialist third party review to ensure it covered the necessary areas. Implementation was overseen by a range of governance forums, most importantly the Corporate Information Governance Group (CIGG), with senior membership. However, there are a number of significant issues which need to be addressed before the Council can regard GDPR compliance as 'business as usual'. As a result of these shortcomings the audit assurance that has been issued is "partial assurance". The highest priority issues are:

- Subject Access Requests (SARs): the Council has not met statutory response deadlines for 27 of the 78 SARs initiated since the 1st April 2018.
- Contracts: the Council has not quantified the number of contracts that will require variations to comply with GDPR.

Appendix 2b: Audit Assurances and Summaries

Assurance



- IT Systems: the Council has seven systems from which it may not be possible to delete data (required to comply with GDPR), including key systems such as the Business World system, used for HR, the widely used Civica Document Management System (DMS) and the archived care management system, CareFirst.

Number of actions agreed: 14

Appendix 2c: Other Audits and Grant Claims

Social Care Payments to Individuals and Providers – Adults Services

Objective

To provide on-going support and challenge to the control framework being designed into the new Liquid Logic (LAS) case management system and the ContrOCC finance module, which ensures the accuracy and timeliness of payments due to support children.

Current Status

The challenge and support provided particularly focused on known weaknesses in arrangements identified in previous audits. As the work progressed, its coverage broadened out into other related areas.

Therefore, during this work, advice and support has been given with regard to the design of processes to ensure:

- ContrOCC system access granted to users responsible for approving payments is in line with the Council's Scheme of Delegation
- manual adjustments are only made when appropriate, and that their use is independently monitored to confirm this
- batch interface files between the ContrOCC finance module and the Council's key financial system Unit 4 Business World had limited risk of manual intervention. In addition, there are timely reconciliations between the systems to confirm the accuracy of payments due to be made
- suitable restrictions and clear processes exist regarding the ability to undertake 'system rollbacks' on LAS to minimise their occurrence to a small number of circumstances. This is significant because of the knock on impact on ContrOCC, especially where payments have already been made.

Troubled Families Programme, Payments by Results Scheme Grant

Objective

To assess compliance with the terms and conditions of the Ministry of Housing, Communities and Local Government's (MHCLG) Financial Framework for making Payment by Result (PBR) claims under the Expanded Troubled Families Programme (Phase 2).

Background

The Financial Framework requires that Internal Audit verifies a 10% representative sample of PBR claims before they are made to ensure there is supporting evidence to confirm families:

- met the required criteria to be considered for entry to the expanded Troubled Families Programme
- have achieved either continuous employment or significant and sustained progress as defined by the Council's agreed Outcomes Plan.

Appendix 2c: Other Audits and Grant Claims

Larger sample sizes may be required for smaller claims in order to ensure the audit is meaningful.

Conclusion

Between January and February, 36 PBR claims were presented for audit prior to submission to the MHCLG.

Claims continue to be reviewed and challenged at 'Outcome Surgeries' established by the Early Help and Family Support team. These aim to ensure the criteria of the Council's Troubled Families Outcome Plan have been met and can be evidenced. Additionally, the Team Manager reviews a minimum of 10% of claims to confirm appropriate evidence has been provided.

Of the 36 claims presented, the Team Manager reviewed 8. Internal Audit randomly selected five claims for review, which included two checked by the Team Manager. For all cases reviewed by Internal Audit suitable evidence was available to support:

- entry into the programme
- a claim for either significant and sustained progress, or continuous / subsequent employment.

This demonstrates that both the 'Outcome Surgeries' and the Team Manager's quality assurance checks are working effectively to ensure sufficient evidence is available to support required troubled family outcomes and the PBR claims made.

Service Transformation Maturity Model

The Service Transformation Maturity Model is a key objective of the Troubled Families Programme. It aims to bring together partner organisations together to work collaboratively in securing sustainable, high quality services for families after the programme ends in 2020.

In December 2018, Internal Audit attended the 'Troubled Families Service Transformation and Data Maturity Model' workshop. Alongside other key strategic partners, work was undertaken to pull together a comprehensive set of actions to support the development of the Early Help approach.

Internal Audit will continue to support the service with the development of the Maturity Model as needed.

Appendix 2c: Other Audits and Grant Claims

Procurement Joint Venture Partner - Better Queensway Regeneration Project

Objective

To assess whether the needs and outcomes required are properly assessed, appropriately translated into the contract and Contract Procedure Rules are properly applied.

Outcome of the work

The Internal Audit team worked closely with the Corporate Procurement and Project teams to review processes and procedures and develop learning as the procurement progressed to ensure that a robust and compliant process was followed.

There were individual audits at the various key stages of the process i.e. post:

- Selection Questionnaire evaluation and moderation,
- Invitation to detailed solutions
- Invitation to Refined Solutions; and
- throughout the Final Tender stage.

Recommendations were discussed and agreed after each stage and ahead of the next stage to strengthen processes. A key deliverable was the development of an evaluation and moderation tool, which clearly mapped across the key elements of the offer at the final tender stage to the requirements in each of the technical (qualitative) questions and the requirements set out in the objectives.

This provided a clear evidence tool and rationale for determining the value for money outcome in relation to the final tender submission.

The approach adopted of providing live feedback and assurance has been positively received and proved to be effective in terms of working together with colleagues to achieve the desired outcomes for the Council.

This page is intentionally left blank

Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

Setting up and planning the audit (PSIAS 1200 / 2200)		
1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	75%
Performing the audit (PSIAS 2300)		
2	Did we work effectively with you when doing the audit to minimise the impact on your service?	75%
3	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	83%
Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)		
4	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	92%
5	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	92%
6	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	100%
Independence and Objectivity (PSIAS 1100)		
7	Did we provide relevant evidence to back up our findings if required?	88%
8	At the end of the audit, did you understand the rationale for the overall opinion given?	92%
Managing the Internal Audit Activity (PSIAS 2000)		
9	Do you think internal audit adds value to the Council?	100%

This page is intentionally left blank

Appendix 4: National Fraud Initiative 2018/19 Exercise

Background

The NFI has recently changed its risk scoring process. In previous years, reports were given one of three different quality gradings - High, Medium and Low - and within these gradings the NFI would highlight certain matches as “Recommended”, according to their overall fraud risk.

As of January 2019, the NFI is now using a “Fraud Risk View” to encourage an overall review of all the matches relating to an individual rather than reviewing matches that relate to the same person in isolation. The Fraud Risk View displays the count of individuals with potential fraud risk factors identified. This is broken down into dataset types, e.g. Housing Benefit Claimants, Housing Tenants or Blue Badge Parking Permits. Individuals are assigned a risk score based on all the matches they appear within for each particular risk area. Individuals are then categorised into high, medium, low or nil risk depending on their total risk score for each particular risk area.

In previous NFI exercises, the Council normally only processed **Recommended** matches on **high** level reports. For the 2018/19 exercise, the Council will be processing all “**High Risk**” matches from all available reports.

The summary table below lists the total number of matches by report.

Any Department may process additional matches if they wish to. If they do, then these additional matches will be classed as High Risk.

Current Figures

The Council has received a total of 2,969 matches across 11 Fraud Risk Area reports, with 1,102 of these being classed as High Risk.

As it is essential that the Council has sufficient resources and expertise available at the right time to maximise the outcomes of the NFI, the Key Contact is currently working to identify users to investigate matches and act as Lead Dataset Contacts for each dataset. Once the required users are identified and trained, target completion dates for processing all High Risk matches will be confirmed.

Concessionary Travel Pass matches will be processed on the Council’s behalf by Euclid.

Fraud Risk Area	High Risk Matches	Medium Risk Matches	Low Risk Matches	Nil Risk Matches	Total
Blue Badge Parking Permit	187	44	1	0	232
Concessionary Travel Pass	569	560	0	0	1129
Council Tax Reduction Scheme	39	459	127	25	650
Housing Benefit Claimants	72	26	523	11	632
Housing Tenants	41	23	7	2	73
Payroll	17	9	0	0	26
Personal Alcohol Licence	2	0	0	0	2
Personal Budgets	2	9	9	1	21
76 Private Residential Care Homes	20	25	0	0	45
Right to Buy	3	3	1	0	7
Waiting List	150	1	1	0	152
Total	1102	1159	669	39	2969

Southend-on-Sea Borough Council

Agenda
Item No.

8

Report of the Chief Executive

to

Audit Committee

on

27th March 2018

Report prepared by: Andrew Barnes, Head of Internal Audit

Internal Audit Charter, Strategy and Audit Plan for 2019/20

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 Audit Plan for 2019/20.

2. Recommendation

- 2.1 The Audit Committee approves the Charter, Strategy and Audit Plan for 2019/20.**

3. Background

- 3.1 The Accounts and Audit Regulations 2015 (Regulations) make it a requirement for internal audit to take into account public sector internal auditing standards or guidance in delivering the service.
- 3.2 The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a:
- Charter
 - a risk based plan that:
 - takes into account the:
 - requirement to produce an annual internal audit opinion
 - 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 and Priorities.

4. Charter, Strategy and Audit Plan

- 4.1 In order to comply with the Standards, the approach proposed for delivering the service, is 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 and includes the:
 - Internal Audit Plan for 2019/20
 - statement showing how audit work completed during the year will provide assurance regarding the mitigation of the Council's strategic risks
 - How We Will Work With You Statement.
- 4.2 The following paragraphs explain key amendments to the documents which were last presented to the Audit Committee in April 2018. These are also highlighted in **bold** within the documents themselves for ease of reference.
- 5. Charter (Appendix 1)**
- 5.1 The minor amendments made to the Charter this year relate to:
- changes in officer roles
 - identifying the scope for coordination and reliance with other assurance providers.
- 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 A few very minor amendments have been made to the Strategy this year. These are cosmetic and don't change the manner in which the audit service provided is delivered under the Collaborative Working Agreement. The Strategy also sets out the team's performance indicators for the year.
- 6.3 As outlined in the Strategy, activities are only considered for inclusion in the Audit Plan if:
- they are assessed as being significant enough to require periodic independent review
 - this independent assurance is not being provided elsewhere (e.g. Ofsted).
- 6.4 The coverage provided within the proposed Audit Plan for 2019/20 (Appendix 2a) is based upon the audit approach outlined in the Strategy which complies with the requirements of the Standards.

- 6.5 The Audit Plan looks to provide some assurance regarding the delivery of the Council's Ambition and Outcomes and as many Corporate Risks as possible. Other factors that influence what is in this year's Audit Plan include, for example:
- when activities were last reviewed and the results of that work
 - whether there are any significant changes involving an activity e.g. new IT software, loss of key staff etc.
 - the level of spend and corporate profile of the activity
 - emerging risks highlighted by senior management or other sources.
- 6.7 The Audit Plan will be reviewed late summer to re-assess whether there are any changes to the risk profile and therefore, the work planned for later in the year. As is usual practice, any proposed future amendments to the Audit Plan will be reported to the Audit Committee for approval.
- 6.8 Appendix 2b identifies where audit reviews provide some assurance regarding the management of the Council's corporate risks.
- 6.9 The How We Will Work With You Statement (Appendix 2c) outlines the consultation and engagement that internal audit undertakes with management for the different elements of internal audit work.

7. Corporate Implications

7.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

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 July meeting.

7.4 People Implications

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

Resourcing issues relating to the team are covered in the Strategy.

7.5 Property Implications

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

7.6 Consultation

This is set out in the Strategy.

7.7 Equalities and Diversity Implications

Not applicable to these documents.

7.8 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.

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
- that it becomes increasingly difficult to:
 - engage staff in service departments within the audit process
 - obtain information at all or in a timely way, so that a full review can be completed
 - discuss and agree opinions and action plans as the resources to implement them become more stretched.

Additional time has been built into the Audit Plan for managing external contractors.

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

7.9 Value for Money

Internal Audit undertook a service review in 2013/14 which demonstrated that the cost of the service was competitive. This was reconfirmed as part of the external service review completed in September 2016, and supported by the external assessment that was undertaken in October 2017.

This needs to be taken in conjunction with the other indicators reported upon quarterly, when assessing whether the service provides value for money.

7.10 Community Safety Implications

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

7.11 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 Plan for 2019/20
 - Appendix 2b Audits assurance linked to the Council's corporate risks
 - Appendix 2c: How We Will Work With You Statement

This page is intentionally left blank



Internal Audit Charter

Subject to annual review by Head of Internal Audit
Reported to the Audit Committee: March 2019

Appendix 1: Internal Audit Charter

Introduction

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (the Standards) and the CIPFA Local Government Application Note.

The Charter will be reviewed annually and presented to the Audit Committee for approval.

Service Objective

The key objective for Internal Audit is to complete sufficient work in order to enable it to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's governance processes, risk management and internal controls established to enable it to achieve its planned outcomes.

This includes the Council's working arrangements with partners, contractors and third parties.

In doing this, Internal Audit aims to:

- deliver a high quality, cost effective service in line with best practice and professional standards
- work constructively with management to support new developments and major change programmes
- be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls
- be flexible and responsive to the needs of the organisation in all its work
- **help** promote an anti-fraud and corruption culture within the organisation.

Responsibilities

Internal Audit is '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes*'¹.

In a local authority, internal audit:

- provides independent and objective assurance to the organisation, its Members and the Corporate Management Team regarding the design and operation of its risk management, control and governance processes
- assists the **Strategic Director (Finance and Resources)** in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is management's responsibility to:

- establish and maintain appropriate governance arrangements and internal control systems

¹ Institute of Internal Auditors

Appendix 1: Internal Audit Charter

- ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

Statutory Role

Internal Audit is a statutory service in the context of the Local Audit and Accountability Act 2014 and its supporting Accounts and Audit Regulations 2015, which state in Part 2, Internal Control, Section 5, that:

“A relevant authority must 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.

Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit:

- *make available such documents and records*
- *supply such information and explanation*

as are considered necessary by those conducting the internal audit.”

This is reinforced by the Standards (1000 Purpose, Authority and Responsibility) which require that Internal Audit be provided with *access to records, personnel and physical properties relevant to the performance of engagements.*

Internal Audit operates under the Chief Financial Officer's statutory authority to visit any Council land or premises should this be required.

This statutory framework is supported by the Council's Financial Regulations.

Independence and Accountability

Internal Auditors must conform to the Standards, Code of Ethics as well as those relating to any professional body they are members of. The Code of Ethics includes two essential components i.e.:

- Principles that are relevant to the profession and practices of internal auditing
- Rules of Conduct that describe behaviour norms expected of internal auditors.

These are defined in more detail in the Strategy but cover Integrity, Objectivity, Confidentiality and Competency.

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations.

Internal auditors have no operational responsibilities. **Where the Head of Internal Audit is responsible for other services, arrangements are in place to ensure that any:**

- **internal audit work in these areas, is subject to appropriate independent review**
- **conflicts of interest are avoided.**

Appendix 1: Internal Audit Charter

Internal Audit determines its priorities in consultation with 'Those Charged with Governance'. The Head of Internal Audit has direct access to and freedom to report in **his** own name and without fear of favour to, all officers and Members and particularly 'Those Charged with Governance' including the Chief Executive and Chair of the Audit Committee. This independence is further safeguarded by ensuring that the Head of Internal Audit's annual appraisal / performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of Audit Committee contribute to this performance review. The Head of Internal Audit must confirm to the Audit Committee, at least annually, on the organisational independence of the service.

Internal Audit may also provide advisory and related client service activities, the nature and scope of which are agreed with the Council. They are intended to add value and improve an organisation's risk management, control and governance processes, examples of which include counselling, advice, facilitation and training. In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit.

Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

All Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

When co-ordinating activities internal audit may seek to rely on the work of other assurance and consulting service providers. A consistent approach is adopted for the basis of reliance and internal audit will consider the competence, objectivity and due professional care of the assurance and consulting service providers. Due regard will be given to understanding of the scope, objectives and results of the work provided by other providers of assurance and consulting services. Where reliance is placed upon the work of others, internal audit remains responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

Internal Audit Scope

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessments (including those set out within Council's risk registers). Extensive consultation also takes place with key stakeholders.

The framework used for evaluating the Council's governance, risk management and control arrangements (as required by the Standards) is set out in the supporting Strategy.

If circumstances arise whereby assurances are to be provided to parties outside the Council, the nature of and approach to be adopted to providing them will be discussed with relevant senior management.

Appendix 1: Internal Audit Charter

The Head of Internal Audit can consider accepting proposed consulting engagements (should resources allow), based on their potential to improve the management of risks, add value and improve the organisation's operations. Accepted engagements must also be included in the Audit Plan.

Reporting Lines and Relationships

Responsibility for ensuring that statutory internal audit arrangements are in place has been delegated to the **Strategic Director (Finance & Resources)** (Section 151 Officer) who is a member of the Corporate Management Team. These arrangements form a key element of the Council's corporate governance framework.

Therefore the **Strategic Director (Finance & Resources)** discharges the administrative responsibilities for managing the internal audit service whilst it reports functionally to the Audit Committee. Details of the functional role of the Audit Committee in this respect should be set out in its Terms of Reference (including its annual work programme).

In discharging this function role, the Audit Committee receives reports that cover the results of internal audit activity and details of Internal Audit performance, including progress on delivering the Audit Plan.

In addition, Internal Audit provides an annual report and opinion to senior management and the Audit Committee on the adequacy and effectiveness of the Council's system of internal control including its risk management, control and governance arrangements.

The Head of Internal Audit also:

- has regular briefings individually with the Chief Executive, Deputy Chief Executives and the **Strategic Director (Finance & Resources)**
- attends the Council's Good Governance Group which includes the Section 151 Officer and Monitoring Officer and reports to the Head of Paid Service.

Full details of how internal audit works with key officers, management and Members are set out in the Strategy, Appendix 2c, How We Will Work With You Statement.

No information or reports concerning audit work undertaken on behalf of the Council will be released to anyone not working for the Council, without its permission.

Internal Audit Standards

There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'UK Public Sector Internal Audit Standards' (the Standards) as defined by the Institute of Internal Auditors (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA), which are based upon the International Professional Practices Framework (IPPF). These Standards have been adopted by the Council's Internal Audit Service.

Appendix 1: Internal Audit Charter

Therefore its Mission (as set out in the IPPF) is *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'*. In delivering this, the service commits to operating in accordance with the IPPF's core principles, which requires that it:

- demonstrates integrity
- demonstrates competence and due professional care
- is objective and free from undue influence (independent)
- aligns with the strategies, objectives and risks of the organisation
- is appropriately positioned and adequately resourced
- demonstrates quality and continuous improvement
- communicates effectively
- provides risk-based assurance
- is insightful, proactive and future-focused
- promotes organisational improvement.

With regard to the application of these Standards only, the Council's Audit Committee takes the role of the 'board' and Corporate Management Team, that of 'senior management'.

In accordance with the Standards, Internal Audit is subject to a quality assurance and improvement regime. This consists of an annual self assessment of the service against the Standards, on-going performance monitoring of individual reviews and an external assessment at least every five years by a suitably qualified, independent assessor. The results of all of this activity are reported to the Corporate Management Team and the Audit Committee, along with details of any instances of non-conformance. Where non-conformance is considered significant, this will also be included within the Council's Annual Governance Statement.

The Accounts and Audit Regulations 2015 require local authorities to produce an Annual Governance Statement in accordance with proper practices. CIPFA's Delivering Good Governance guidance has been given 'proper practice' status by the **Ministry of Housing, Communities and Local Government** for this purpose. Therefore, the Head of Internal Audit aims to comply with the CIPFA Statement on The Role of the Head of Internal Audit in Public Service Organisations 2010, wherever possible, as required by the guidance.

Internal Audit Resources

It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and maintain their professional competence through an appropriate on-going development programme.

The Head of Internal Audit is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

Appendix 1: Internal Audit Charter

In addition to in-house audit staff, the Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

The Head of Internal Audit is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby she / he concluded that resources were insufficient, **he** must formally report this to the **Strategic Director (Finance & Resources)** and, if the position is not resolved, to the Audit Committee.

