

# Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**30th March 2016**

Report prepared by: Linda Everard, Head of Internal Audit

Agenda  
Item No.

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**Internal Audit Charter, Strategy and Audit Plan for 2016/17**

**Executive Councillor – Councillor Ron Woodley**

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

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## **1. Purpose of Report**

- 1.1 To present the Internal Audit Charter with the supporting Strategy and Audit Plan for 2016/17 to the Audit Committee for consideration.

## **2. Recommendation**

- 2.1 The Audit Committee approves the Charter, Strategy and Audit Plan for 2016/17.**

## **3. Background**

- 3.2 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.
- 3.3 The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a risk based plan that:
- takes into account the:
    - requirement to produce an annual internal audit opinion
    - Council's assurance framework.
  - incorporates or is linked to a strategic or high level statement of how:
    - the service will be delivered and developed in accordance with the Charter
    - it links to the Council's aims, priorities and objectives.
- 3.4 As outlined previously, the Global Institute of Internal Auditors updated the International Professional Practices Framework (IPPF) in July 2015. Although this does not technically apply to the public sector at present, the key changes to the IPPF have been taken into account (as consultation on this is underway).
- ## **4. Charter, Strategy and Audit Plan**
- 4.1 In order to comply with the Standards, the approach proposed 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 2016/17
    - Audits Planned linked to Corporate Risks Statement
    - 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 March 2015. These are also highlighted in **bold** within the documents themselves for ease of reference.
- 5. Charter (Appendix 1)**
- 5.1 The main amendment to the Charter is the inclusion of the new IPPF Mission Statement and Core Principles.
- 6. Strategy (Appendix 2)**
- 6.1 The Strategy sets out:
- the ethical framework audit staff are expected to comply with
  - the basis for the audit opinion and the audit approach to be adopted
  - the approach to assessing risk and assurance as part of the audit planning process
  - the Audit Plan, resource assessment and performance indicators
  - how the service will work with key staff, members and groups within the Council
  - how the team will operate on a day to day basis
  - how it will assess its compliance with relevant professional standards and report upon this.
- 6.2 The main changes to the Strategy reflect:
- a refreshed risk assessment process, particularly in respect of financial systems
  - the need to recalculate the staff resources available in 2016/17 once the service review is completed (refer Internal Audit Service, Quarterly Performance Report) and amend the Audit Plan accordingly
  - the need for the Job Profiles and Career Development Scheme to be updated
  - slightly amended performance targets for delivering the Audit Plan and obtaining stakeholder feedback.
- 6.3 The remaining amendments are cosmetic.
- 6.4 The coverage provided within the proposed **Audit Plan** for 2016/17 (**Appendix 2a**) is based upon the audit approach outlined in the Strategy which complies with the requirements of the Standards. As outlined in the Strategy, activities are only considered for inclusion in the Audit Plan if they are assessed as being high risk and so are significant enough to require period independent review.

- 6.5 The total audit days is currently an estimated figure that:
- excludes:
    - schools, as the next round of audits will have a different focus which is being discussed with the Head of Learning. The risk assessment produced by the School Support and Improvement Board will be used to inform the choice of schools to review in 2016/17. This work is externally resourced and funded
    - South Essex Homes, which has a separate Audit Plan and is funded separately.
    - includes a contingency which is currently the difference between work planned and the estimated total days figure that will be reviewed in due course (refer 6.2 above).
- 6.6 For the first time, the Audit Plan includes details of the estimated total spend or income processed by the systems / activities being audited. The purpose is to help management and the Audit Committee to evaluate the level of risk if poor performance is reported and assurance provided if a good audit opinion is given.
- 6.7 A list of potential audits has also been included at the end of the Audit Plan called the "Risk Watch List". These may be added into the work programme during the year should resources allow or the arrangements develop sufficiently to warrant an audit.
- 6.8 The Audit Plan has been discussed and agreed with senior management.
- 6.9 As is usual practice, any proposed future amendments to the Audit Plan will be reported to the Audit Committee for approval.
- 6.10 **Appendix 2b** identifies where audit reviews provide some assurance regarding the management of the Council's corporate risks.
- 6.11 The **performance indicators** are designed to enable the service to demonstrate:
- it provides **adequate coverage** by delivering sufficient work in year to enable the Head of Internal Audit to give an opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements
  - its **professional competence**
  - its **costs** are competitive.
- 6.12 If delivered, this suite of indicators provides evidence that the Council is maintaining an adequate and effective internal audit service that:
- operates in accordance with proper internal audit practices
  - also adds value and helps the Council to improve its operations.
- 6.13 Some minor amendments have been made to the **How We Will Work With You Statement (Appendix 2c)** to reflect the manner in which services and Internal Audit now monitor and report on the implementation of action plans.

## 7. Corporate Implications

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

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

## 7.2 Financial Implications

Financial risk is one of the categories used when assessing the risk profile of all the activities that the Council delivers.

The Audit Plan will be delivered within the agreed budget for the service.

## 7.3 Legal Implications

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

The Standards require:

- the Audit Committee to approve (**but not direct**) the annual internal Audit Plan and this report discharges that duty
- the Audit Committee to then receive regular updates on its delivery, as provided by the quarterly performance report
- the Head of Internal Audit to provide an annual audit opinion on the Council's risk management, control and governance arrangements and report on this to the Audit Committee, which is delivered to its June meeting.

## 7.4 People and Property Implications

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

## 7.5 Consultation

This is set out in the Strategy.

## 7.6 Equalities Impact Assessment

Not applicable to these documents.

## 7.7 Risk Assessment

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

The key team risks are:

- its inability to recruit or retain staff
- that external suppliers won't deliver contracted in work within the required deadlines to the expected quality standards.

Time has been built into the Audit Plan for managing external contactors.

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

## 7.8 Value for Money

Internal Audit undertook a service review in 2013/14 which demonstrated that the cost of the service was competitive. The current service review will provide updated information for consideration.

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

#### 7.9 Community Safety Implications and Environmental Impact

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

### 8. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA Local Governance Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committee Practical Guidance for Local Authorities and A Toolkit for Local Authority Audit Committees.

### 9. Appendices

- Appendix 1: Internal Audit Charter
- Appendix 2: Internal Audit Strategy
  - Appendix 2a: Internal Audit Plan for 2016/17
  - Appendix 2b Audits Planned linked to Corporate Risks Statement
  - Appendix 2c: How We Will Work With You Statement