

Southend-on-Sea Borough Council

Agenda
Item No.

Report of the Chief Executive

to

Audit Committee

on

17 January 2018

Report prepared by: Linda Everard, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

Executive Councillor – Councillor Moring

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 2017/18.

2. Recommendations

2.1 The Audit Committee:

- **notes the progress made in delivering the 2017/18 Internal Audit Strategy**
- **approves the amendments to the Audit Plan.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 5th January 2018.

3.2 The Audit Plan:

- has now been updated to reflect the final objective for each review, once the Terms of Reference has been agreed
- highlights where audits contained in the original plan considered by the Audit Committee in March 2017, have changed since September 2017 and why. In summary, audits that have been removed this quarter are:
 - Asset Register
 - Early Help and Family Support: Quality Assurance Tool
 - Special Educational Needs
 - Commissioning Partners' Governance Arrangements
 - Local Authority Trading Company
 - Section 75 Agreement with South Essex Partnership University NHS Foundation for Mental Health Services
 - Highways Contract Management: Use of the Insights System (Symology)

- Debt Management.

3.3 The reasons for this reflect a combination of:

- changes to the:
 - risk profile or status of these activities during this period
 - in-house resource capacity since last reporting to the Audit Committee (see section below on resources).
- the ability of external suppliers to find additional resources in the latter part of the financial year with relatively short notice
- initially under-estimating the amount of time required this year to re-establish and or refresh the arrangements for managing the combined team and update the professional framework.

3.4 There is no contingency budget left so if new risks emerge during the remainder of the year, jobs will be deleted / postponed to accommodate the work.

4. Audit Opinions and Themes

4.1 **Appendices 2a to 2d** summarise the results of the audit work completed since 1 April 2017.

5. Performance Targets

5.1 As at 5th January 2018:

- the in-house team has had 3.5 days of sickness absence since April 2017 (which impacts on productivity) which equates to 0.72 days per FTE
- in terms of the 63 jobs in the plan:
 - 30 audits have been completed
 - 7 audit reports are being discussed with clients
 - two reports are with the Head of Internal Audit for review
 - fieldwork has been completed and or draft reports are being produced for five audits
 - eight audits are in progress
 - terms of reference are being or have been produced for eleven audits.

5.2 A programme of stakeholder surveys has been produced and these will be undertaken throughout the remainder of the year as audits are completed. Some staff were also surveyed as part of the external quality assessment undertaken by the Institute of Internal Auditors.

6. Resourcing

6.1 Since the last report to the Audit Committee in September 2017:

- an Audit Manager joined the team in July 2017 and will be leaving at the end of January 2018
- a senior auditor appointment has been made and he will be joining the team in February 2018.

6.2 That leaves the combined team with five vacancies out of nine posts (not counting the Head of Internal Audit). The intention is to fill the auditor level posts with graduates or staff in due course, who will be put through a relevant training programme.

6.3 Southend and Castle Point Borough Council's are in the process of finalising a refreshed Collaborative Working Agreement covering the Head of Internal Audit post as well as shared Internal Audit and Business Support services. This will initially operate for three years ending 30 September 2020.

7. Independent Assessment of the Internal Audit Service

7.1 As previously reported, the Public Sector Internal Audit Standards (the Standards) require external assessments to be conducted once every five years by a qualified, independent assessor or team, from outside the organisation.

7.2 The team's review was completed in October 2017. The full report is attached at **Appendix 3**. It is a very fair assessment of where the in-house team is within the context of the journey it has been on over the last couple of years; and shows that the team:

- has a very good understanding of the Standards it is required to work to
- is very self aware, in that it continually challenges its operational practices and highlights appropriate opportunities to improve them.

7.3 The review was very challenging in a helpful and supportive way and has been a really good learning experience for the staff.

7.4 The key messages from the report for the in-house team are that:

- it fully meets most of the Standards, as well as the Definition, Core Principles and the Code of Ethics (described as "Generally Conforms", the highest rating (refer P15))
- good assessments were achieved in relation to:
 - reflection of the Standards (i.e. *they are fully integrated into the methodology*)
 - focus on performance, risk and adding value (i.e. *there are clear links between IA engagement objectives to risks and critical success factors with some acknowledgement of the value added dimension*)
 - quality assurance and improvement programme (i.e. *quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with the Audit Committee*).
- needs improvement assessments were given in relation to:
 - coordinating and maximising assurance
 - the efficiency of its operations.

(Refer the Internal Audit Maturity Matrix: Internal Audit Services Effectiveness Highlighted, Page 13).

7.5 The '*coordinating and maximising assurance*' assessment reflects the level of maturity of both the Council and internal audit in being able to both identify and then place reliance on other potential assurance providers. These can be internal, which would include governance teams and review functions (e.g. covering health and safety or risk management) and external, which would include independent assessments / inspections.

- 7.6 Internal Audit's audit risk assessment approach does include identifying such sources and the need to evaluate their effectiveness / reliability. This will be developed further as part of the audit planning process for 2017/18.
- 7.7 The '*efficiency of its operations*' assessment reflects:
- the team's wish to refresh aspects of the Audit Approach, having used it for a few years now as reported to the June 2017 Audit Committee
 - mainly, the issues with timeliness of reporting which have arisen due to reduced management capacity over the last few years, which have been discussed at the Audit Committee.
- 7.8 One, overarching action plan is being produced that includes all outstanding actions including the recommendations arising from this review. The intention is to complete this work by the end of March 2018.
- 7.9 Progress made in doing this, will be reported to the Audit Committee until all actions have been implemented.

8. Corporate Implications

8.1 Contribution to Council's Aims and Priorities

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

8.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

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

8.3 Legal Implications

The 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.

8.4 People and Property Implications

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

8.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, 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.

8.6 Equalities Impact Assessment

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

8.7 Risk Assessment

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

The main 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
- lack of management capacity to support and process work in a timely manner and provide strategic leadership to the team
- 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 until the service has been rebuilt.

8.8 Value for Money

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

Internal Audit also considers whether it provides a value for money service periodically.

8.9 Community Safety Implications and Environmental Impact

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

9. Background Papers

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

10. Appendices

Appendix 1 Internal Audit Plan 2017/18

Appendix 2 Assurance and Themes

- a • Satisfactory Assurance
- b • Audits Revisited
- c • Grants Claims
- d • Schools Audit Opinions and Themes

Appendix 3 Independent Assessment of the Internal Audit Service – IIA EQA Final Report October 2017