The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

Fraud and Corruption

Managing the risk of fraud and corruption is the responsibility of management not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption to occur.

The joint Counter Fraud & Investigation Directorate (the Directorate), a public authorities collaboration hosted by Thurrock Council and Southend-on-Sea Borough Council, will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy. The Internal Audit Service will work collaboratively with the Directorate where necessary, to ensure system or process weaknesses identified during investigations are addressed.

The Head of Internal Audit must also be informed of all suspected or detected cases of fraud, corruption, bribery or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for the annual opinion on the control environment.

This page is intentionally left blank



Internal Audit Strategy

Subject to annual review by Head of Internal Audit
Reported to the Audit Committee: March 2019

Appendix 2: Internal Audit Strategy

Introduction

The Internal Audit Charter sets out the service objective for Internal Audit, which is to provide an annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes, designed to deliver its **Ambition and Outcomes**.

This Strategy sets out how the service will be delivered and developed in accordance with the Charter and how it links to the delivery of the Council's **Ambition and Outcomes**.

Code of Ethics

All internal auditors working for the Council will comply with:

- the Code of Ethics contained within the UK Public Sector Internal Audit Standards (the Standards) which define:
 - principles that are relevant to the profession and practice of internal auditing
 - rules of conduct that describe behaviour norms expected of internal auditors.
- the ethical standards of any professional body they are members of
- the Nolan Committee's *Seven Principles of Public Life* as reported in the Constitution.

The four key principles the Code of Ethics adopts are as follows:

- The **integrity** of internal auditors establishes trust and this provides the basis for reliance on their judgement.
- Internal auditors:
 - exhibit the highest level of professional **objectivity** in gathering, evaluating and communicating information about the activity or process being examined
 - make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Internal auditors respect the value and ownership of information they receive and do not disclose information (**confidentiality**) without appropriate authority unless there is a legal or professional obligation to do so.
- Internal auditors apply the knowledge, skills and experience (**competency**) needed in the performance of internal auditing services.

Inappropriate disclosure of information or breaches of the Code of Ethics by internal auditors could be a disciplinary offence.

All staff working on the Council's audit will be required to sign an Ethical Governance Statement. In house staff will be required to declare any interests prior to starting an audit and to formally update their statement as part of their six monthly appraisal meetings.

Appendix 2: Internal Audit Strategy

Basis for Annual Audit Opinion

In summary, the audit opinion will be based upon an assessment of:

- the design and operation of the key processes operated by the Council in order to manage its business (e.g. governance arrangements)
- the range of individual opinions arising from risk-based and other audit assignments delivered during the year (e.g. service activities and financial systems)
- an assessment of how robustly actions agreed are implemented and whether this is achieved in a timely manner
- the outcome of any other relevant work undertaken (whether internally or externally) where independent assurance is provided about the operation or performance of a service / system.

Audit Approach

The audit approach is designed to provide the Council with assurance that its risk management, control and governance processes are robust enough to ensure its **Ambition and Outcomes** will be delivered.

It also takes into account, where applicable, the need for the Council to gain assurance that any partnership or other agreement to which it is party, is also operating successfully to achieve this end.

The framework used for evaluating the Council's, risk management, control and governance arrangements (as required by the Standards) is set out below.

Governance

Over a suitable period, an assessment will be made of the adequacy of governance process in accomplishing the following objectives:

- promoting appropriate ethics and values within the Council
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the Council
- co-ordinating the activities of, and communicating information among, the Audit Committee, external and internal auditors and management.

In doing this, Internal Audit will:

- evaluate the design, implementation and effectiveness of ethics-related objectives, programme and activities
- assess whether the information technology governance supports the delivery of the Council's **Ambition and Outcomes**.

Appendix 2: Internal Audit Strategy

Risk Management

In determining how effective risk management arrangements are, assessments will be made of whether:

- the Council's **Outcomes and Roadmap** support and align with its **Ambition**
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the Council's risk appetite
- relevant risk information is captured and communicated in a timely manner across the Council, enabling staff, management, Members and the Audit Committee to carry out their responsibilities.

This information will be gathered from many sources including audit assignments undertaken each year.

Risk exposures relating to governance, operations and information systems will also be evaluated regarding the:

- achievement of the Council's **Ambition and Outcomes**
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit will also evaluate the potential for the occurrence of fraud, corruption, bribery, theft or financial irregularities and how the Council manages these risks.

Control

An evaluation will be made of the adequacy, effectiveness and efficiency of controls in responding to risks within the Council's governance, operations and information systems (taking into account the same areas outlined in the bullet points in the risk exposures paragraph above).

Types of Assurance Provided

Audit assignments will apply one or a combination of approaches which include assessing:

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

Internal Audit will make recommendations for improving any services, systems or processes audited with a view to promoting continuous improvement.

Appendix 2: Internal Audit Strategy

Any knowledge gained from consultancy engagements will be incorporated into the evaluation of the Council's, risk management, control and governance processes.

Limitations

Internal Audit will not:

- assume management responsibilities
- control the risks of the Council
- establish and maintain any systems of internal control
- determine operational policies or procedures
- necessarily detect fraud, corruption, bribery, theft or financial irregularities as part of its work as management is responsible for mitigating these risks.

Risk Assessment

A risk based approach will be used to identify areas for review, which takes into account the risk maturity of the Council. The risk assessment will be based upon professional judgement but be informed by:

- key corporate and service level documents (e.g. plans and risk registers)
- regular discussions with the Chief Executive, Deputy Chief Executives (People and Place) and the **Strategic Director (Finance & Resources)**
- at least annual discussions with all Directors and periodic discussions with Group and Service Managers as required
- the work of the Good Governance Group
- the audit risk assessment
- horizon scanning to establish potential new risks that may materialise during the year
- outcomes from other relevant, independent audits, inspections or work undertaken.

An audit risk assessment will be maintained which includes all service activities as well as key financial systems and business management processes. This helps identify activities that:

- are 'higher risk' because, for example, they are inherently complex, material or susceptible to fraud but well controlled
- will not be audited unless a specific, one off risk arises or their general risk profiles increases.

It is more important for higher risk activities, that management obtain periodic, independent evidence that the controls remain appropriate and are consistently applied. A significant control failure in these areas could have a serious impact on the Council's ability to deliver its services and overall **Ambition and Outcomes**.

Appendix 2: Internal Audit Strategy

In assessing the level of assurance required and therefore the priority attached to each Council service, account will be taken of:

- financial risk
- outward facing risks (including reputational risk)
- operational risks (including those relating to partnerships)
- legal and political risks
- people and property risks (including health & safety and safeguarding)
- inherent risk (including that of fraud).

The audit risk assessment will be discussed at least annually with the Chief Executive, Deputy Chief Executives (People and Place) and Directors. An annual assessment will be made with the **Strategic Director (Finance & Resources)** as to whether any assurance is required regarding key financial systems to support the production of the Statement of Accounts.

Internal Audit will decide which action plans to revisit on a risk basis. Where it is determined that further work is required to ensure agreed actions have been properly implemented, this will involve re-testing to ensure:

- this is the case
- the strengthened control arrangements are firmly established in the day to day running of the service.

Assurance Framework

Before producing the Audit Plan, an assessment will be made of the evidence already available regarding the:

- operation of individual services
- management of corporate, strategic or operational risks
- effectiveness of the Council's governance arrangements.

This evidence will be recorded as part of the audit risk assessment documentation. As part of planning the audit, the value of this evidence will be evaluated by assessing:

- what risks and controls such assurance covers
- at what stage in the process it takes effect (see Three Lines of Defence model outlined below) and therefore how quickly it would mitigate the risk
- how reliable it is, which is likely to include some re-performance work to confirm the validity of the findings before it is relied upon for audit purposes.

Appendix 2: Internal Audit Strategy

Coordinating the Three Lines of Defence

First Line of Defence	Second Line of Defence	Third Line of Defence
Risk Owners / Managers	Risk Control and Compliance	Risk Assurance
Operational management	Corporate management type functions	Internal Audit
Delivers the service	Limited independence	Greater independence
Reports through the normal line management structure	Reports primarily to management	Reports to the Audit Committee

Audit Plan

As at March 2019, the service still has a number of vacant posts. Therefore, the service will remain heavily reliant on external contractors during the year, which will reduce the number of days that can be delivered from each Council's internal audit budget.

In the interim, a staff resource needs assessment will be maintained for the in-house resource to calculate the capacity of this element of the service. A view will then be taken about external resources required to:

- cover vacancies
- deliver audits that require specialist skills.

A programme of audits will be agreed with senior management based on the assessment of risk outlined above. The Audit Plan will:

- mainly focus on:
 - risk based reviews that assess how well core services are being delivered
 - revisiting previous audits to ensure that agreed action plans have been properly implemented, so the controls are fully embedded in the day to day operations of the service or process.
- include time for:
 - some work on:
 - the Council's arrangements for managing its business
 - key financial systems and grant claims
 - providing advice and support
 - audit planning, managing audit plan delivery which includes managing contractors; and reporting.

Going forward, the remaining schools will only be audited at the Council's request, should there be concerns about their performance.

Therefore the Audit Plan, attached at **Appendix 2a**, reflects the results of the risk assessment and the information gathered about the Council's assurance framework. It shows how the work will provide evidence that risks relating to

Appendix 2: Internal Audit Strategy

the delivery of the Council's **Ambition and Outcomes** are being managed effectively. **Appendix 2b** maps audit work against corporate risks.

A contingency budget has been included in the Audit Plan. Requests received to use this budget will be risk assessed before being approved. Once this budget has been fully used, any risks that arise during the year will be considered against the risk profile of the work already planned and the audit risk assessment before:

- a review is deleted and replaced by a new audit
- additional audit resource is purchased if necessary, in exceptional circumstances.

Consultancy engagements, if accepted in year, will also be included in the Audit Plan.

Changes to the Audit Plan will be reported to senior management for review and the Audit Committee for approval.

Fraud and corruption risks will be considered when determining the focus of each relevant audit. Any investigations into fraud, corruption, bribery, theft or financial irregularities that arise will be undertaken by the Counter Fraud and Investigation Directorate (the Directorate) under the Collaborative Working Agreement the Council has with Thurrock Council. The Internal Audit team will work closely with the Directorate to ensure an effective and integrated service is provided.

Resources

Southend-on-Sea Borough Council and Castle Point Borough Council have signed an Internal Audit Collaborative Working Agreement to use their combined internal audit resources to provide a service to both Councils. The core team is then supplemented as required, by resources obtained via framework contracts with external suppliers. This service is managed by a jointly appointed Head of Internal Audit.

The strategy will be to continue with this mixed economy approach to resourcing the service as long as costs remain competitive, productivity is high and quality standards are met, as measured by delivery of the agreed performance indicators.

Work will be allocated to staff with the appropriate skills, experience and competence to complete it. Where the Head of Internal Audit is responsible for an area being audited, arrangements will be made for the work to be supervised and reviewed by an appropriately qualified person from outside the service.

Up to date job profiles will be maintained reflecting modern professional requirements.

Staff will not be allowed to audit the same area for more than three consecutive years thus preventing over-familiarity and complacency that could influence objectivity.

Appendix 2: Internal Audit Strategy

Training and Development

Staff development needs will be continually assessed and fed into the service's training plan to ensure that appropriate skills are available to deliver the Strategy. Consideration will also be given to the need for staff to meet mandatory continued professional development requirements.

Staff will maintain individual training logs that satisfy relevant professional standards. These will be reviewed by line managers at least every six months as part of the corporate performance appraisal process.

Opportunities to purchase tailored training with other organisations will continue to be explored.

Service Performance Indicators

When the service is more fully resourced and settled, the suite of indicators that will be used to measure performance will cover economy, staff productivity, efficiency and effectiveness and consist of:

- delivering 100% of the Audit Plan by the 30 April
- issuing draft reports to the service within 15 days of the final meeting to discuss the findings from the fieldwork
- delivering 75% of total available staff days on delivering the Audit Plan
- losing less than five days per full time equivalent due to sickness absence
- operating in the manner set out in the Standards at team and individual audit level as evidenced by:
 - the annual internal review completed by the Head of Internal Audit
 - five yearly independent, external performance assessments.
- completing a representative sample of stakeholder surveys that assess compliance with element of the Standards:
 - reporting the results regularly to the Audit Committee, with actions to be taken to improve performance, where required
 - reflecting the results in the annual performance assessment reported upon in the Head of Internal Audit Annual Report.
- discharging the duties set out in the CIPFA Statement on the Head of Internal Audit role, wherever possible
- demonstrating periodically that the cost of the service is competitive.

For 2019/20, performance targets will consist of:

- delivering 100% of the Audit Plan by the July Audit Committee
- those relating to sickness and stakeholder surveys.

Performance against targets set will be reported to senior management and the Audit Committee each quarter.

Appendix 2: Internal Audit Strategy

Delivering Audit Assignments

An audit manual will be maintained that guides staff in the performance of their duties. It will be reviewed regularly to reflect changes in working practices and standards. This will ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. The standard of files will be such that an experienced auditor, with no previous connection with the audit, will be able to ascertain what work was performed, re-perform it if necessary and support the conclusions reached.

The service will adhere to the Council's clear desk policy with regard to client information and audit files.

Audit files will be retained in accordance with the Council's file retention and disposal policy and comply with the General Data Protection Regulation requirements.

Generally audit files and records are confidential. They will only be shared with the service being audited and external audit. If wider distribution is required, permission must first be obtained from the Head of Internal Audit.

How We Will Work With You

Appendix 2c sets out how the service will work with key officers, management and Members within the Council, which includes details of who will receive key documents and reports.

Internal Audit will liaise with senior management regarding the timing of individual assignments wherever possible.

Terms of Reference and Draft Reports will be discussed and agreed to be factually correct with Group and Service Managers and Directors before being finalised with the Deputy Chief Executives.

Distribution lists are contained on the front of each report and are agreed in principle, with senior management.

Internal Audit reports contain a disclosure stating they should not be shared with anyone else without the permission of the Head of Internal Audit.

Audit reports will generally be designed to:

- give an opinion on the risk and controls in the area under review
- set out the issues arising, detail the action management is going to take to address them, identify who is accountable for each action and note appropriate delivery dates.

Those weaknesses giving rise to significant risks that are not agreed will be brought to the attention of senior management and if necessary the Audit Committee.

The Head of Internal Audit Annual Report will include:

- an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes
- a summary of work completed

Appendix 2: Internal Audit Strategy

- a statement of conformance with the Standards and the results of the Quality Assurance and Improvement Programme
- a comparison of actual work completed compared to what was planned as well as performance against its targets
- issues relevant to the preparation of the Annual Governance Statement
- progress in dealing with issues arising from any external performance assessment.

Audit Committee

To support the work of the Audit Committee, Internal Audit will:

- develop agendas and attend meetings
- facilitate the Committee's review of its own remit and effectiveness, if required
- help identify any training needs and work with others to ensure that these are met.

External Audit

Internal Audit will maintain an appropriate working relationship with the Council's external auditors, sharing documentation and reports as required to support the audit of the Statement of Accounts and any other work undertaken.

Partners

Internal Audit will continue to explore opportunities to work effectively with internal audit services of partner organisations where this is beneficial. It will continue to look to make best use of joint audit resources as well as provide opportunities to share learning and good practice.

Quality Assurance and Improvement Programme

The service will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The internal assessment will reflect feedback obtained from:

- ongoing supervision and review of individual assignments
- stakeholder surveys
- regular monitoring of service delivery via agreed performance targets
- an annual self assessment of compliance with the Standards
- a periodic assessment of compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government.

Opportunities for peer reviews or independent challenge of the self assessment will continue to be proactively explored.

Appendix 2: Internal Audit Strategy

The combined Internal Audit Service is required to have an external assessment of its compliance with the Standards, at least every five years by a qualified, independent assessor from outside the organisation. This was undertaken by the Institute of Internal Auditors in October 2017.

When this assessment is next due, the Head of Internal Audit must (as per the Standards section 1312) discuss and agree with the Audit Committee the:

- form of external assessment (e.g. full external assessment or self assessment with independent validation)
- qualification and independence of the external assessor including any potential conflict of interest risks
- person who will act as the internal sponsor for this process.

The results of the quality assurance programme will be reported upon in the Head of Internal Audit's Annual Report. Progress made against any improvement plans will be reported to senior management and the Audit Committee.

Appendices

- **Appendix 2a: Internal Audit Plan for 2019/20**
- **Appendix 2b: Audits assurance linked to corporate risks**
- **Appendix 2c: How We Will Work With You Statement**

Appendix 2a: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit Work
Managing the Business			
All Outcomes			
All	Risk Management Strategy	No	To lead on the Council's work to embed a robust and efficient risk management framework into its wider governance arrangements. <i>Planned for April to June 2019</i>
PL (ST)	IT Risk Assessment	No	To undertake a baseline assessment of IT risks against a standard good practice framework and use this to develop the IT element of the Audit Plan going forward. <i>Planned July to September 2019</i>
Implementing Action Plans			
F&R (JC)	Shareholder Board	No	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
L&D (JW)	Emergency Planning	No	
L&D (JW)	Business Continuity	No	
T (JR)	Information Governance, General Data Protection Regulations	No	
Managing Service Delivery Risks			
Pride and Joy			
By 2050 Southenders are fiercely proud of and go out of their way to champion what our city has to offer.			
PL (NH)	Local Transport Capital Block Funding - Flood Resilience	Yes	To certify, in all significant respects, that the conditions attached to the grant have been complied with. <i>Planned July to September 2019</i>
PL (NH)	National Productivity Investment Fund – Town Centre Redevelopment Improvement Project	Yes	

Appendix 2a: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit Work
Implementing Action Plans			
No work required			
Safe and Well By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
PE (GH)	Homelessness and Rough Sleeping	Yes	To assess the robustness of arrangements for quickly and effectively supporting people facing homelessness to prevent this from happening and where it does that this is brief and non-recurrent. <i>Planned April to June 2019</i>
PE (JOL)	Independent Reviewing Officers	No	To assess the effectiveness of Independent Reviewing Officers in ensuring children's needs are met and their outcomes improved through the support and services that they receive, enabling them to reach their potential. <i>Planned April to June 2019</i>
PE (JL)	Commissioning of a New Service	Yes	To assess whether commissioning decisions were evidence based through clear and concise commissioning proposals, in order to meet the needs and outcomes required. <i>Planned April to June 2019</i>
PE (JL)	Outcome Realisation of a Commissioned Service	Yes	To assess whether the delivery of a commissioned service is being effectively managed to ensure the planned outcomes and / or benefits for residents anticipated by the commissioning process are delivered. <i>Planned October to December 2019</i>
PE (GH)	Private Sector Housing	Yes	To assess the effectiveness of the Private Sector Housing offer in regeneration of the housing market to ensure inclusive, healthy and safe places to live. <i>Planned October to December 2019</i>
PE (JOL)	In House Foster Carers	Yes	To assess the effectiveness of arrangements to recruit and retain in-house Foster Carers, including the ongoing training and support provided to them to ensure local, stable foster placements for children. <i>Planned October to December 2019</i>

Appendix 2a: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit Work
PE (SB)	Adult Social Care Financial Assessments	Yes	To assess the robustness of the process that determines eligibility for financial support towards care needs to ensure it is accurate, transparent and accessible. <i>Planned July to September 2019</i>
PE (MB / JOL)	Data Quality – Children’s Services	No	To assess the robustness of arrangements to confirm that data entered into the care management system (LCS) by social care staff, which is then used to produce performance indicators for senior management, is reliable. <i>Planned July to September 2019</i>
PL (PG)	Building a Safer Future	No	To assess the Building Control team’s preparedness for implementing the changes to Building Regulations and Fire Safety emanating from the Hackitt Enquiry published in December 2018. <i>Planned January to March 2020</i>
PE (JOL)	Early Help and Family Support Quality Assurance Framework	No	To assess the effectiveness of the Assurance Framework in supporting the Edge of Care Team to ensure that the right decisions are made to meet children’s needs and keep them safe. <i>Planned October to December 2019</i>
PE (GH)	Disabled Facilities Grant	Yes	To certify that, in all significant respects, the conditions attached to the grant have been complied with. <i>Planned July to September 2019</i>
PE (JOL)	Troubled Families	Yes	To certify that, in all significant respects, the conditions attached to the grant have been complied with. <i>Planned throughout the year to align with the Payment by Results claim windows set by the Ministry of Housing, Communities and Local Government.</i>
<i>Implementing Action Plans</i>			
PL (PG)	Building Control	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.

Appendix 2a: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit Work
Active and Involved By 2050 we have a thriving, active and involved community that feel invested in our city			
Implementing Action Plans			
PL (PG)	South Essex Active Travel (SEAT) Governance Arrangements	Yes	To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.
Opportunity and Prosperity By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people			
T (JR)	Hayes Contract Management	Yes	To assess whether there are robust arrangements in place to ensure that the contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost. <i>Planned January to March 2020</i>
PL (PG)	Parking Enforcement Income Collection	Yes	To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017). <i>Planned July to September 2019</i>
PL (PG)	Rechargeable Works	Yes	To assess the effectiveness of arrangements for recharging third parties for the cost of making good accidental damage to Council assets. <i>Planned July to September 2019</i>
Implementing Action Plans			
No work required			
Connected and Smart By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure			
PL (ST)	IT Audit – Focus TBD	Yes	The focus of these audits will be determined following the IT Risk Assessment work to be undertaken April to July 2019 (see Managing the Business above).
PL (ST)	IT Audit – Focus TBD	Yes	

Appendix 2a: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit Work
PL (PG)	Local Transport Capital Block Funding - Highways Maintenance	Yes	To certify that, in all significant respects, the conditions attached to the grant have been complied with. <i>Planned July to September 2019</i>
PL (PG)	Pothole Action Fund	Yes	
Implementing Action Plans			
No work required			
Key Financial Systems			
All Outcomes			
F&R (JC)	Housing Benefits	Yes	To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that information from the system can be relied upon when producing the Council's statement of accounts. <i>Planned for September to December 2019</i>
F&R (JC)	Council Tax	Yes	
F&R (JC)	Accounts Payable – Batch Input Files (BIF)	Yes	To assess the robustness of arrangements to ensure that these payment files are accurate and secure. <i>Planned for January to March 2020</i>
F&R (JC)	Income Management System	Yes	To assess the robustness of the new system to ensure that all income is accounted for in an accurate, secure and timely manner. <i>Planned for September to December 2019</i>
PE (SB)	Social Care Debt Collection	Yes	To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017). <i>Planned for September to December 2019</i>
Implementing Action Plans			
No work required			

Appendix 2a: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit Work
Advice and Support			
All Outcomes			
PL (AL)	Cyber Security	Yes	To provide support and challenge over the robustness of the arrangements for implementing the improvement actions identified by the Local Government Association's 'stock take' of resilience arrangements against cyber-attacks. <i>Timing to be aligned to the council's internal reporting arrangements</i>
All	Transforming Together & Southend 2050	No	To provide support and challenge to the organisation as these continue to develop.
All	Information Asset Register Group	No	To provide support and challenge to the group as the Information Asset Register continues to develop.
Pride and Joy			
By 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer.			
No work planned			
Safe and Well			
By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
PL (AL)	Fire Safety	Yes	To provide support and challenge to the working group to ensure that fire safety arrangements are appropriate and effectively managed to make buildings safe and feel safe, now and in the future. <i>Planned for April to September 2019</i>
Active and Involved			
By 2050 we have a thriving, active and involved community that feel invested in our city			
No work planned			

Appendix 2a: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Focus of the Audit Work
Opportunity and Prosperity By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people			
PL (EC)	Better Queensway Joint Venture	Yes	To provide support and challenge as the organisation develops and implements governance arrangements to monitor the delivery of the programme through the Joint Venture Limited Liability Partnership. <i>Timing to be aligned to the development of the Joint Venture</i>
All	Corporate Establishment	Yes	To provide support and challenge over the development of a corporate establishment, with the purpose of ensuring a complete and accurate personnel establishment list within Agresso and realisation of associated benefits. <i>Timing to be determined once the project timeline has been agreed.</i>
PE / F&R (BM / JC)	Use of the Basic Need Capital Grant for Schools	Yes	To support the Council in determining its role and responsibilities in ensuring value for money for the provision of increased pupil places. <i>Planned for April to June 2019.</i>
Connected and Smart By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure			
PL (PG)	Highways Improvement Plan	No	To provide support and challenge over the robustness of the arrangements for implementing the agreed improvement actions and for measuring the positive impact of the actions.
Managing Service Delivery			
Delivering the internal audit service involves: <ul style="list-style-type: none"> • audit planning and resourcing • managing Audit Plan delivery which includes overseeing contractor work • reporting to senior management and the Audit Committee. 			
Implementing the outstanding actions arising from the external quality assessment undertaken by the Institute of Internal Auditors undertaken in October 2017.			

Appendix 2a: Internal Audit Plan 2019/20

Risk Watch List	
PE	The effectiveness of the Children's Services Quality Assurance and Practice Framework
PE	Adherence to terms and conditions of the Early Years grant funding (advice and support 2019/20)
PE	Delivery of outcomes from the block contract with Southend Care
PE	Monitoring the delivery of outcomes for older people placed in residential care
PE	Implementation of the Special Education Needs Inspection Action Plan
PE	Essex Partnership University NHS Foundation Trust S75 Agreement
F&R	Counter Fraud and Investigations delivery against the Service Level Agreement with Thurrock Council
PL	Management of the ICT Liquid Logic and / or Logicalis contract
PE	Delivery of outcomes from the Locality delivery model in Adult Social Care
PL	Environmental Health
T	Payroll revisited
PE	Vibrance contract management revisited
T	Governance architecture for service delivery
F&R	Implementation of the automated P2P new supplier process (advice and support 2019/20)

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

Appendix 2a: Internal Audit Plan 2019/20

Audit Activities	Resource allocation
Managing the Business	3%
Managing Service Delivery Risks	42%
Key Financial Systems	13%
Grant Claims	6%
Advice and Support	7%
Follow Ups	8%
Contingency	11%
Managing Delivery of the Audit Plan	10%
Total	100%
Total Council Audit Plan Days	
	583

The days required to revisit and retest action plans from previous reports are included under each heading.

The Total Council Audit Plan Days reflects the higher cost of buying in external contractors to cover internal vacancies.

Analysis Over Departments		
All	Cross Cutting	4%
F&R	Finance and Resources Service	11%
L&D	Legal and Democratic Services	3%
T	Transformation Service	4%
PE	People	32%
PL	Place	25%
All	Contingency	11%
All	Managing Delivery of the Audit Plan	10%
	Total	100%

This page is intentionally left blank

Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risks as at January 2019	Audit work providing assurance in 2019/20
1	<p>Council Budget and Financial Sustainability</p> <p>Risk that failure to manage the short term budget gap and growing demand for services and failure to ensure the council is financially sustainable after 2020/21 will result in significant adverse impact on council services</p>	<p>Commissioning of a New Service</p> <p>Outcome Realisation of a Commissioned Service</p> <p>Council Tax</p> <p>Housing Benefit</p> <p>Income Management System</p> <p>Various grant claims</p> <p>Shareholder Board Revisited</p> <p>Better Queensway Joint Venture</p> <p>Social Care Debt Collection</p> <p>Adults Social Care Financial Assessments</p> <p>Parking Enforcement Income Collection</p> <p>Rechargeable Works</p> <p>Accounts Payable Batch Input Files (BIF)</p> <p>Hayes Contract Management</p> <p>Building Control Revisited</p> <p>(Note: a number of audits consider financial management and therefore contribute to the assurance provided that money is being spent properly)</p>
2	<p>Recruiting and Retaining Staff</p> <p>Risk that the Council will not have the appropriate staffing resources, with the right skills, resulting in part, from a failure to effectively manage the transition from our existing recruitment partner to the new partner, will lead to a failure to achieve the Council's ambitions.</p>	<p>Hayes Contract Management</p> <p>Corporate Establishment (Advice and Support)</p> <p>Transforming Together and Southend 2050 (Advice and Support)</p>

Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risks as at January 2019	Audit work providing assurance in 2019/20
3	<p>Key External Challenges</p> <p>Risk that the impact of, or a failure to take advantage of, a new Government agenda, changes to senior personnel and the lead up to Brexit may hamper the ability of the Council to achieve key priorities.</p>	<p>Risk Management Strategy</p> <p>Building a Safer Future</p> <p>Fire Safety (Advice and Support)</p>
4	<p>Housing</p> <p>Risk that a failure to implement plans to address rising homelessness and failure to develop a robust housing strategy will lead to further street and other homelessness, increased use of temporary accommodation & an inability to meet rising housing demand over the next 20 years.</p>	<p>Homelessness and Rough Sleeping</p> <p>Private Sector Housing</p> <p>Disabled Facilities Grant</p>
1 145	<p>Local Infrastructure</p> <p>Risk that failure to maintain levels of access to regeneration funding opportunities will significantly restrict future infrastructure improvements in the borough.</p>	<p>National Productivity Investment Fund (Grant)</p> <p>Local Transport Capital Block Funding - Highways Maintenance (Grant)</p> <p>Pothole Action Fund (Grant)</p> <p>South Essex Active Travel Governance Arrangements</p>
6	<p>Health and Social Care</p> <p>Risk that the implementation of Sustainability and Transformation Partnership (STP) proposals and implementation of the Localities Model does not result in effective health and social care outcomes for residents and also leads to significant cost increases in meeting service demand.</p>	<p>Commissioning of a New Service</p> <p>Outcome Realisation of a Commissioned Service</p> <p>Delivery of the Localities Model in Adult Social Care is on the Risk Watch List for 2019/20</p>

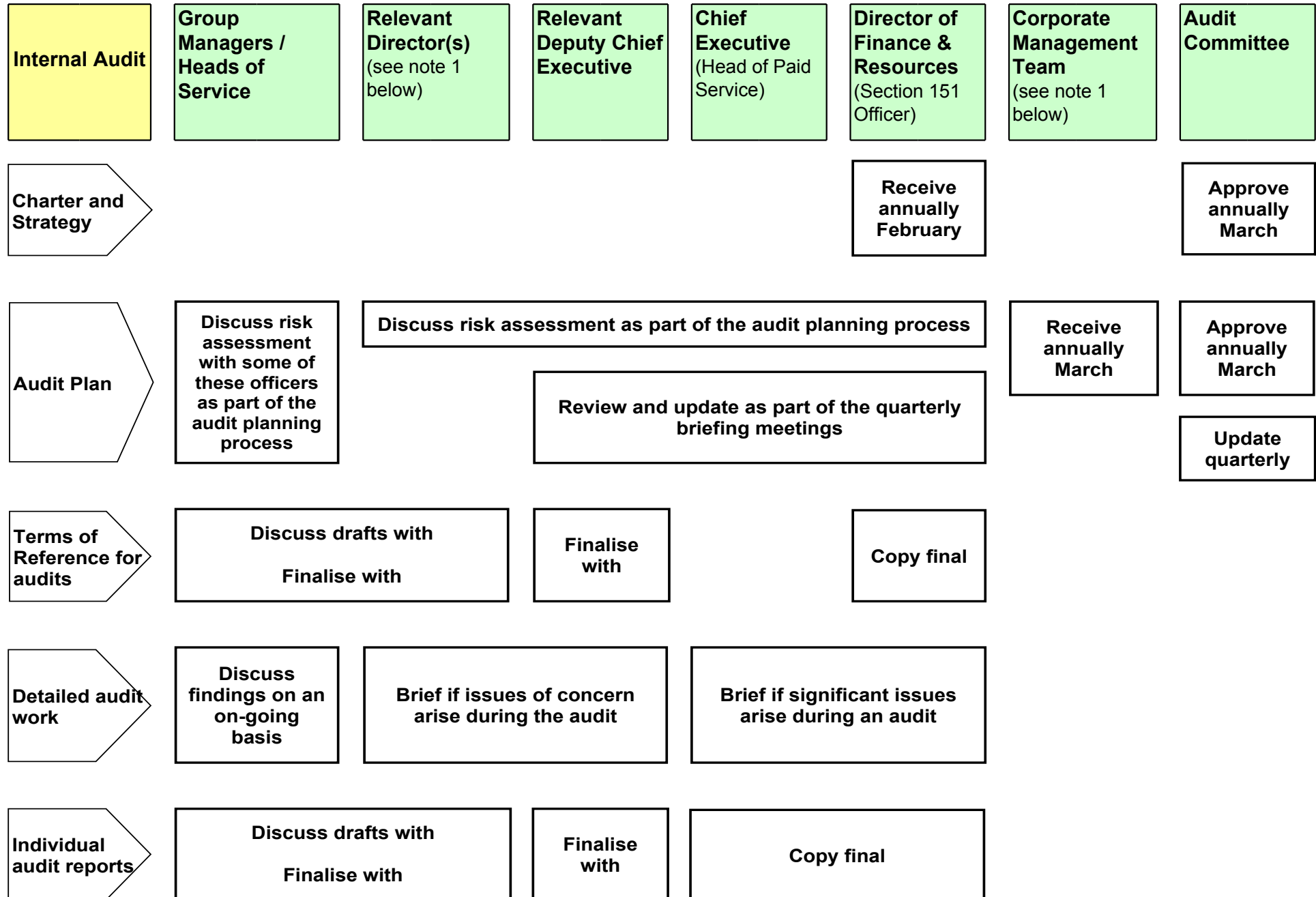
Appendix 2b: Audits assurance linked to the Council's corporate risks

	Corporate Risks as at January 2019	Audit work providing assurance in 2019/20
7	<p>Secondary School Places</p> <p>Risk that failure to provide the required number of school places at secondary schools for 2018 and 2019 will lead to significant reputational and legal damage for the council.</p>	Use of the Basic Need Capital Grant for Schools (Advice and Support)
8	<p>Flooding / Cliff Slip</p> <p>Risk that surface water flooding, breach of sea defences and/or seafront cliff movement, will result in damage to property and infrastructure as well as significant disruption.</p>	Local Transport Capital Block Funding - Flood Resilience (Grant) Emergency Planning Revisited
9	<p>Information Management and Cyber Security</p> <p>Risk that a failure to ensure the Council has a coherent and comprehensive approach to data protection, including its cyber security arrangements, will result in significant financial and reputational damage to the Council.</p>	<p>Cyber Security Action Plan (Advice and Support)</p> <p>Information Governance, General Data Protection Regulations Revisited</p> <p>Information Asset Register Group (Advice and Support)</p> <p>IT Audits x 2 TBD</p> <p>IT Risk Assessment</p> <p>Business Continuity Revisited</p>
10	<p>Children Services Improvement Plan</p> <p>Risk that the actions and expected outcomes from the Children's Services Improvement Plan are not achieved within expected timescales, resulting in a failure to achieve a rating of 'Good' in future Ofsted inspection.</p>	<p>Early Help and Family Support Quality Assurance Framework</p> <p>In House Foster Carers</p> <p>Data Quality – Children's Services</p> <p>Independent Reviewing Officers</p> <p>Troubled Families (Grant)</p>

Appendix 2b: Audits assurance linked to the Council's corporate risks

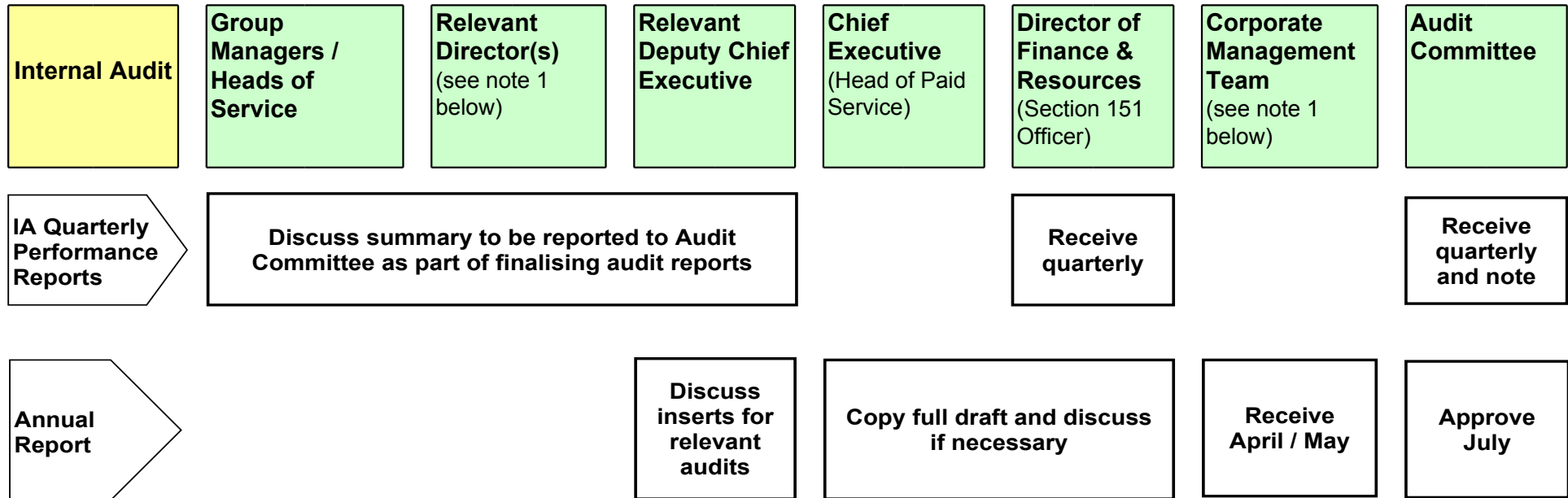
	Corporate Risks as at January 2019	Audit work providing assurance in 2019/20
11	<p>Waste Management</p> <p>Risk of contractor failing to meet contractual requirements to effectively manage waste contractual arrangements results in additional financial liability for the Council and loss of service quality.</p>	No work planned
12	<p>Major Developments</p> <p>Risk that failure of partners to progress major infrastructure developments (e.g. Seaways, Airport Business Park and Queensway) will result in significant financial and reputational damage to the Council.</p>	Better Queensway Joint Venture
13 16	<p>Local Plan</p> <p>Risk that the failure to meet deadlines and make sufficient progress in producing a Local Plan will lead to Secretary of State intervention, resulting in reputational damage to the Council and the potential imposition of unwanted planning policies.</p>	No work planned

How We Will Work With You Statement



117

How We Will Work With You Statement



Note 1 These groups include the Council's Monitoring Officer

CIPFA Better Governance Forum

Audit Committee Update

Helping Audit Committees to Be Effective

Issue 27

Focus on Local Audit

**National Audit Office Report: Local Authority Governance
Regular Briefing on New Developments**

February 2019

Introduction

Dear audit committee member,

In the latest issue of Audit Committee Update, we highlight recent reports from external auditors, in particular the National Audit Office report on Local Authority Governance. We also take stock of local audit arrangements in the light of recent developments. Understanding the work of external auditors is a key responsibility of the audit committee, and supporting and overseeing the organisation's response to the auditor recommendations is an essential role for the committee.

The remainder of this issue focuses on keeping you up to date with our regular briefing covering recent reports and guidance.

Overall, I hope you will find this issue interesting, informative and helpful in your work on the committee.

Best wishes

Diana Melville

CIPFA Better Governance Forum

Sharing this document

Audit Committee Update is provided to subscribers of the Better Governance Forum for use within their organisations. Please feel free to circulate it widely to your organisation's audit committee members and colleagues. It can also be placed on an intranet. It should not be shared with audit committee members of organisations that do not subscribe to the Better Governance Forum or disseminated more widely without CIPFA's permission.

Audit Committee Update is covered by CIPFA's copyright and so should not be published on the internet without CIPFA's permission. This includes the public agendas of audit committees.

Receive our briefings directly

This briefing will be sent to the main contact of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be sent to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website and download any of our guides and briefings directly. To register now, please visit www.cipfa.org/Register.

Previous issues of Audit Committee Update

You can download all the previous issues from the CIPFA Better Governance Forum website. Click on the links below to find what you need.

Principal Content	Link
Issues from 2010 and 2011- the content in these issues has been replaced by more recent issues.	
Issues from 2012	
Assurance Planning, Risk Outlook for 2012, Government Response to the Future of Local Audit Consultation	Issue 7
Commissioning, Procurement and Contracting Risks	Issue 8
Reviewing Assurance over Value for Money	Issue 9
Issues from 2013	
Public Sector Internal Audit Standards and Updates to Guidance on Annual Governance Statements	Issue 10
Local Audit and Accountability Bill, the Implications for Audit Committees, Update of CIPFA's Guidance on Audit Committees	Issue 11
Reviewing Internal Audit Quality, New CIPFA Publication, Audit Committees Practical Guidance for Local Authorities and Police, Regular Briefing on Current Issues	Issue 12
Issues from 2014	
Reviewing the Audit Plan, Update on the Local Audit and Accountability Act, Briefing on Topical Governance Issues	Issue 13
External Audit Quality and Independence, Government Consultation on Local Audit Regulations, CIPFA's Consultation on a New Counter Fraud Code, Regular Briefing on Current Issues	Issue 14
CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, the Audit Committee Role in Countering Fraud, Regular Briefing on Current Developments	Issue 15
Issues from 2015	
What Makes a Good Audit Committee Chair? Governance Developments in 2015	Issue 16
The Audit Committee Role in Reviewing the Financial Statements, Regular Briefing on Current Developments	Issue 17
Self-assessment and Improving Effectiveness, Appointment and Procurement of External Auditors, Regular Briefing on Current Issues	Issue 18
Issues from 2016	
Good Governance in Local Government – 2016 Framework, Appointing Local Auditors, Regular Briefing on Current Issues	Issue 19
CIPFA Survey on Audit Committees 2016, Regular Briefing on Current Issues	Issue 20
The Audit Committee and Internal Audit Quality, Briefing on Topical Issues	Issue 21

Issues from 2017	
Developing an Effective Annual Governance Statement, Regular Briefing on Current Developments, Audit Committee Training	Issue 22
2017 edition of the Public Sector Internal Audit Standards, Understanding the Risks and Opportunities from Brexit, Recent Developments and Resources	Issue 23
Issues from 2018	
The Audit Committee Role in Risk Management, Regular Briefing on Current Developments	Issue 24
Developing an Effective Annual Governance Statement	Issue 25
CIPFA Position Statement on Audit Committees in Local Authorities and Police 2018	Issue 26

Workshops and training for audit committee members in 2019 from CIPFA

Introduction to the knowledge and skills of the audit committee

This training course will provide more in-depth knowledge of the core areas of an audit committee's functions, including risk management, assurance planning and improving the effectiveness of the committee.

- 19 September Leeds
- 16 October London
- 17 October Birmingham

Development day for police audit committees

These events are suitable for members of the joint audit committees supporting police and crime commissioners (PCCs) and chief constables. These events are run in conjunction with CIPFA's Police Network.

- 1 May York
- 2 May London

Development day for local government audit committees

This workshop is suitable for audit committee members or those working with the audit committee in local government. It will cover an update on new developments and legislation relevant to the audit committee role. In addition, it will feature the new governance framework, internal audit developments and other key topics.

- 13 November London
- 5 December Birmingham

Other dates in late 2019 or early 2020 will be announced later in the year.

The above events can all be accessed using prepaid places for the CIPFA Better Governance Forum. CIPFA events information and dates will be available on the [website](#) in due course.

In-house training and facilitation

In-house audit committee training and guidance tailored to your needs is available. Options include:

- key roles and responsibilities of the committee
- effective chairing and support for the committee
- working with internal and external auditors

- public sector internal audit standards
- corporate governance
- strategic risk management
- value for money
- fraud risks and counter fraud arrangements
- reviewing the financial statements
- assurance arrangements
- improving impact and effectiveness.

For further details, contact our [in-house training team](#) or email diana.melville@cipfa.org or visit the [CIPFA website](#) for further details on the support we have available for audit committees.

New development from 2019: support for councillors in local authorities

CIPFA is working with the Centre for Public Scrutiny to provide events and resources to support councillors in their roles. Events will be half-day sessions at a range of locations. Topics include financial reporting, governance and procurement.

Further details will be available soon.

Focus on local audit

Local audit in England

The [Local Audit and Accountability Act 2014](#) (the Act) made significant changes to the delivery of local audit in England. The Act abolished the Audit Commission and created a new regime to support local audit appointment by local authorities and NHS Trusts. Regulatory arrangements to oversee the work of auditors were passed to the National Audit Office (NAO), the Financial Reporting Council (FRC) and accountancy member bodies ICAEW and ICAS. Counter fraud arrangements, principally the National Fraud Initiative, were passed to the Cabinet Office. A new body Public Sector Audit Appointments (PSAA) was charged with overseeing transitional contracts let by the Audit Commission and in 2016 was appointed as a sector-led body to offer a procurement service to principal local authorities. The Smaller Authorities Audit Appointments (SAAA) was established to lead a procurement and appointment for smaller authorities in 2016. NHS trusts and Clinical Commissioning Groups had to lead their own appointments but were offered the option of using a framework agreement.

The complexity of the transition meant that only now are the new arrangements fully coming into effect. So how are the arrangements working out? In local government, 97% of principal local authorities chose to opt into the PSAA-led procurement, indicating that there was little appetite for individual appointments. As a result, independence in appointment has largely been protected. While the savings in fees have been welcomed by the sector, reservations have been expressed about the output of audit. In the recent report from the National Audit Office, [Local Authority Governance](#), it was reported that heads of paid service, section 151 officers and internal auditors raised concerns that the contribution of external audit to local governance had been reduced. A quarter of section 151 officers of single-tier and county councils felt that their audit fee was too low relative to the risk of their authority. The Code of Audit Practice, set by the NAO, is the basis for the local audit work performed in accordance with the Act and standards of auditing. During 2019, the NAO will be consulting on principles for a new Code which must be approved by Parliament before April 2020. It is likely that such issues will be considered during the consultation.

In a separate development, the Department for Business, Energy and Industrial Strategy (BEIS) commissioned the Kingman report to examine the role of the Financial Reporting Council as the regulator for auditing across all sectors of the UK. The report, [Independent review of the Financial Reporting Council](#), was published in December 2018 and included a section on the FRC's role in local audit. The report raised concerns that the FRC's powers were weaker in relation to local audit in comparison to its other roles and also took into account broader concerns about the regulation of the audit sector in terms of ensuring audit quality and auditor independence. Accordingly, the Kingman report concluded:

The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. The structure means also that no one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks.

The review recommended that the arrangements for local audit needed to be fundamentally rethought. A further report has now been commissioned by BEIS to review the quality and effectiveness of the UK audit market.

Local audit in practice (England)

The NAO has also recently published a report on [Local Auditor Reporting](#), covering both local government and health sectors. Each year the local auditor must conclude whether local public bodies have arrangements to manage properly their business and finances and must report if they do not. The NAO report raises a number of concerns about the rise in the number of

qualified conclusions on value for money arrangements across both sectors. At the same time, it expresses concerns about the effectiveness of an organisation’s response to a qualified audit report. The NAO report is currently the subject of a hearing of the Public Accounts Committee, so there will be a further report and recommendations in due course.

Some of the key findings from the NAO report are summarised in the following table.

Figure 1: Types of local authority, police and fire bodies receiving qualified conclusions on their value for money arrangements in 2017/18

Type of body	Except for	Adverse	Total qualifications	Percentage of bodies qualified
Single-tier and county councils	23	4	27	18%
District councils	9	0	9	4%
Police, fire and other bodies	3	1	4	3%

It should also be noted that at the time of publication in January 2019, there were a further 20 value for money conclusions yet to be issued, so the final number of qualifications could be higher.

Figure 2: Reasons provided by local auditors for qualified value for money arrangements conclusions in local government bodies 2017/18

Service performance (inspectorate/regulator)	Governance arrangements	Partnership working	Finance (performance)	Finance (sustainability)
20	21	7	2	6

Note: conclusions can be qualified for more than one reason, so the total number of qualification issues exceeds the total number of qualifications.

The reasons for significant weaknesses in governance arrangements include bodies relying on interim staff to fill senior management posts for too long, poor management of major contracts, or lack of adequate member scrutiny of the executive’s decisions.

The NAO describes the results as “disappointingly high” and comments that it “is clear that bodies need to be doing more to address the weaknesses being reported.” Those bodies that have not received a qualified conclusion should still consider the robustness of their value for money arrangements to ensure that they remain at least adequate. The NAO’s recommendation to the sector is particularly pertinent to audit committees:

Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money. This includes effective scrutiny and challenge by those charged with governance to hold the executive to account.

Local audit in Wales

The Wales Audit Office has issued two reports focusing on financial management and governance and internal audit in local councils in Wales. [Internal Audit Arrangements at Town and Community Councils in Wales](#) concluded that urgent improvements were needed to internal audit arrangements. Failings included one in five councils where the internal auditor

was insufficiently independent, one in ten did not have internal audit in place and two-thirds had inadequate terms of reference.

In [Financial Management and Governance – Town and Community Councils 2017/18](#), the WAO found that a significant number of councils had failed to comply with their statutory responsibilities for preparing accounts and ensuring that proper arrangements are made for the statutory audit. The number of qualified audit opinions doubled in 2017/18 to 340 councils, with auditors highlighting ongoing failings in financial management and governance.

Local audit in Scotland

Audit Scotland does not publish a summary report on the results of the audits of the accounts of Scottish local authorities and the rolling programme of best value reports. Its report [Local Government in Scotland Financial Overview 2017/18](#) includes analysis of the financial position of local authorities and trends affecting the sector.

Audit committee members should engage with the reports from Audit Scotland on best value for their authority and ensure that any recommendations are addressed positively.

Key steps for audit committee members

The external auditor is a vital contact for the audit committee and the external audit reports provide valuable insight and assurance on financial management and governance. All audit committee members should seek to have a good understanding of the role and responsibility of the external auditor. In particular, they should take seriously the audit opinion and any recommendations. They should review the action plan that is put forward to address the issues raised and then actively monitor its implementation.

Diana Melville
Governance Advisor

Local authority governance

In January 2019, the National Audit Office published a report examining the oversight arrangements of the Ministry of Housing Communities and Local Government (the Department) of governance in local authorities and the robustness of the local arrangements themselves. The report, [Local Authority Governance](#), was undertaken following concerns about financial sustainability of the sector and an issue of a section 114 notice at Northamptonshire County Council and a subsequent inspection of the authority.

The report examined local arrangements, particularly those that support financial sustainability. These included:

- operation and independence of the audit committee
- priority given to ethical standards
- effective internal audit
- robust risk management arrangements
- effective scrutiny and challenge
- the right conditions for statutory officers to fulfil their roles.

The NAO surveyed the external auditors of the authorities on the extent to which they were satisfied that these arrangements were effective. In 50% of authorities, the external auditors had no concerns and 19% had concerns on one area only. However, 30% of authorities were scored as having two or more concerns, including 9% with four or more areas of concern. The findings from the survey of external auditors was further supported by a survey of section 151 officers and a range of focus groups and interviews with stakeholders.

While an authority with multiple concerns flagged was more likely to have a qualified conclusion on value for money arrangements, many did not. As a result, the NAO is keen to point out that “an unqualified conclusion does not mean that governance does not need to improve.”

The context for the study is the increased risk profile of many authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. The report concludes that poor governance can make the difference between coping and not coping with financial and service pressures.

Of particular interest to audit committee members will be the findings relating to the effectiveness of audit committees. The NAO asked both external auditors and section 151 officers a number of questions about the operation and effectiveness of the committee. The table below shows results for four key areas.

External auditors’ views on the characteristics of audit committees

	Strongly disagree %	Disagree %	Neither agree nor disagree %	Agree %	Strongly agree %	Don't know %
Membership that are properly trained to fulfil their role	3	18	23	43	5	9
The audit committee provides sufficient independent assurance to the council on the robustness of the authority’s overall governance arrangements	1	7	19	61	10	2

	Strongly disagree %	Disagree %	Neither agree nor disagree %	Agree %	Strongly agree %	Don't know %
Willingness to make recommendations for the improvement of risk, governance and control	1	6	19	57	15	2
Audit committee recommendations are acted on by the council	0	4	15	66	8	7

Across a range of questions there appears to be concern with a significant minority of audit committees. Only 71% of authorities' committees were judged to be providing sufficient assurance. CIPFA's own survey of audit committees in 2016 also identified the need for better training of audit committee members. The results of our survey can be viewed on the [CIPFA website](#).

The report makes recommendations to the Department to work with local authorities and other stakeholders to assess the implications of and possible responses to the issues identified, including:

- the status of section 151 officers and the efficacy of their statutory reporting arrangements
- the effectiveness of audit committees and how to increase the use of independent members
- the effectiveness of overview and scrutiny functions and ways to enhance their impact and
- the sustainability and future role of internal audit.

The NAO report will be followed by a hearing of the Public Accounts Committee in due course and a further report. Members of the study team will be speaking at CIPFA's governance events in February and March and will share further details of their findings.

Diana Melville
Governance Advisor

Recent developments you may need to know about

Reports, recommendations and guidance

Local Government Ethical Standards

The Committee on Standards in Public Life has published a report on their review of standards arrangements in English local authorities. The report, [Local Government Ethical Standards](#), acknowledges that the vast majority of councillors and officers maintain high standards of conduct but that there is clear evidence of misconduct by some councillors, particularly around bullying and harassment.

While the report concludes that local responsibility for standards should be maintained, it recommends a number of improvements, including:

- a new model code of conduct
- extending regulations about the disclosure of interests
- strengthening and clarifying the role of the independent person
- a new sanction to suspend a councillor for up to six months
- disciplinary protection for the statutory officers in authorities (monitoring officer, section 151 officer and head of paid service) should be extended to all disciplinary action
- amendments to the Transparency Code to cover disclosures of code of conduct complaints and changes to whistleblowing.

In addition, there are 15 best practice recommendations made to local authorities.

Audit committee members should take account of the report as an individual councillor or independent member, but they should also be aware of the report when considering the strength of their authority's ethical framework for the Annual Governance Statement.

Streamlining the Accounts: Guidance for Local Authorities

CIPFA has worked with the Society of London Treasurers, the Society of District Council Treasurers, and Grant Thornton LLP to offer guidance to local authorities. CIPFA has made available a [pre-publication draft](#) to support practitioners.

Members of audit committees may find the section on how to improve presentation and layout of the financial statements to make them more user-friendly of particular interest.

Measured Resilience in English Authorities – CIPFA

In July 2018, CIPFA consulted on a proposal to publish an index of resilience of English councils to support the sector. An updated version was released to finance directors in December 2018 to enable them to view their position relative to others on a range of measures linked to financial risk.

CIPFA has also issued a [briefing note](#) that summarises key results. The measures include analysis of reserves and the flexibility of the council's budget: the proportion of net revenue expenditure accounted for by social care and interest payments. The analysis will be of interest to audit committees considering their council's resilience risks.

Auditors' analysis of financial sustainability

The National Audit Office has published a number of interactive charts based on their analysis for their report *Financial Sustainability of Local Authorities*. [Financial sustainability of local authorities, 2018 visualisation](#).

Audit Scotland has also published interactive charts to accompany their financial overview report on local government. [Local government in Scotland, financial visualisation](#).

National Local Growth Assurance Framework 2019

The Ministry of Housing, Communities & Local Government has published a new assurance framework for Mayoral Combined Authorities with a Single Pot funding arrangement and Local Enterprise Partnerships (LEPs).

As part of the framework, LEPs are required to establish appropriate audit committee arrangements which fit their governance model. For example, an LEP that is part of a Mayoral Combined Authority would use the audit committee of the combined authority. Other models could lead to the establishment of a separate audit committee or use of the audit committee of the accountable body. [National local growth assurance framework](#).

CIPFA Fraud and Corruption Tracker 2018

The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. It examines levels of fraud and corruption detected each financial year, types of fraud and emerging trends. CIPFA estimates that over £301m worth of fraud has been detected or prevented within the public sector in 2017/18. [CIPFA Counter Fraud Centre](#).

National Fraud Initiative

Reports from the latest data matching investigations in the UK are now available. The reports show the fraud detected by the analysis of local government and other public sector data sets.

- [England report](#)
- [Northern Ireland report](#)
- [Scotland report](#)
- [Wales report](#)

Cross-government Fraud Landscape Annual Report 2018

This [report](#) from the Cabinet Office focuses on the public sector fraud landscape in central government and the levels of fraud and error loss outside of the tax and welfare system. The levels of detected fraud and frauds prevented have both increased, and progress has been made to improve counter fraud capability in central government departments.

Principles of good administrative practice

Updated [guidance](#) issued by the Local Government and Social Care Ombudsman sets out six principles that should shape the delivery and administration of public services; this is a useful reference when considering the effectiveness of internal control arrangements.

Cyber security board toolkit: five questions for your board's agenda

This is a range of questions that the National Cyber Security Centre believes will help generate constructive cyber security discussions between board members and their Chief Information Security Officers.

The [briefing](#) also explains good practice and how the measures improve security.

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ www.cipfa.org

© 2019 CIPFA

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.



Diana Melville
Governance Advisor
CIPFA
77 Mansell Street
London
E1 8AN
cipfa.org



Certificate No.

local government application note

for the United Kingdom Public Sector
Internal Audit Standards
2019 Edition



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

CIPFA values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to customerservices@cipfa.org.

Our range of high quality advisory, information and consultancy services help public bodies – from small councils to large central government departments – to deal with the issues that matter today. And our monthly magazine, *Public Finance*, is the most influential and widely read periodical in the field.

Here is just a taste of what we provide:

- TISonline
- Benchmarking
- Advisory and consultancy
- Professional networks
- Property and asset management services
- CIPFA-Penna recruitment services
- Research and statistics
- Seminars and conferences
- Education and training

Call or visit our website to find out more about CIPFA, our products and services – and how we can support you and your organisation in these unparalleled times.

020 7543 5600

customerservices@cipfa.org

www.cipfa.org



local government application note

for the United Kingdom Public Sector
Internal Audit Standards
2019 Edition

Published by:

CIPFA \ THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY

77 Mansell Street, London E1 8AN

020 7543 5600 \ customerservices@cipfa.org \ www.cipfa.org

© February 2019 CIPFA

ISBN 978 1 84508 514 8

Designed and typeset by Ministry of Design, Bath
(www.ministryofdesign.co.uk)

No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.

Contents

CHAPTER 1: INTRODUCTION	1
THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS	2
STATUTORY REQUIREMENTS FOR LOCAL GOVERNMENT	3
SCOPE AND APPLICABILITY OF THIS APPLICATION NOTE.....	4
KEY GOVERNANCE ELEMENTS	5
CHAPTER 2: OVERARCHING MATERIAL	7
MISSION OF INTERNAL AUDIT	7
DEFINITION OF INTERNAL AUDITING	8
CORE PRINCIPLES FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING	8
CODE OF ETHICS	9
TERMINOLOGY.....	10
CHAPTER 3: ATTRIBUTE STANDARDS	11
PURPOSE, AUTHORITY AND RESPONSIBILITY	11
INDEPENDENCE AND OBJECTIVITY	14
PROFICIENCY AND DUE PROFESSIONAL CARE	16
QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME.....	16
CHAPTER 4: PERFORMANCE STANDARDS	21
MANAGING THE INTERNAL AUDIT ACTIVITY	21
NATURE OF WORK.....	24
ENGAGEMENT PLANNING	24
PERFORMING THE ENGAGEMENT	25
COMMUNICATING RESULTS	25
MONITORING PROGRESS	27
COMMUNICATING THE ACCEPTANCE OF RISK.....	27
OTHER SOURCES OF GUIDANCE	29
APPENDIX: CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PSIAS AND THE LOCAL GOVERNMENT APPLICATION NOTE	31

CHAPTER 1

Introduction

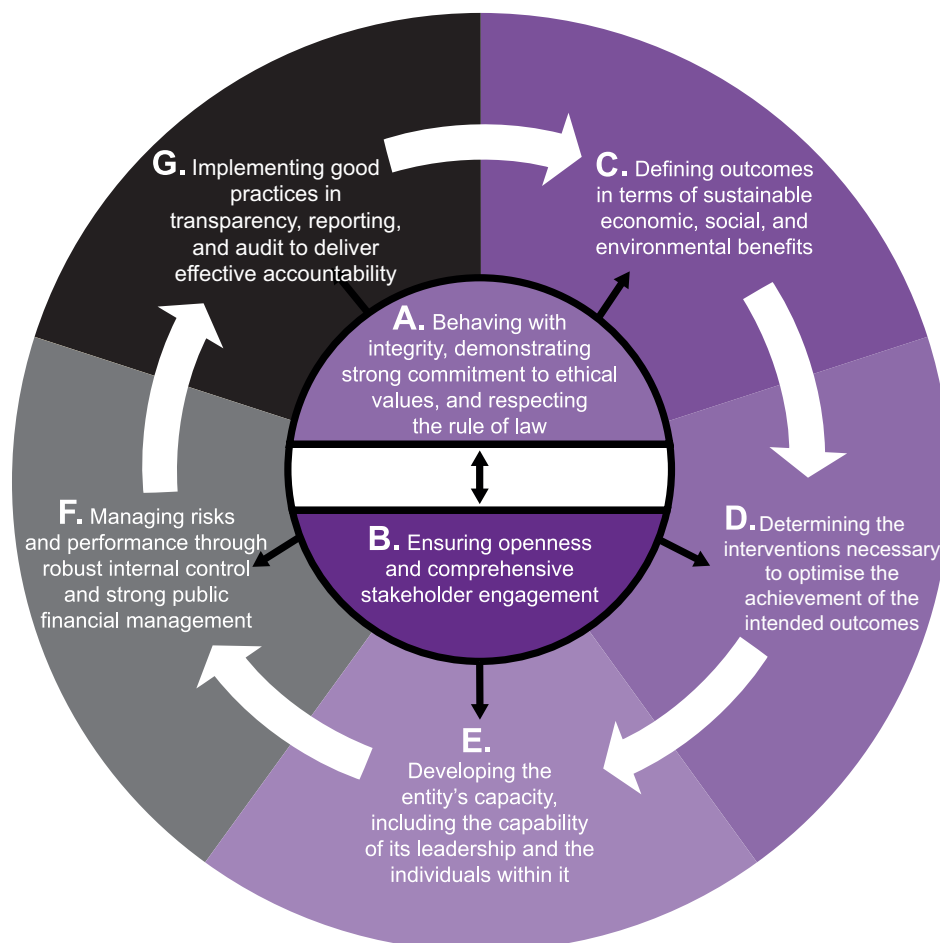
Why it matters that internal audit follows standards.

How UK sector public standards are developed for the local government context.

This publication is addressed to heads of internal audit, internal auditors, audit committee members, internal audit contract managers, external auditors and other stakeholders such as chief financial officers and chief executives.

A professional, independent and objective internal audit service is one of the key elements of good governance in local government. The CIPFA framework *Delivering Good Governance in Local Government* sets out seven principles which support a local government organisation's governance, illustrated in Figure 1.1 here.

Figure 1.1: Seven principles which support a local government organisation's governance



Source: *Delivering Good Governance in Local Government: Framework (2016 Edition)*

Internal audit supports Principle G by helping to provide accountability, and also provides assurance on the operation of the other principles and the rest of the governance framework. Having an effective internal audit service is part of the wider accountability system that gives confidence to stakeholders that good governance and strong public financial management are in place. For this reason principal local authorities in the UK are required by statute to have an effective internal audit function which operates effectively and without compromise.

An effective internal audit service should:

- understand the whole organisation, its needs and objectives
- understand its position with respect to the organisation's other sources of assurance and plan its work accordingly
- be seen as a catalyst for improvement at the heart of the organisation
- add value and assist the organisation in achieving its objectives, and
- be forward-looking – knowing where the organisation wishes to be and aware of the national agenda and its impact.

The foundation of an effective internal audit service is compliance with standards and proper practices. Compliance with these will also either confirm that the internal audit service is sufficiently independent and objective or provide clear warning that the local authority is not complying with statutory requirements.

THE UK PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The following bodies have been granted authority to set standards for internal auditing for specific parts of the UK public sector

- HM Treasury in respect of central government
- the Scottish Government, the Department of Finance (Northern Ireland) and the Welsh Government in respect of central government and the health sector in their administrations
- the Department of Health in respect of the health sector in England (excluding foundation trusts) and
- CIPFA in respect of local government across the UK.

These bodies are collectively the Relevant Internal Audit Standard Setters (RIASS). The RIASS have agreed that standards for internal auditing should be developed for the UK public sector as a whole by the UK Public Sector Internal Auditing Standards Advisory Board (IASAB). The IASAB members include representatives of the RIASS, public sector internal audit practitioners and other stakeholders in UK public sector internal auditing.

From April 2013 the RIASS adopted a common set of Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors' (IIA Global) International Professional Practices Framework (IPPF). They also include additional requirements and interpretations for the UK public sector, which have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The PSIAS are updated periodically to reflect changes made to the IPPF while having regard to any additional requirements or interpretations needed for the UK public sector. The most recent revision to the PSIAS was in 2017, and it encompasses the following pronouncements in the IPPF:

- Mission of Internal Audit
- Definition of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Copies of the most recent revision of the PSIAS can be obtained from the [CIPFA website](#) or from the [IASAB website](#).

The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

The PSIAS are designed to apply to any UK public sector organisation. They do not provide detailed guidance on the application of the standards in particular sub-sectors such as central government, local government or health, nor do they provide context for the devolved government jurisdictions in Scotland, Wales and Northern Ireland.

STATUTORY REQUIREMENTS FOR LOCAL GOVERNMENT

Local government is subject to the following statutory requirements for internal audit:

<p>England</p> <p>The Accounts and Audit Regulations 2015</p> <p>Regulation 5</p>	<p>(1) A relevant authority must 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.</p>
<p>Scotland</p> <p>The Local Authority Accounts (Scotland) Regulations 2014</p> <p>Regulation 7</p>	<p>(1) A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.</p> <p>(3) A local authority must from time to time assess the efficiency and effectiveness of its internal auditing in accordance with the standards and practices referred to in paragraph (1) in this box.</p>
<p>Wales</p> <p>The Accounts and Audit (Wales) Regulations 2014</p> <p>Regulation 7</p>	<p>(1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.</p> <p>(3) A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.</p>
<p>Northern Ireland</p> <p>The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015</p> <p>Regulation 6</p>	<p>(1) A local government body must undertake an adequate and effective internal audit of its accounting records and of its system of risk management, internal control and governance processes using internal auditing standards in force from time to time.</p>

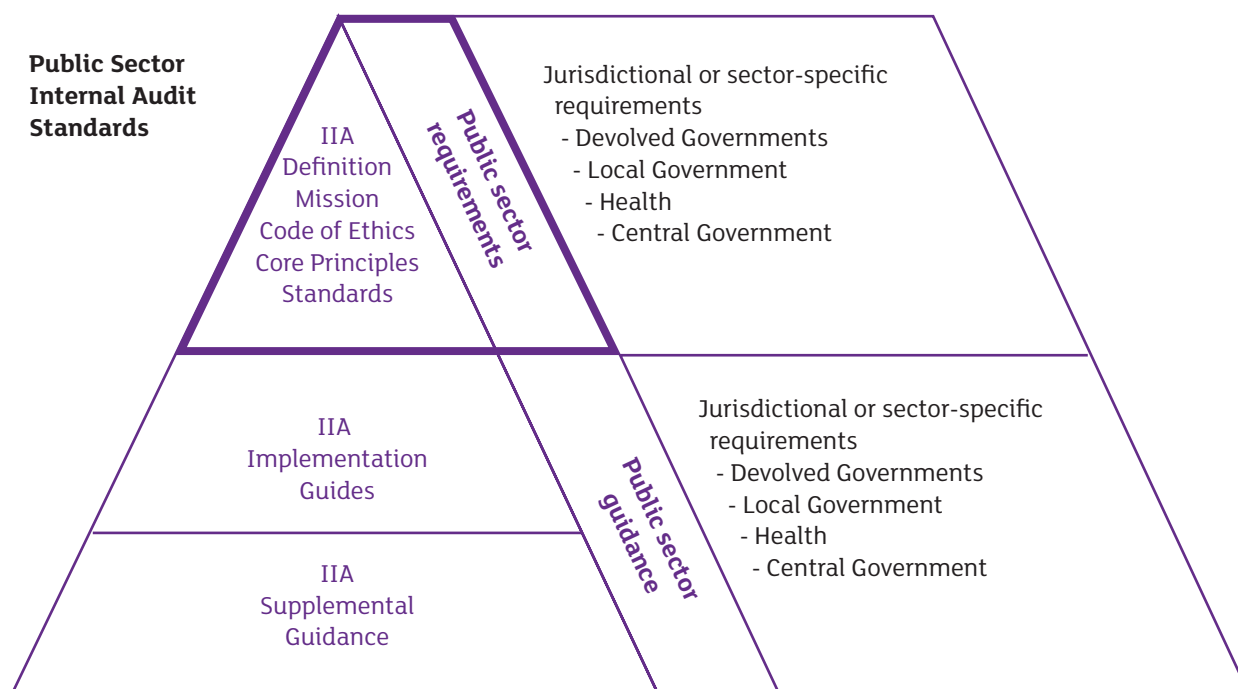
The regulations have been reformulated since the introduction of the PSIAS, and the statutory requirements for England, Scotland and Northern Ireland now refer to standards: the PSIAS taken together with this Local Government application note are the relevant standards to be applied. While the Welsh regulation does not refer explicitly to standards, the PSIAS and this Local Government application note set out the basis for adequate and effective internal audit.

SCOPE AND APPLICABILITY OF THIS APPLICATION NOTE

This application note sets out requirements for local government internal audit, and other features of local government organisations, to inform application of the UK Public Sector Internal Auditing Standards (PSIAS). The PSIAS and this local government application note (the application note) together supersede previous codes of practice and application notes developed specifically for the local government sector.

The application note has been developed as the sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework set out in Figure 1.2.

Figure 1.2: Sector-specific requirements for local government organisations within the UK Public Sector Internal Audit Framework



Source: UK Public Sector Internal Audit Standards Advisory Board (IASAB)

The organisations to which the application note applies are identified in the PSIAS as

- local authorities (across the UK)
- the offices of the police and crime commissioners, constabularies, fire authorities, national park authorities, joint committees and joint boards (in England and Wales)
- integration joint boards and Strathclyde Passenger Transport (in Scotland).

For the purposes of the application note, these are referred to collectively as local authorities.

The application note provides further explanation for the PSIAS and practical guidance on how to apply them where it has been deemed necessary to inform application in the local government context. It does not duplicate all the material in the PSIAS and must therefore be read in conjunction with the PSIAS.

KEY GOVERNANCE ELEMENTS

The PSIAS place particular emphasis on the need to interpret the terms ‘board’ and ‘senior management’ in the context of the governance arrangements within each individual public sector organisation. Arrangements vary in structure and terminology between sectors and between organisations within the same sector. This additional emphasis is particularly relevant within local government, where there are a wide variety of management structures, and the role of the board may be fulfilled by the cabinet, full council, audit committee or other groups.

As a result of the range of organisational options across local government, it is not possible to specify how individual local authorities should define ‘board’ or ‘senior management’ in this application note. It is expected that the audit committee, where one exists, will often fulfil the role of the board. However, it is still necessary to consider each occurrence of the term ‘board’ and ‘senior management’ within the PSIAS and decide which group best fits the role in that situation, bearing in mind the requirements for independence and objectivity of the internal audit function.

The statutory requirement for local authorities to have an effective internal audit service will in practice be administered in conjunction with other requirements in relation to internal control, counter-fraud measures and other initiatives. The chief financial officer (CFO) also has specified responsibilities to ensure that there are robust systems of risk management and internal control, and these are reinforced and supported in CIPFA’s statement on *The Role of the Chief Financial Officer in Local Government*. While the requirement to have effective internal audit rests with the authority, the CFO is expected to support internal audit. The relationship between the chief audit executive and the CFO is of particular importance in local government.

Overarching material

The PSIAS include the following overarching material which sets the context in which the detailed internal auditing standards are to be used:

- Mission of Internal Audit
- Definition of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Code of Ethics.

The detailed standards provide specific guidance on how internal auditing should be carried out and how the internal audit function should be managed. The Mission, Definition and Core Principles seek to capture what effective internal auditing is about and, taken together with the Code of Ethics, to set out the way it should be carried out.

MISSION OF INTERNAL AUDIT

Section 3 of the PSIAS sets out the Mission of Internal Audit:

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. It is deliberately placed at the start of the IPPF to be clear that practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

The concept of organisational value for public sector organisations which deliver services to the public may be less straightforward than for organisations which principally exist to make profit. This has a number of implications for the internal audit function, and among other things leads to an increased emphasis on the importance of achieving value for money. The IASAB has provided additional guidance (*What is meant by the term 'organisational value' in the public sector?*, available on the FAQ page on [the IASAB website](#)) on the concept of organisational value for public sector. This is grounded in the holistic approach to organisational value used in <IR> Integrated Reporting, as interpreted in the publication *Focusing on Value Creation in the Public Sector*, jointly produced by CIPFA and the International Integrated Reporting Council (IIRC).

DEFINITION OF INTERNAL AUDITING

Section 4 of the PSIAS sets out the Definition of Internal Auditing:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal audit provides an independent and objective opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It may also undertake consulting services at the request of the organisation, subject to there being no impact on the core assurance work and the availability of skills and resources.

Each local government organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital part in providing assurance that these arrangements are in place and operating properly. The annual internal audit opinion required under the PSIAS informs the governance statement and emphasises and reflects the importance of this aspect of internal audit work. The organisation's response to internal audit activity should lead to the strengthening of the control environment and other factors supporting organisational effectiveness and should thus contribute to the achievement of the organisation's objectives.

To provide optimum benefit, internal audit should work in partnership with management to improve the control environment and help the organisation to achieve its objectives.

CORE PRINCIPLES FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

Section 5 of the PSIAS sets out the Core Principles, explaining that these, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all principles should be present and operating effectively.

The Core Principles require that the internal auditor or the internal audit activity:

- *Demonstrates integrity.*
- *Demonstrates competence and due professional care.*
- *Is objective and free from undue influence (independent).*
- *Aligns with the strategies, objectives, and risks of the organisation.*
- *Is appropriately positioned and adequately resourced.*
- *Demonstrates quality and continuous improvement.*
- *Communicates effectively.*
- *Provides risk-based assurance.*
- *Is insightful, proactive, and future-focused.*
- *Promotes organisational improvement.*

The principles are not as high-level as the mission or the definition, but provide more direction on the essential components of effective internal audit that will be required in

practice. How an internal auditor or an internal audit activity demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any one of the principles would imply that an internal audit activity was not as effective as it could be in achieving the Mission of Internal Audit.

The inclusion of principles in the PSIAS is intended to demonstrate that the standards are principles-based rather than rules-based. The principles capture the essentials of effective internal audit in a way which is easy to communicate to stakeholders in the audit process, including those whose work is subject to audit, the audit committee and others who receive reports on the results of internal audit work. The principles can also helpfully inform internal and external assessments of the effectiveness of internal audit activity.

CODE OF ETHICS

Section 6 of the PSIAS sets out the Code of Ethics. It explains that a code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance. The code is framed as guidance to members of the Institute of Internal Auditors, but is applicable to others who provide internal auditing services within the Definition of Internal Auditing: this includes all internal auditors working in public sector organisations using the PSIAS, including internal audit in local government.

The code outlines principles relevant to the profession and practice of internal auditing under four headings:

Integrity: *The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement*

Objectivity: *Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.*

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

Confidentiality: *Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.*

Competency: *Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.*

The code expands on each of these by setting out rules of conduct that describe behaviour norms expected of internal auditors.

The PSIAS also require that if an individual internal auditor is a member of another professional body then he or she must also comply with the relevant requirements of that body. CIPFA members and members of the other CCAB bodies are subject to codes based on the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA). This sets out more detailed requirements than those set out in the PSIAS. The general material in Part 1 of the code, which is a standard setting board of the

International Federation of Accountants (IFAC), is directly relevant, as is much of the material in Part 2 *Professional Accountants in Business* (the IFAC code's term for accountants who are not external auditors in public practice).

TERMINOLOGY

The IIA Standards use the term 'chief audit executive' throughout, and this term is also used in the PSIAS and this application note. However, it is recognised that the job title may vary between organisations. There is no intention that organisations should amend the job titles of heads of internal audit or equivalent internal audit posts to 'chief audit executive'.

CHAPTER 3

Attribute Standards

Requirements for the organisation.

Requirements for the internal auditor.

Attribute Standards address the characteristics of organisations such as local authorities and the characteristics of the parties providing the internal audit services, whether delivered by an in-house internal audit function, a shared service for one or more local authorities, or an external provider.

PURPOSE, AUTHORITY AND RESPONSIBILITY

PSIAS 1000 and 1010

PSIAS 1000 requires the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter. The term ‘internal audit charter’ is now well established in local government, although in some cases a local authority internal audit activity (or function) may instead have terms of reference in the constitution or a strategy, setting out the type of content required by PSIAS 1000 together with relevant statutory requirements in legislation or regulations.

Responsibility for and ownership of the internal audit charter remains with the organisation. PSIAS 1000 requires the chief audit executive (CAE) to review the charter periodically, but final approval resides with the board.

The internal audit charter must set out the scope, nature, and authority of internal audit, and in so doing must do the following:

- Recognise the mandatory nature of the PSIAS (the *Core Principles for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards* themselves).
- Define the scope of internal audit activities.
- Establish the responsibilities and objectives of internal audit.
- Establish the organisational independence of internal audit.
- Recognise that internal audit’s remit extends to the entire control environment of the organisation and not just financial controls.
- Establish internal audit’s right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Where the authority carries out functions using shared service arrangements, in partnership with other organisations, or through arm’s length

bodies, these arrangements should incorporate appropriate rights of access which must be described in the internal audit charter.

The internal audit charter must also provide information on accountability, relationships and responsibilities as they impact upon internal audit and must:

- set out the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit
- establish the accountability, reporting lines and relationships between the CAE and:
 - the board
 - those to whom the CAE must report functionally
 - those to whom the CAE may report administratively.

Furthermore, when the internal audit function is delivered through shared service arrangements or by an external provider, the charter must set out the role of the internal audit contract manager in the above.

The public sector requirement also specifies that the charter must:

- define the terms ‘board’ and ‘senior management’ for the purposes of internal audit activity
- cover the arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work
- describe safeguards to limit impairments of independence or objectivity if internal audit or the CAE undertakes non-audit activities.

The internal audit charter will necessarily have regard to counter-fraud work being carried out either by internal audit staff or through a separate counter-fraud specialism. The charter should also set out relevant arrangements within the organisation’s anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety in order to inform his or her annual internal audit opinion and the risk-based plan.

The ‘board’ in local government

The PSIAS glossary defines the board as:

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the ‘board’ may refer to the head of the organisation. ‘Board’ may refer to an audit committee to which the governing body has delegated certain functions.

In a local authority, the role of the board may be satisfied by the audit committee, the cabinet or even full council: it is the responsibility of CAEs and their organisations to decide which group fulfils the definition in each standard and document this in the internal audit charter, and this may require judgment based on how governance arrangements work in practice. For example, audit committees in the police sector cannot generally fulfil the role of

board as they only have an advisory role: while they can make recommendations to a chief constable or PCC, they cannot approve plans or make decisions on resource allocation.

CAEs can take the following steps to ascertain which group fulfils the board definition:

- review the current terms of reference documents for each relevant group
- map the results of that review to the PSIAS and those standards that reference the board
- identify any gaps and work out if there are any other groups or individuals who currently would fulfil the role or in fact whether responsibility for those areas resides with full council
- review the results mapping current arrangements to the PSIAS board references and consider if those arrangements are the most appropriate and effective
- propose amendments to current arrangements if necessary, bearing in mind any real or apparent conflicts of interest that may arise
- discuss proposed arrangements (or current if no changes appear to be required) with the appropriate parties, for example senior management and the chair of the audit committee
- consider any other implications, such as altering terms of reference where roles may need to be altered.

The results of this exercise should then be taken forward and included in the internal audit charter.

In order to facilitate the work of the audit committee and/or the board, the CAE should:

- attend audit committee meetings and contribute to the agenda
- participate in the audit committee's review of its own remit and effectiveness (*CIPFA's Position Statement: Audit Committees in Local Authorities and Police* states that to discharge its responsibilities effectively, the audit committee should report on its performance at least annually)
- seek to ensure that the audit committee receives and understands documents that describe how internal audit will fulfil its objectives (eg the risk-based plan, annual work programmes, progress reports)
- determine whether anything arising from the work of the audit committee requires changes to be made to the audit plan and whether matters arising from the work of internal audit need to be addressed by the audit committee.

The CAE should periodically review whether the internal audit charter needs to be amended to address the requirements in the PSIAS. Alternatively, there may be a potential opportunity to increase the impact of internal audit in the organisation by drawing up a new internal audit charter.

INDEPENDENCE AND OBJECTIVITY

PSIAS 1100, 1110, 1111, 1112, 1120 and 1130

Various aspects of independence and objectivity are covered in PSIAS 1100 to 1200, including functional reporting lines of the CAE, the relationship between the CAE and the board and any impairment to individual internal auditors' objectivity or independence. Reporting and management arrangements must be put in place that preserve the CAE's independence and objectivity, in particular with regard to the principle that the CAE must be independent of the audited activities.

Organisational independence

There has been a long-standing debate over the positioning of the CAE within local authorities and in particular to the line management arrangements for that role. PSIAS 1000 expands on this, setting out the relationship between the CAE and the board. As highlighted in previous sections, individual local authority organisations must consider carefully which committee or individual fulfils the role of the board throughout the PSIAS. This is critical in considering independence.

CIPFA's Statement on The Role of the Head of Internal Audit in Public Service Organisations (2018) states that organisations need to ensure that the head of internal audit (CAE) is *a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the audit committee.*

PSIAS 1110 is similarly clear that the CAE must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities, and reporting to the board is the generally accepted method of helping to ensure that organisational independence is attained. The public sector requirement to PSIAS 1110 states that the CAE must report functionally to the board and this is underlined in PSIAS 1111 *Direct Interaction with the Board*, which requires the CAE to communicate and interact directly with the board.

CIPFA and the IIA expect that the CAE should not report administratively to or be managed at a lower organisational level than the corporate management team. These requirements fit with the existing requirement in local authorities, where the head of paid service is responsible for ensuring the organisation has the right officers with the appropriate skills/competencies and the appropriate grade to implement the policies of the local authority.

PSIAS 1110 explains that organisational independence is effectively achieved when the chief audit executive reports functionally to the board. There can be a difference between functional reporting and the line management of the CAE, which can also be influenced by the form of the internal audit provision.

The interpretation to PSIAS 1110 provides examples of functional reporting by the CAE/ internal audit activity to the board. These include the board approving the remuneration of the CAE. However, the public sector interpretation recognises that in the UK public sector, it would be unusual for the board to carry out such a role, although it may be the case where, for example, the internal audit service is supplied by contractors or through a partnership.

The PSIAS do not stipulate an administrative reporting line for local authorities.

Remuneration decisions within individual organisations will depend on the arrangements

within the local authority. Within local government, many CAEs are line managed by the CFO, and functional reporting arrangements need to be in place which avoid this compromising the independence and objectivity of the CAE, in particular the principle that the CAE must be independent of the audited activities.

Organisations must ensure that the CAE's independence is protected so that conflicts of interest, real or perceived, are avoided. The public sector interpretation explains that this can be achieved through the involvement of the chief executive (or equivalent) in the performance appraisal of the CAE and feedback from the chair of the audit committee.

PSIAS 1112 requires specific safeguards where the CAE has responsibilities for matters beyond internal auditing. The public sector interpretation requires the CAE to highlight to the board any matters which might need to be subject to such safeguards and requires the board to periodically review these.

Objectivity

PSIAS 1120 and 1130 expand upon the principles of integrity and objectivity set out in the Code of Ethics, which require internal auditors to be impartial and unbiased, and to avoid conflicts of personal or professional interest, whether real or perceived. PSIAS 1130 describes what constitutes an impairment to independence or objectivity, and requires that, in situations where it only appears that impairment to objectivity or independence has occurred, 'appropriate parties' have to be informed (determined according to each situation).

In order to avoid real or apparent impairments, internal auditors should:

- declare interests in accordance with the requirements set by the organisation on the type and nature of interests that should be declared
- not accept any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies)
- not use information obtained during the course of duties for personal gain
- disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements.

The interpretation to PSIAS 1130 notes that impairments to objectivity may arise through individual conflicts of interest or may be imposed externally by limiting the scope of internal audit activity through *restrictions on access to records, personnel and properties or through resource limitations, such as funding*.

PSIAS 1130.A1 and .A2 set out conditions which must be satisfied if an internal auditor has previously had operational responsibilities or when the CAE has responsibilities for other functions and audits are required in those areas.

The CAE should be alert to the fact that long-term responsibility for the audit of a particular activity in an organisation can lead to over-familiarity and complacency that could influence objectivity. The CAE should consider whether this risk needs to be managed, for example by rotating ongoing audit responsibilities from time to time within the internal audit team. The CAE will need to have regard to staff resources available, including specialist skills and knowledge where appropriate.

While good working relationships with management can enhance internal audit's ability to achieve its objectives, these must not detract from internal audit's responsibility to report control issues to management and the board.

The public sector requirement requires the board's approval for any 'significant' additional consulting services that have not already been included in the audit plan. 'Significant' is not defined in the PSIAS but should be considered in the context of the specific organisation.

PROFICIENCY AND DUE PROFESSIONAL CARE

PSIAS 1200, 1210, 1220 and 1230

PSIAS 1200 states that the CAE must be professionally qualified and suitably experienced. The subsequent standards set out specific requirements for all internal audit staff to be competent, to exercise due professional care, and to maintain their competence.

The CAE is responsible for recruiting appropriate staff, in accordance with the organisation's HR processes. This will normally require up-to-date job descriptions that reflect roles and responsibilities and person specifications which define the required qualifications, competencies, skills, experience and personal attributes. The CAE should periodically assess individual auditors against the skills and competencies set out in the relevant job descriptions and person specifications. Any training or development needs that are identified should be included in an appropriate ongoing development programme that is recorded and regularly reviewed and monitored.

In addition, all internal auditors have a personal responsibility to undertake a programme of continuing professional development (CPD) to maintain and develop their competence. This may be fulfilled through requirements set by professional bodies, for example by applying CIPFA's approach to CPD, or through the organisation's own appraisal and development programme. Auditors should maintain a record of such professional training and development activities.

In order for the authority to meet its statutory responsibilities, internal audit needs to be appropriately resourced to meet its objectives. The internal audit activity should have appropriate numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and to comply with these standards. PSIAS 1210.A1 explicitly requires that the CAE must obtain competent advice and assistance if the internal audit activity is unable to perform all or part of an engagement.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

PSIAS 1300, 1310, 1311, 1312, 1320, 1321 and 1322

The Quality Assurance and Improvement Programme (QAIP) has been designed by the IIA Global to assist in improving the performance of internal audit. Applying this across the public sector will help promote consistency and improvement. The QAIP was a new requirement for local authorities when the PSIAS were introduced in 2013, but echoed

statutory requirements for many authorities to conduct reviews of the effectiveness of internal audit. (This requirement has since been removed from the regulations for England on the understanding that review will arise automatically from the application of the PSIAS).

PSIAS require the CAE to develop and maintain a QAIP to enable the internal audit activity to be assessed against the PSIAS (ie the Mission of Internal Audit, Definition of Internal Auditing, Core Principles, Code of Ethics and the standards themselves) for conformance. The interpretation to PSIAS 1300 states that the QAIP is designed both to assess conformance with the PSIAS and also to assess the efficiency and effectiveness of the internal audit activity and identify areas for improvement. Assessments of local authority conformance with the PSIAS should use this application note for guidance.

PSIAS 1310 clearly states that a QAIP must include both internal and external assessments. Internal assessments can be carried out on an ongoing basis and periodically. As a minimum requirement, an external assessment must be undertaken at least once every five years. By 31 March 2018, all authorities should have completed at least one external assessment of internal audit.

Internal assessments

Ongoing internal assessment can be carried out through performance monitoring which the CAE uses to manage the internal audit activity. When the CAE establishes policies and procedures to guide staff in performing their duties, these should both ensure that work conforms to the PSIAS and should provide evidence of conformance. This may be done in various ways, including maintaining an audit manual and the use of electronic audit management systems.

Assessments will also need to determine that audit work is carried out to the appropriate level of quality and that audit work has been allocated to staff with the appropriate skills, experience and competence. The assessment should also verify that internal audit staff at all levels are appropriately supervised and work is reviewed throughout all audits to monitor progress, assess quality and coach staff. The extent of supervision will depend on the competence and experience of the individual auditor.

Ongoing performance monitoring may also incorporate the following:

- A comprehensive set of targets to measure performance, developed in consultation with appropriate parties. Performance measures should be included in any service level agreement. The CAE should measure, monitor and report appropriately on the progress against these targets.
- Stakeholder feedback.
- An action plan to implement improvements.

Periodic assessment will include a review of the internal audit charter, the role of the CAE within the organisation, and other structural features of the internal audit activity to confirm that these are sufficient to achieve the Mission of Internal Audit in line with the Core Principles. It may incorporate further review of engagement working papers on a test basis to confirm that individual pieces of internal audit work have been carried out in line with the PSIAS. It could also involve other people within the organisation who have knowledge of internal audit, for example senior management and members of the audit committee. It may

also include a review of the activity against the risk-based plan and the achievement of its aims and objectives. The results of this should inform future risk-based planning.

A checklist for assessing conformance is included in this application note. This covers both the requirements of the PSIAS and the content of this application note. Other checklists such as that provided by the CIIA may also be useful, but, when using these, references to the International Professional Practices Framework should be read as referring to the Public Sector Internal Audit Standards in its entirety, together with this application note as guidance.

External assessments

The requirement for an external assessment to be carried out at least once every five years may be satisfied by either arranging for a 'full' external assessment or by undertaking a self-assessment with 'independent validation'.

PSIAS 1312 states that the CAE must discuss the format of the external assessments with the board: this discussion should reflect the relative costs of the different approaches, the potential advantages of an external viewpoint, and whether there are factors which might be considered to warrant a demonstrably independent assessment.

Whichever approach is used, an independent person or team must be sourced in line with requirements in the PSIAS that arrangements are put in place to avoid conflict of interest and impairment to objectivity.

The external assessor or assessment team must be appropriately qualified to carry out the full external assessment or independent external validation, and the PSIAS specify that they must be competent both in the professional practice of internal audit and the process of external assessment. This is particularly important where a system of peer review is set up to provide the external assessment.

It is possible that a local authority's external auditor may be appropriately independent to act as the external assessor or assessment team. However, this will normally require a separate review to be performed: review of internal audit carried out as part of the external audit will not normally correspond with the requirements for external assessment.

The public sector requirement mandates that local authorities must find an 'appropriate sponsor'. This requirement is intended to further safeguard the independence of the external assessment process. The public sector requirement suggests that the sponsor could be the audit committee chair or the accounting/accountable officer. The latter terms are not generally used in local government, but depending on the local authority's structure, the sponsor could be another officer within the organisation (for example, the CFO or chief executive officer). The IASAB website provides additional guidance on the role of the sponsor, including the circumstances where the internal audit service is provided through a shared service arrangement.

A checklist for assessing conformance is included in this application note. This covers both the requirements of the PSIAS and the content of this application note. Other checklists such as that provided by the CIIA may also be useful, but, when using these, references to the International Professional Practices Framework should be read as referring to the

Public Sector Internal Audit Standards in its entirety, together with this application note as guidance.

Reporting on the QAIP and disclosure of non-conformance

PSIAS 1320 requires the CAE to communicate the results of the QAIP to senior management and the board, providing information on the scope and frequency of internal and external assessments, the qualifications and level of independence of the assessors, their conclusions, and any corrective action plans. The public sector requirement requires progress against any improvement plans to be reported.

The PSIAS requires non-conformance with standards to be disclosed when it impacts the overall scope or operation of the internal audit activity. The additional public sector requirement requires such instances of non-conformance to be reported to the board and considered for inclusion in the governance statement.

Performance Standards

Measuring how well internal audit does its job.

The Performance Standards describe the nature of internal audit services, and also provide quality criteria against which the performance of an internal audit function can be measured.

MANAGING THE INTERNAL AUDIT ACTIVITY

PSIAS 2000, 2010, 2020, 2030, 2040, 2050, 2060 and 2070

The internal audit activity is effectively managed when it achieves the purposes set out in the internal audit charter, in accordance with relevant codes and standards, and having regard to trends and emerging issues that affect the objectives and risks of the organisation.

Planning

The PSIAS require the CAE to develop a risk-based plan. This must incorporate or be linked to a strategic high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter. It must also explain how the planned assurance delivery links to the organisational objectives and priorities. It should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work.

The public sector requirement in PSIAS 2010 states that the risk-based plan must incorporate or be linked to a “strategic or high-level statement of how the internal audit service will be delivered and developed”. The plan must therefore include some strategic elements, for example by showing how internal audit’s work will identify and address local and national issues and risks over successive annual cycles.

The risk-based plan should be fixed for a period of no longer than one year and should be sufficiently flexible to reflect the changing risks and priorities of the organisation. Internal auditors should keep risks under regular review and consider how their audit plans should respond to changing risks. This may result in more frequent reviews of the plan or for plans to cover periods of less than one year.

Minimum level of coverage

Neither the PSIAS nor this application note set out a formula to determine an appropriate level of internal audit coverage. However, as a guide, the minimum level of coverage is that required to support an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage (for example, the level of assurance provided by other providers).

Each organisation, irrespective of size, needs to form its own view about the level of audit coverage and the optimum resources to be devoted to internal audit in order to conform with PSIAS and for the authority to comply with statutory requirements.

The development of a risk-based audit plan should have regard to:

- any declarations of interest and other potential conflicts of interest
- any requirement to use specialists, eg IT or contract and procurement auditors
- the need to balance the range of reviews to be delivered, for example systems and risk-based reviews, specific key control testing, benchmarking exercises and/or value for money studies
- the relative risk maturity of the organisation.

The plan will need to consider resource and time requirements for the planning process and other mandatory governance and reporting requirements, including regular reporting to the board, the development of the annual report, the QAIP and the CAE opinion. It may also be helpful to allow contingency time for ad hoc consultancy and advisory support.

Where the CAE is responsible for counter fraud as well as internal audit, CIPFA recommends that there should be separate plans for the two functions rather than being incorporated into a single plan. This will help safeguard CAE independence as required by 1112.

Communication and approval

The CAE must present the risk-based plan to senior management and the board for review and approval. In many local government organisations, the audit committee will fulfil the role of the board for this purpose. Where this is not the case, the role of the audit committee is still important: in line with current best practice set out in *Audit Committees: Practical Guidance for Local Authorities and Police* (CIPFA, 2018), the audit committee could have a role to *review and advise on* the risk-based plan or the internal audit budget and resource plan.

Resource management

The PSIAS require the risk-based plan to explain how internal audit resource requirements have been assessed. They also require the CAE to bring to the attention of the board the potential consequences where they believe that insufficient audit resources will impact on the provision of the annual audit opinion. Best practice for audit committees is that they should support them in doing this.

The core functions of an audit committee [include] in relation to the authority's internal audit functions:

- *oversee its independence, objectivity, performance and professionalism*
- *support the effectiveness of the internal audit process*
- *promote the effective use of internal audit within the assurance framework.*

Source: Position Statement: Audit Committees in Local Authorities and Police (CIPFA, 2018).

PSIAS 2030 requires the CAE to ensure that internal audit resources are 'effectively deployed' to achieve the approved risk-based plan. Audit work, and especially its timing, should be

planned in conjunction with management to minimise disruption to the activity being audited unless, for example, this might jeopardise the ‘challenge’ aspect of internal audit work or unannounced visits are necessary to provide the required level of assurance.

Once the work requirement has been determined, this should be compared to resource availability, and, where there is an imbalance between the two, the board should be informed of proposed solutions. Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the board.

Policies and procedures

PSIAS 2040 requires the CAE to establish policies and procedures to guide the internal audit activity. The nature and form of these will be dependent upon the size and structure of the internal audit activity and the complexity of its work, but they should be designed to:

- allocate work to staff with the appropriate skills, experience and competence
- provide for appropriate supervision and review, mentoring and coaching of staff
- facilitate progress monitoring
- ensure that work conforms to the PSIAS
- provide evidence of conformance for QAIP and other review.

The policies and procedures should be regularly reviewed and updated to reflect changes in working practices and standards.

Coordination

PSIAS 2050 requires the CAE to make arrangements to share information and coordinate activities with other internal and external providers of assurance to ensure there is adequate coverage and to minimise duplication of effort. They may also carry out an assurance mapping exercise or make use of assurance mapping carried out by other assurance providers.

The CAE should seek to meet regularly with the nominated external audit representative to consult on and coordinate their respective plans and, if appropriate, to discuss how work can be tailored to satisfy each party’s responsibilities in areas of common interest. Such meetings are an opportunity to discuss matters of mutual interest and to help develop both parties’ understanding of the organisation.

In a local authority, it is likely that some of the key organisational risks relate to work it undertakes through partnerships. Internal auditors then need to obtain assurance that the risks to the organisation of working in partnership are being appropriately managed as well as whether the risks relating to the partnership itself are being managed. This assurance may be available from work undertaken by others – perhaps other members of the partnership or an external regulator, and, in this case, the CAE must determine that the assurance provided is sufficient, based on a clear understanding of the scope, objectives and results of that work and the competence of the assurance provider. Where it is necessary to obtain assurance directly, internal auditors will need to obtain access to the staff and records at the partner organisation and ensure that this is sufficient to provide the evidence for their work.

It may be that the CAE is also required to provide assurance to partner organisations or arm's length bodies such as trading companies. This is acceptable under PSIAS, provided the risks of doing so are managed effectively. In such situations, the CAE must also have regard to the fact that their primary responsibility is to the management of their employing organisation or, if internal audit is provided as a shared service arrangement or by an external service provider, the body for which they have been engaged to provide internal audit services.

Reporting to senior management and the board

PSIAS 2060 sets out requirements for what should be communicated to senior management and the board in various communications. While the key communications are the initial approval of the risk-based plan and the final annual report and opinion, the CAE should generally make arrangements for interim reporting in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report and hence support a 'no surprises' approach, as well as assist management in drafting the annual governance statement.

NATURE OF WORK

PSIAS 2100, 2110, 2120 and 2130

These PSIAS set out the main aspects of the organisation's activity where internal audit activity must contribute to improvement: governance, risk management and internal control. This approach has long been embedded in local authorities, where it is designed to help management to produce a credible and well-founded annual governance statement.

PSIAS 2120.A2 states that the internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk. CIPFA has issued a *Code of Practice on Managing the Risk of Fraud and Corruption*. While compliance with the code is voluntary, CIPFA strongly recommends that it is used as the basis for assessment of how an authority manages its fraud risk.

ENGAGEMENT PLANNING

PSIAS 2200, 2201, 2210, 2220, 2230 and 2240

These PSIAS provide more detail on how planning should be carried out at the engagement level, including the key requirement that a brief should be agreed with relevant managers. The brief should establish the objectives, scope and timing for the assignment and its resource and reporting requirements. The risk-based approach should also be applied at engagement level.

The public sector interpretation to PSIAS 2210.A3 acts as a reminder that engagement objectives in the public sector should, where appropriate to the engagement, include value for money criteria – economy, efficiency and effectiveness. The use of all the organisation's main types of resources including money, people and assets should be considered.

PERFORMING THE ENGAGEMENT

PSIAS 2300, 2310, 2320, 2330 and 2340

These PSIAS set out requirements for performing engagements, including identifying sufficient information, analysis and evaluation of that information, documentation of results and conclusions, and requirements for supervision, quality assurance and staff development.

At each stage of the audit, auditors should consider what specific work needs to be conducted and evidence gathered to achieve the engagement objectives and support an independent and objective audit opinion. Additionally, while the primary responsibility for the prevention and detection of fraud lies with management, in any scrutiny involving use of funds or other resources, internal auditors should be alert to the possibility of intentional wrongdoing and potential conflicts of interest. They must also have sufficient knowledge to recognise indicators of possible fraud.

The CAE should have systems in place to ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. Working papers should always be sufficiently complete and detailed to enable an experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached.

The CAE should also specify how long audit documentation should be retained, whether held on paper or electronically, having regard to organisational policy and statutory requirements.

All engagements should be subject to appropriate supervision and review to ensure that audit work is of sufficient quality, and documentation of this process should be retained.

COMMUNICATING RESULTS

PSIAS 2400, 2410, 2420, 2421, 2430, 2431, 2440 and 2450

In local government, internal auditors operate in the public domain. There will be a variety of external interests in their work, including the organisation's partners in the voluntary sector and other parts of the public sector, the general public, and 'armchair auditors' and other stakeholders who the government expects to scrutinise local authority activities. The Freedom of Information Act 2000, or equivalent, obliges internal auditors to manage their activities in the expectation that their work will become public knowledge and could be scrutinised by anyone with an interest in doing so.

In addition to the requirements set out directly in the PSIAS, the Code of Ethics requires that internal auditors should disclose all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice. This requirement needs to be balanced with confidentiality requirements.

The basic aims of every internal audit report should be to do the following:

- Give an opinion on the risk and controls of the area under review, building up to the annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

- Prompt management to implement the agreed actions for change leading to improvement in the control environment and performance.
- Provide a formal record of points arising from the audit and, where appropriate, of agreements reached with management, together with appropriate timescales.

Each report should include the scope and purpose of the audit to help the reader to understand the extent, or limitations, of the assurance provided by the report.

During the course of the audit, key issues should be brought to the attention of the relevant manager to enable them to take corrective action and to avoid surprises at the closure stage. Before issuing the final report, the internal auditor should normally discuss the contents with the appropriate levels of management to confirm the factual accuracy, to seek comments and to confirm the agreed management actions.

Recommendations should be prioritised according to risk. The recommendations and the resultant management action plans should be agreed prior to the issue of the final report. Any areas of disagreement between the internal auditor and management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those weaknesses giving rise to significant risks that are not agreed should be brought to the attention of a more senior level of management and the board.

The CAE should determine the circulation of audit reports within the organisation, having due regard to their confidentiality and legislative requirements. The recipients of the audit report, ie those that have the authority to agree management actions, should be determined when preparing the engagement plan. Internal audit should normally obtain the consent of management, and vice versa, before reports are issued to third parties.

Mechanisms should be in place to ensure that recommendations with a wider impact than the area under review are reported to the right forum and also to ensure that risk registers are updated.

Overall opinions

The Public Sector Requirement in PSIAS 2450 requires that the CAE must provide an annual report to the board timed to support the annual governance statement. This must include:

- an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework – ie the control environment
- a summary of the audit work from which the opinion is derived (including reliance placed on work by other assurance providers)
- a statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.

In local government, the annual opinion should be guided by the CIPFA Framework *Delivering Good Governance in Local Government*.

The annual report should also include:

- disclosure of any qualifications to that opinion, together with the reasons for the qualification
- disclosure of any impairments ('in fact or appearance') or restriction in scope

- a comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets
- any issues the CAE judges particularly relevant to the preparation of the annual governance statement
- progress against any improvement plans resulting from QAIP external assessment.

In the context of the PSIAS, 'opinion' means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity that it has examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (eg because of limitations to the scope of, or adverse findings arising from, its work).

MONITORING PROGRESS

PSIAS Standard 2500

The PSIAS require a system to be in place for monitoring progress with management actions relating to audit findings, to confirm that these have been effectively implemented or, if not, that senior management have accepted the risk of not taking action.

The CAE should develop a procedure to document the follow-up of audit recommendations. There should also be an escalation procedure for cases where significant agreed actions have not been effectively implemented by the date agreed. These procedures should be designed to ensure that the risks of not taking action have been understood and accepted at a sufficiently senior management level. Effective involvement of the board in the follow-up process is critical. Where agreed actions have not been implemented, the CAE should consider whether it is necessary to revise the internal audit opinion.

The findings of audits and follow-up reviews should inform the planning of future audit work.

COMMUNICATING THE ACCEPTANCE OF RISK

PSIAS Standard 2600

PSIAS 2600 sets out requirements which apply to the difficult circumstance where, based on the findings of audit work or other information, it appears that management has accepted a level of risk that may be unacceptable to the organisation. The CAE is required to discuss the matter with senior management, and, if the matter is not resolved, it must be communicated to the board.

Situations of this kind are expected to be rare. A key point is that the PSIAS 2600 sets out communication requirements for the CAE. It is not the responsibility of the CAE to resolve the risk.

Other sources of guidance

If internal auditors in local government require further guidance on issues not covered by this application note, they can refer to other sources of assistance. They may of course be interested in guidance which ranges wider than internal audit, although their principal interests will be in governance matters as they relate to UK local government.

CIPFA provides guidance through its TISonline service, the CIPFA Better Governance Forum and the CIPFA website. CIPFA has recently updated its guidance on the *Role of the Head of Internal Audit in Public Service Organisations* having regard to the Core Principles in the PSIAS.

There is a developing body of guidance on the website of the [UK Public Sector Internal Auditing Standards Advisory Board](#).

IIA members also have access to the non-mandatory elements of the IPPF, such as the IIA Global's Implementation Guidance and Supplemental Guidance, as well as to other advisory materials produced by the IIA for the UK.

Checklist for assessing conformance with the PSIAS and the local government application note

This checklist has been developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. It incorporates the requirements of the PSIAS as well as the application note in order to give comprehensive coverage of both documents.

The checklist sets out questions which should be considered to determine whether particular aspects of the internal audit activity conform, partially conform or fail to conform with the requirements of the PSIAS and the Local Government application note.

Evidence for each response must be provided in or referenced from the checklist and reasons for any partial or full non-conformance should be given, together with any compensating measures in place or actions in progress to address this.

In developing an overall view of conformance with the PSIAS guided by this application note, particular attention should be paid to the front sections on the Mission of Internal Audit, Definition of Internal Auditing, Core Principles and Code of Ethics, which bring together more detailed consideration of conformance with individual standards.

In practice, in developing an overall assessment of conformance with the PSIAS, the key consideration of the assessor will be how the evidence gathered on conformance with the detailed standards and Code of Ethics supports the assessment of conformance with each of the Core Principles.

Questions to consider			Evidence / comments
1 Mission of Internal Audit			
Based on your review of conformance with other requirements of the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), does the internal audit activity aspire to accomplish the Mission of Internal Audit as set out in the PSIAS?			
<i>To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.</i>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
2 Definition of Internal Auditing			
Based on your review of conformance with other requirements of the PSIAS and LGAN, is the internal audit activity independent and objective?			
CONFORMS	PARTIAL	NOT CONFORMING	
Based on your review of conformance with other requirements of the PSIAS and LGAN, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
3 Core Principles			
The Core Principles, taken as a whole, articulate internal audit effectiveness, and provide a basis for considering whether the review of conformance with the attribute standards and performance standards reflects full conformance, partial conformance or non-conformance with the PSIAS and the Local Government Application Note. In making this assessment, the assessor should have regard to positive evidence of conformance or non-conformance and the lack of evidence of non-conformance where positive evidence is difficult to obtain.			
Where there are instances of partial conformance or non-conformance in particular areas, you may need to make a judgment having regard to materiality and other factors in order to form a view on whether the internal audit activity conforms with a particular Core Principle. Any such judgments should be highlighted and explained.			
Demonstrates integrity.			
Having regard to your review of conformance with the Code of Ethics (Integrity, Seven Principles of Public Life), do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating integrity?			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider	Evidence / comments
<p>Demonstrates competence and due professional care.</p> <p>Having regard to your review of conformance with the Code of Ethics (Competence, Confidentiality, Seven Principles of Public Life) and any other evidence from the review of conformance with Standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating competence and due professional care?</p> <p>CONFORMS PARTIAL NOT CONFORMING</p>	
<p>Is objective and free from undue influence (independent).</p> <p>Having regard to your review of conformance with the Code of Ethics (Objectivity, Seven Principles of Public Life) and any other evidence from the review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being objective and free from undue influence (independent)?</p> <p>CONFORMS PARTIAL NOT CONFORMING</p>	
<p>Aligns with the strategies, objectives, and risks of the organisation.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being aligned with the strategies, objectives, and risks of the organisation?</p> <p>CONFORMS PARTIAL NOT CONFORMING</p>	
<p>Is appropriately positioned and adequately resourced.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being appropriately positioned and adequately resourced?</p> <p>CONFORMS PARTIAL NOT CONFORMING</p>	
<p>Demonstrates quality and continuous improvement.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by demonstrating quality and continuous improvement?</p> <p>CONFORMS PARTIAL NOT CONFORMING</p>	
<p>Communicates effectively.</p> <p>Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by communicating effectively?</p> <p>CONFORMS PARTIAL NOT CONFORMING</p>	

Questions to consider			Evidence / comments
Provides risk-based assurance.			
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by providing risk-based assurance, based on adequate risk assessment?			
CONFORMS	PARTIAL	NOT CONFORMING	
Is insightful, proactive, and future-focused.			
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by being insightful, proactive, and future-focused?			
CONFORMS	PARTIAL	NOT CONFORMING	
Promotes organisational improvement.			
Based on your review of conformance with standards, do you consider that the internal audit activity fully conforms with the PSIAS and LGAN by promoting organisational improvement?			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
4 Code of Ethics			
Integrity			
Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display integrity by:			
<ul style="list-style-type: none"> ■ Performing their work with honesty, diligence and responsibility? ■ Observing the law and making disclosures expected by the law and the profession? ■ Not knowingly partaking in any illegal activity nor engaging in acts that are discreditable to the profession of internal auditing or to the organisation? ■ Respecting and contributing to the legitimate and ethical objectives of the organisation? 			
CONFORMS	PARTIAL	NOT CONFORMING	
Objectivity			
Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display objectivity by:			
<ul style="list-style-type: none"> ■ Not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? ■ Not accepting anything that may impair or be presumed to impair their professional judgement? ■ Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Confidentiality			
<p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display due respect and care by:</p> <ul style="list-style-type: none"> ■ Acting prudently when using information acquired in the course of their duties and protecting that information? ■ Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? 			
CONFORMS	PARTIAL	NOT CONFORMING	
Competency			
<p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors display competence by:</p> <ul style="list-style-type: none"> ■ Only carrying out services for which they have the necessary knowledge, skills and experience? ■ Performing services in accordance with the PSIAS? ■ Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes? 			
CONFORMS	PARTIAL	NOT CONFORMING	
Seven Principles of Public Life			
<p>Based on your review of conformance with other requirements of the PSIAS and LGAN, do you consider that internal auditors, whether consciously or through conformance with organisational procedures and norms, have due regard to the Committee on Standards of Public Life's <i>Seven Principles of Public Life</i>?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Standards			
5 Attribute Standards			
5.1 1000 Purpose, Authority and Responsibility			
<p>The questions in this section seek to confirm that the purpose, authority and responsibility of the internal audit activity have been properly defined consistent with the PSIAS, formally approved in an internal audit charter and periodically reviewed.</p>			
<p>Does the internal audit charter conform with the PSIAS by including a formal definition of:</p> <ul style="list-style-type: none"> ■ the purpose ■ the authority, and ■ the responsibility <p>of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Does the internal audit charter conform with the PSIAS by clearly and appropriately defining the terms ‘board’ and ‘senior management’ for the purposes of the internal audit activity?</p> <p>Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the internal audit charter also:</p> <ul style="list-style-type: none"> ■ Set out the internal audit activity’s position within the organisation? ■ Establish the chief audit executive’s (CAE) functional reporting relationship with the board? ■ Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively? Where applicable, this will need to encompass shared service or external providers of internal audit, and the role of the contract manager. ■ Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit? ■ Establish internal audit’s right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities? ■ Define the scope of internal audit activities? ■ Recognise that internal audit’s remit extends to the entire control environment of the organisation? ■ Establish the organisational independence of internal audit? ■ Cover the arrangements for appropriate resourcing? ■ Define the role of internal audit in any fraud-related work? ■ Set out the existing arrangements within the organisation’s anti-fraud and anti-corruption policies, requiring the CAE to be notified of all suspected or detected fraud, corruption or impropriety? ■ Include arrangements for avoiding conflicts of interest if internal audit or the CAE undertakes non-audit activities? ■ Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation? ■ Define the nature of consulting services? ■ Recognise the mandatory nature of the PSIAS? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Does the CAE periodically review the internal audit charter and present it to senior management and the board for approval?			
CONFORMS	PARTIAL	NOT CONFORMING	
5.2 1100 Independence and Objectivity			
The questions in this section seek to confirm that the internal audit activity is independent and internal auditors are objective in performing their work.			
Does the CAE have direct and unrestricted access to senior management and the board?			
Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?			
CONFORMS	PARTIAL	NOT CONFORMING	
Does the CAE attend audit committee meetings?			
Does the CAE contribute to audit committee agendas?			
CONFORMS	PARTIAL	NOT CONFORMING	
Are threats to objectivity identified and managed at the following levels:			
<ul style="list-style-type: none"> ■ Individual auditor? ■ Engagement? ■ Functional? ■ Organisation? 			
CONFORMS	PARTIAL	NOT CONFORMING	
1110 Organisational Independence			
This subsection seeks to confirm that reporting and management arrangements been put in place that preserve the CAE's independence and objectivity.			
This is of particular importance when the CAE is line-managed by another officer of the authority.			
Does the CAE report to an organisational level equal or higher to the corporate management team?			
Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Does the CAE’s position in the management structure:</p> <ul style="list-style-type: none"> ■ Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? ■ Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Is the organisational independence of internal audit realised by functional reporting by the CAE to the board?</p> <p>The ‘Interpretation’ to PSIAS 1110 provides examples of factors which may indicate that the CAE reports functionally to the Board, which include where the board:</p> <ul style="list-style-type: none"> ■ approves the internal audit charter ■ approves the risk-based audit plan ■ approves the internal audit budget and resource plan ■ receives communications from the CAE on the activity’s performance (in relation to the plan, for example) ■ approves decisions relating to the appointment and removal of the CAE ■ approves the remuneration of the CAE ■ seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations. <p>The Public Sector Interpretation to PSIAS 1110 notes that board approval of CAE remuneration does not generally happen in the UK public sector, and that the underlying principle is therefore that the independence of the CAE must be safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subject to audit.</p> <p>EQA assessors should therefore consider whether adequate steps are taken to safeguard the independence of the CAE by ensuring that remuneration or performance assessment is not inappropriately influenced by those subject to audit. This might for example reflect some involvement of the chief executive in the performance assessment process or feedback from the audit committee chair.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>1111 Direct Interaction with the Board</p>			
<p>Does the CAE communicate and interact directly with the board?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
1112 Chief Audit Executive Roles Beyond Internal Auditing			
Where the CAE has roles or responsibilities that fall outside of internal auditing, are adequate safeguards in place to limit impairments to independence or objectivity?			
Does the board periodically review these safeguards?			
CONFORMS	PARTIAL	NOT CONFORMING	
1120 Individual Objectivity			
Do internal auditors have an impartial, unbiased attitude?			
CONFORMS	PARTIAL	NOT CONFORMING	
Do internal auditors avoid any conflict of interest, whether apparent or actual?			
CONFORMS	PARTIAL	NOT CONFORMING	
1130 Impairment to Independence or Objectivity			
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?			
CONFORMS	PARTIAL	NOT CONFORMING	
Does review indicate that work allocations have operated so that internal auditors have not assessed specific operations for which they have been responsible within the previous year?			
CONFORMS	PARTIAL	NOT CONFORMING	
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?			
CONFORMS	PARTIAL	NOT CONFORMING	
Is the risk of over-familiarity or complacency managed effectively: for example by rotating assignments for ongoing assurance engagements and other audit responsibilities periodically within the internal audit team?			
CONFORMS	PARTIAL	NOT CONFORMING	
Have internal auditors declared interests in accordance with organisational requirements?			
CONFORMS	PARTIAL	NOT CONFORMING	
Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider	Evidence / comments	
Does review indicate that no instances have been identified where an internal auditor has used information obtained during the course of duties for personal gain?		
CONFORMS	PARTIAL	NOT CONFORMING
Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?		
CONFORMS	PARTIAL	NOT CONFORMING
If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?		
CONFORMS	PARTIAL	NOT CONFORMING
Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?		
CONFORMS	PARTIAL	NOT CONFORMING
5.3 1200 Proficiency and Due Professional Care		
This section seeks to confirm that engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the CAE and their staff, and how they exercise their capability in practice.		
1210 Proficiency		
Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent? Is the CAE suitably experienced?		
CONFORMS	PARTIAL	NOT CONFORMING
Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation’s human resources processes? Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?		
CONFORMS	PARTIAL	NOT CONFORMING
Having regard to the answers to the other questions in this section and other matters, does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities? Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?		
CONFORMS	PARTIAL	NOT CONFORMING

Questions to consider			Evidence / comments
Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?			
CONFORMS	PARTIAL	NOT CONFORMING	
Do internal auditors have sufficient knowledge of key information technology risks and controls?			
CONFORMS	PARTIAL	NOT CONFORMING	
Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?			
CONFORMS	PARTIAL	NOT CONFORMING	
1220 Due Professional Care			
<p>Do internal auditors exercise due professional care by considering the:</p> <ul style="list-style-type: none"> ■ Extent of work needed to achieve the engagement’s objectives? ■ Relative complexity, materiality or significance of matters to which assurance procedures are applied? ■ Adequacy and effectiveness of governance, risk management and control processes? ■ Probability of significant errors, fraud, or non-compliance? ■ Cost of assurance in relation to potential benefits? <p>In doing the above, internal auditors must also consider how technology-based audit and other data analysis techniques can provide assurance.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
Do internal auditors exercise due professional care during a consulting engagement by considering the:			
<ul style="list-style-type: none"> ■ Needs and expectations of clients, including the nature, timing and communication of engagement results? ■ Relative complexity and extent of work needed to achieve the engagement’s objectives? ■ Cost of the consulting engagement in relation to potential benefits? 			
CONFORMS	PARTIAL	NOT CONFORMING	
1230 Continuing Professional Development			
<p>Has the CAE defined the skills and competencies for each level of auditor?</p> <p>and</p> <p>Does the CAE periodically assess individual auditors against the predetermined skills and competencies?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Do internal auditors undertake a programme of continuing professional development? and Do internal auditors maintain a record of their professional development and training activities?			
CONFORMS	PARTIAL	NOT CONFORMING	
5.4 1300 Quality Assurance and Improvement Programme			
The questions in this section seek to confirm that the CAE has developed and maintained a Quality Assurance and Improvement Programme (QAIP) through which conformance with the PSIAS can be and is properly assessed.			
Has the CAE developed a QAIP that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated? Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement? Does the CAE maintain the QAIP? Are any statutory requirements for review of the internal audit activity satisfied?			
CONFORMS	PARTIAL	NOT CONFORMING	
1310 Requirements of the Quality Assurance and Improvement Programme			
Does the QAIP include both internal and external assessments?			
CONFORMS	PARTIAL	NOT CONFORMING	
1311 Internal Assessments			
Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?			
CONFORMS	PARTIAL	NOT CONFORMING	
Do internal assessments include ongoing monitoring of the internal audit activity, such as: <ul style="list-style-type: none"> ■ Routine quality monitoring processes? ■ Periodic assessments for evaluating conformance with the PSIAS? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Does ongoing performance monitoring contribute to quality improvement through the effective use of performance targets?</p> <ul style="list-style-type: none"> ■ Is there a set of comprehensive targets which between them encompass all significant internal audit activities? ■ Are the performance targets developed in consultation with appropriate parties and included in any service level agreement? ■ Does the CAE measure, monitor and report on progress against these targets? ■ Does ongoing performance monitoring include obtaining stakeholder feedback? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices?</p> <p>Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>1312 External Assessments</p>			
<p>Has an external assessment been carried out, or is one planned to be carried out, at least once every five years?</p> <p>Has the CAE discussed the alternative approaches to external assessment with the board? This should reflect the relative costs of the different approaches, the potential advantages of an external viewpoint, and whether there are factors which might be considered to warrant a demonstrably independent assessment.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Has the CAE properly discussed the qualifications and independence of the assessor or assessment team with the board?</p> <p>In doing this, the CAE should consider whether the assessor or assessment team has demonstrated its competence in both the professional practice of internal auditing <i>and</i> the external assessment process. Competence can be demonstrated through both experience and theoretical learning. Experience of similar organisations or sectors is more valuable than less relevant experience. In the case of an assessment team, not all members need to have all the competencies – it is the team as a whole that is qualified.</p> <p>If the capability of the assessor or assessment team is not immediately obvious, the CAE should document how they used professional judgement to decide whether this is sufficient to carry out the external assessment.</p> <p>If the assessor or assessment team has any real or apparent conflicts of interest with the organisation, this should be clearly explained to the board, and safeguards should be put in place to minimise the effect of this on the conduct of the external assessment.</p> <p>Conflict of interest may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?</p> <p>The CAE should also agree this scope with the external assessor or assessment team.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>1320 Reporting on the Quality Assurance and Improvement Programme</p>			
<p>Has the CAE reported the results of the QAIP to senior management and the board?</p> <p>Note that:</p> <ul style="list-style-type: none"> ■ the results of both external and periodic internal assessment must be communicated upon completion ■ the results of ongoing monitoring must be communicated at least annually ■ the results must include the assessor’s or assessment team’s evaluation with regards to the degree of the internal audit activity’s conformance with the PSIAS. 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?			
CONFORMS	PARTIAL	NOT CONFORMING	
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'			
Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?			
CONFORMS	PARTIAL	NOT CONFORMING	
1322 Disclosure of Non-conformance			
Has the CAE reported any instances of non-conformance with the PSIAS to the board?			
CONFORMS	PARTIAL	NOT CONFORMING	
If appropriate, has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
6 Performance Standards			
6.1 2000 Managing the Internal Audit Activity			
<p>The questions in this section seek to confirm that the internal audit activity's work achieves the purposes and responsibility of the activity, as set out in the internal audit charter, and that the internal audit activity adds value to the organisation and its stakeholders by:</p> <ul style="list-style-type: none"> ■ providing objective and relevant assurance ■ contributing to the effectiveness and efficiency of the governance, risk management and internal control processes. 			
2010 Planning			
<p>Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?</p> <p>Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?</p> <p>Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:</p> <ul style="list-style-type: none"> ■ How the internal audit service will be delivered? ■ How the internal audit service will be developed in accordance with the internal audit charter? ■ How the internal audit service links to organisational objectives and priorities? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Does the risk-based plan set out how internal audit’s work will identify and address local and national issues and risks?</p> <p>In developing the risk-based plan, has the CAE taken into account the organisation’s risk management framework and relative risk maturity of the organisation?</p> <p>If such a risk management framework does not exist, has the CAE used their judgement of risks after input from senior management and the board and evidenced this?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the risk-based plan set out the:</p> <ul style="list-style-type: none"> ■ Audit work to be carried out? ■ Respective priorities of those pieces of audit work? ■ Estimated resources needed for the work? <p>Does the risk-based plan differentiate between audit and other types of work?</p> <p>Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation’s business, risks, operations, programmes, systems and controls?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Is the internal audit activity’s plan of engagements based on a documented risk assessment?</p> <p>Is the risk assessment used to develop the plan of engagements undertaken at least annually?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>In developing the risk-based plan, has the CAE also given sufficient consideration to:</p> <ul style="list-style-type: none"> ■ Any declarations of interest (for the avoidance for conflicts of interest)? ■ The requirement to use specialists, eg IT or contract and procurement auditors? ■ Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? ■ The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>In developing the risk-based plan, has the CAE consulted with senior management and the board to obtain an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes?</p> <p>Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?</p> <p>Are consulting engagements that have been accepted included in the risk-based plan?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2020 Communication and Approval			
<p>Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?</p> <p>Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Has the CAE communicated the impact of any resource limitations to senior management and the board?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2030 Resource Management			
<p>Does the risk-based plan explain how internal audit's resource requirements have been assessed?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise disruption to the functions being audited, subject to the requirement to obtain sufficient assurance?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?</p> <p>This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2040 Policies and Procedures			
<p>Has the CAE developed and put into place policies and procedures to guide the internal audit activity?</p> <p>Examples include maintaining an audit manual and/or using electronic management systems to guide staff in performing their duties in a manner that conforms to the PSIAS</p> <p>Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2050 Coordination			
<p>Does the risk-based plan include an adequately developed approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p> <p>The CAE should generally share information and coordinate activities with other internal and external providers of assurance and consulting services. They may also carry out an assurance mapping exercise, or make use of assurance mapping carried out by other assurance providers.</p> <p>They should also meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans.</p> <p>Where key organisational risks relate to work undertaken through partnerships, the auditor may be able to take assurance from work undertaken by others, or by obtaining assurance directly.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
2060 Reporting to Senior Management and the Board			
<p>Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?</p> <p>Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?</p> <p>Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2070 External Service Provider and Organisational Responsibility for Internal Auditing			
<p>Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
6.2 2100 Nature of Work			
<p>The questions in this section seek to confirm that the internal audit activity evaluates and contributes to the improvement of the organisation's governance, risk management and internal control processes using a systematic and disciplined approach.</p>			
2110 Governance			
<p>Does the internal audit activity assess and make appropriate recommendations to improve the organisation's governance processes for:</p> <ul style="list-style-type: none"> ■ Making strategic and operational decisions? ■ Overseeing risk management and control? ■ Promoting appropriate ethics and values within the organisation? ■ Ensuring effective organisational performance management and accountability? ■ Communicating risk and control information to appropriate areas of the organisation? ■ Coordinating the activities of and communicating information among the board, external and internal auditors and management? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Has the internal audit activity evaluated the design, implementation and effectiveness of the organisation’s ethics-related objectives, programmes and activities? This is an area where the CAE may be able to use other sources of assurance.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Has the internal audit activity assessed whether the organisation’s information technology governance supports the organisation’s strategies and objectives? This is an area where the CAE may be able to use other sources of assurance.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2120 Risk Management			
<p>Has the internal audit activity evaluated the effectiveness of the organisation’s risk management processes by determining that:</p> <ul style="list-style-type: none"> ■ Organisational objectives support and align with the organisation’s mission? ■ Significant risks are identified and assessed? ■ Appropriate risk responses are selected that align risks with the organisation’s risk appetite? ■ Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Has the internal audit activity evaluated the risks relating to the organisation’s governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> ■ Achievement of the organisation’s strategic objectives? ■ Reliability and integrity of financial and operational information? ■ Effectiveness and efficiency of operations and programmes? ■ Safeguarding of assets? ■ Compliance with laws, regulations, policies, procedures and contracts? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?</p> <p>CIPFA has issued a <i>Code of Practice on Managing the Risk of Fraud and Corruption</i>, and strongly recommends that it is used as the basis for assessment of how an authority manages its fraud risk.</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?</p> <p>Are internal auditors alert to other significant risks when undertaking consulting engagements?</p> <p>Do internal auditors incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2130 Control			
<p>Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the:</p> <ul style="list-style-type: none"> ■ Achievement of the organisation's strategic objectives? ■ Reliability and integrity of financial and operational information? ■ Effectiveness and efficiency of operations and programmes? ■ Safeguarding of assets? ■ Compliance with laws, regulations, policies, procedures and contracts? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
6.3 2200 Engagement Planning			
<p>Do internal auditors develop and document a plan for each engagement?</p> <p>Does the engagement plan include the engagements:</p> <ul style="list-style-type: none"> ■ Objectives? ■ Scope? ■ Timing? ■ Resource allocations? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Do internal auditors consider the following in planning an engagement, and is this documented:</p> <ul style="list-style-type: none"> ■ The objectives of the activity being reviewed? ■ The means by which the activity controls its performance? ■ The significant risks to the activity being audited? ■ The activity’s resources? ■ The activity’s operations? ■ The means by which the potential impact of risk is kept to an acceptable level? ■ The adequacy and effectiveness of the activity’s governance, risk management and control processes compared to a relevant framework or model? ■ The opportunities for making significant improvements to the activity’s governance, risk management and control processes? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:</p> <ul style="list-style-type: none"> ■ Objectives? ■ Scope? ■ The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:</p> <ul style="list-style-type: none"> ■ Objectives? ■ Scope? ■ The respective responsibilities of the internal auditors and the client and other client expectations? <p>For significant consulting engagements, has this understanding been documented?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
2210 Engagement Objectives			
<p>Have objectives been agreed for each engagement?</p> <p>Have internal auditors carried out a preliminary risk assessment of the activity under review?</p> <p>Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?</p> <p>Have internal auditors considered the probability of the following when developing the engagement objectives:</p> <ul style="list-style-type: none"> ■ Significant errors? ■ Fraud? ■ Non-compliance? ■ Any other risks? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether organisational objectives and goals have been accomplished?</p> <p>If the criteria has been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?</p>			
<p>If the criteria has been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?</p> <p>If the value for money criteria has been referred to, has the use of all the organisation's main types of resources been considered, including money, people and assets?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?</p> <p>Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2220 Engagement Scope			
<p>Is the scope that is established for each engagement generally sufficient to satisfy the engagement's objectives?</p> <p>Does the scope for each engagement include consideration of relevant systems, records, personnel and physical properties? Does this consideration include areas under the control of outside parties, where appropriate?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?</p> <p>Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting standards?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>For each consulting engagement, was the scope of the engagement generally sufficient to address any agreed-upon objectives?</p> <p>If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?</p> <p>During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?</p> <p>During consulting engagements, were internal auditors alert to any significant control issues?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2230 Engagement Resource Allocation			
<p>Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of each engagement based on:</p> <p>a) The nature and complexity of the individual engagement?</p> <p>b) Any time constraints?</p> <p>c) The resources available?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2240 Engagement Work Programme			
<p>Have internal auditors developed and documented work programmes that achieve the engagement objectives?</p> <p>Do the engagement work programmes include procedures for:</p> <ul style="list-style-type: none"> ■ Identifying information? ■ Analysing information? ■ Evaluating information? ■ Documenting information? <p>Were work programmes approved prior to implementation for each engagement?</p> <p>Were any adjustments required to work programmes approved promptly?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
6.4 2300 Performing the Engagement			
The questions in this section seek to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant and useful information to support engagement results and conclusions.			
2310 Identifying Information			
Do internal auditors generally identify (sufficient, reliable, relevant and useful) information which supports engagement results and conclusions?			
Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.			
CONFORMS	PARTIAL	NOT CONFORMING	
2320 Analysis and Evaluation			
Have internal auditors generally based their conclusions and engagement results on appropriate analyses and evaluations?			
CONFORMS	PARTIAL	NOT CONFORMING	
Have internal auditors generally remained alert to the possibility of the following when performing their individual audits, and has this been documented:			
<ul style="list-style-type: none"> ■ Intentional wrongdoing? ■ Errors and omissions? ■ Poor value for money? ■ Failure to comply with management policy? ■ Conflicts of interest? 			
CONFORMS	PARTIAL	NOT CONFORMING	
2330 Documenting Information			
Have internal auditors documented the relevant information required to support engagement conclusions and results?			
Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Does the CAE control access to engagement records?</p> <p>Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?</p> <p>Has the CAE developed and implemented retention requirements for all types of engagement records?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Are the retention requirements for engagement records consistent with the organisation’s own guidelines as well as any relevant regulatory or other requirements?</p>			
2340 Engagement Supervision			
<p>Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?</p> <p>Is appropriate evidence of supervision documented and retained for each engagement?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
6.5 2400 Communicating Results			
<p>The questions in this section seek to confirm that internal auditors communicate the results of engagements in an appropriate way.</p>			
2410 Criteria for Communicating			
<p>Do the communications of engagement results include the following:</p> <ul style="list-style-type: none"> ■ The engagement’s objectives? ■ The scope of the engagement? ■ Applicable conclusions? ■ Recommendations and action plans, if appropriate? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Do internal auditors generally discuss the contents of the draft final reports with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>If recommendations and an action plan have been included, are recommendations prioritised according to risk?</p> <p>If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?</p> <p>If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
<p>Subject to confidentiality requirements and other limitations on reporting, do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice?</p> <p>When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Opinions should be supported by sufficient, reliable, relevant and useful information (in line with responses to questions for PSIAS 2300).</p> <p>Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Where the CAE has been required to provide assurance to other partnership organisations, or arm's length bodies such as trading companies, have the risks of doing so been managed effectively, having regard to the CAE's primary responsibility to the management of the organisation for which they are engaged to provide internal audit services?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2420 Quality of Communications			
<p>Are internal audit communications generally accurate, objective, clear, concise, constructive, complete and timely?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2421 Errors and Omissions			
<p>If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'			
<p>Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
2431 Engagement Disclosure of Non-conformance			
<p>Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:</p> <ul style="list-style-type: none"> ■ The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved? ■ The reason(s) for non-conformance? ■ The impact of non-conformance on the engagement and the engagement results? 			
CONFORMS	PARTIAL	NOT CONFORMING	
2440 Disseminating Results			
<p>Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Has the CAE communicated engagement results to all appropriate parties?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Before releasing engagement results to parties outside the organisation, did the CAE:</p> <ul style="list-style-type: none"> ■ Assess the potential risk to the organisation? ■ Consult with senior management and/or legal counsel as appropriate? ■ Control dissemination by restricting the use of the results? 			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider			Evidence / comments
2450 Overall Opinion			
<p>Has the CAE delivered an annual internal audit opinion?</p> <p>Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control?</p> <p>Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?</p> <p>Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information (having regard to the answers to questions on PSIAS 2300)?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the communication identify the following:</p> <ul style="list-style-type: none"> ■ The scope of the opinion, including the time period to which the opinion relates? ■ Any scope limitations? ■ The consideration of all related projects including the reliance on other assurance providers? ■ The risk or control framework or other criteria used as a basis for the overall opinion? <p>Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?</p> <p>Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?</p>			
CONFORMS	PARTIAL	NOT CONFORMING	
<p>Does the annual report incorporate the following:</p> <ul style="list-style-type: none"> ■ The annual internal audit opinion? ■ A summary of the work that supports the opinion? ■ A disclosure of any qualifications to the opinion? ■ The reasons for any qualifications to the opinion? ■ A disclosure of any impairments or restriction in scope? ■ A comparison or work actually carried out with the work planned? ■ A statement on conformance with the PSIAS? ■ The results of the QAIP? ■ Progress against any improvement plans resulting from the QAIP? ■ A summary of the performance of the internal audit activity against its performance measures and targets? ■ Any other issues that the CAE judges is relevant to the preparation of the governance statement? 			
CONFORMS	PARTIAL	NOT CONFORMING	

Questions to consider	Evidence / comments	
6.6 2500 Monitoring Progress		
<p>The questions in this section seek to confirm that a system is in place to monitor effectiveness of audit communications results to management, including appropriate follow up when no action is taken by management.</p> <p>Has the CAE established a process to monitor and follow up management actions to ensure that agreed actions have been effectively implemented or that senior management have accepted the risk of not taking action?</p>		
<p>Where issues have arisen during the follow-up process (for example, where agreed actions have not been implemented), has the CAE considered revising the internal audit opinion?</p> <p>Do the results of monitoring management actions inform the risk-based planning of future audit work?</p>		
CONFORMS	PARTIAL	NOT CONFORMING
Does the internal audit activity monitor the results of consulting engagements as agreed with the client?		
CONFORMS	PARTIAL	NOT CONFORMING
6.7 2600 Communicating the Acceptance of Risks		
<p>This section considers the arrangements which apply if the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation.</p> <p>Situations of this kind are expected to be rare. PSIAS 2600 sets out communication requirements for the CAE. It is not the responsibility of the CAE to resolve the risk.</p>		
<p>If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?</p> <p>If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?</p>		
CONFORMS	PARTIAL	NOT CONFORMING



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

CIPFA registered with the Charity Commissioners of England and Wales No 231060

Audit Committee self-assessment of good practice

This questionnaire provides a high-level review that incorporates the key principles set out in CIPFA's 2018 Position Statement: Audit Committees in Local Authorities and Police. Where an audit committee has a high degree of performance against the good practice principles, this is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support planning of the audit committee work programme, training plans and can also inform an annual report.

Please answer the questions to the best of your ability, adding any comments to explain your answer where relevant, or if you are unsure about your answer.

Once complete please return the questionnaire to Andrew Barnes (Head of Internal Audit) by email to: andrewbarnes@southend.gov.uk by 30 April 2019.

Good practice questions	Yes	Partly	No	Comments
Audit committee purpose and governance				
1 Does the authority have a dedicated audit committee?				
2 Does the audit committee report directly to full council? (applicable to local government only)				
3 Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?				
4 Is the role and purpose of the audit committee understood and accepted across the authority?				
5 Does the audit committee provide support to the authority in meeting the requirements of good governance?				
6 Are the arrangements to hold the committee to account for its performance operating satisfactorily?				

Good practice questions	Yes	Partly	No	Comments
Functions of the committee				
<p>7 Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?</p> <ul style="list-style-type: none"> • good governance • assurance framework, including partnerships and collaboration arrangements • internal audit • external audit • financial reporting • risk management • value for money or best value 				
<p>8 Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?</p>				
<p>9 Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?</p>				
<p>10 Where coverage of core areas has been found to be limited, are plans in place to address this?</p>				
<p>11 Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?</p>				

Good practice questions	Yes	Partly	No	Comments
Membership and support				
<p>12 Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • consideration has been given to the inclusion of at least one independent member 				
<p>13 Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?</p>				
<p>14 Does the chair of the committee have appropriate knowledge and skills?</p>				
<p>15 Are arrangements in place to support the committee with briefings and training?</p>				
<p>16 Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?</p>				
<p>17 Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?</p>				
<p>18 Is adequate secretariat and administrative support to the committee provided?</p>				

Good practice questions	Yes	Partly	No	Comments
Effectiveness of the committee				
19 Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?				
20 Are meetings effective with a good level of discussion and engagement from all the members?				
21 Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?				
22 Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?				
23 Has the committee evaluated whether and how it is adding value to the organisation?				
24 Does the committee have an action plan to improve any areas of weakness?				
25 Does the committee publish an annual report to account for its performance and explain its work?				