

# Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

**Audit Committee**

on

**12 August 2020**

Report prepared by: Andrew Barnes, Head of Internal Audit

Agenda  
Item No.

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**Internal Audit Services, Quarterly Performance Report**

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

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## **1. Purpose of Report**

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2019/20.

## **2. Recommendations**

- 2.1 **The Audit Committee notes the progress made in delivering the 2019/20 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 31<sup>st</sup> July 2020. This highlights where audits contained in the original plan considered by the Audit Committee in March 2019 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 April.
- 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 in the section headed "Advice and Support". Further to this the team has also been providing assistance to the Council's wholly owned subsidiary company Southend Care, and through the relationship with South Essex Homes, their subsidiary company South Essex Property Services.
- 3.5 Since October 2019 the Head of Internal Audit has also been given responsibility for the re-integration of the counter fraud team to become an in-house service.

- 3.6 During this period we have issued eight reports and we have three audits at draft report stage. As a result of the Covid-19 pandemic emergency a key focus for the team has been providing advice and support to new activities and changes to arrangements that the Council is having to implement at pace to respond to the pandemic that has dramatically affected the way that all services and everyone is having to work, as the onset of Covid-19 and subsequent lockdown had a significant impact on all areas of the public sector and all other sectors. Operationally, the Council has had to react quickly to rapidly changing circumstances. This has had an impact on the pace of progression for some of our audits, however we continue to work closely with services to finalise the 2019/20 audit work, the majority of which is now complete.
- 3.7 In order to ensure that our work continues to focus on the areas of greatest risk to the Council, we are re-prioritising our Internal Audit plan for 2020/21 that was initially presented to the Committee in April. As part of doing this we have reviewed 'The Council's response to Covid-19' report that was taken to Cabinet and the Scrutiny Committees in June, and which has captured the key elements of the Council's response to the pandemic. We are using the issues that we have identified in that report to help focus our work in supporting the Council in the most effective way and we will work with senior management to identify where our independent assurance will add the most value in the changing circumstances that are being faced. We will report the updated and re-prioritised 2020/21 Audit Plan to the Committee at the next meeting, once this evaluation has been completed.

#### **4. Performance Targets and Resourcing**

- 4.1 As outlined in the Strategy presented to the March 2019 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 31<sup>st</sup> July 2020:
- For the period 1<sup>st</sup> April 2020 – 30<sup>th</sup> June 2020 the team had 37 days of sickness absence which equates to 5.39 days per FTE.
- 4.3 In terms of the jobs in the plan:
- 81% of audits have finalised reports issued
  - 5% of audits are completed with the reports drafted and being discussed with the service managers
  - 11% of audits are completed with the reports drafted and being reviewed by internal audit management
  - 3% of audits have fieldwork nearing completion or the draft report being produced
  - 0% of audits remain work in progress.

- 4.4 Of the Audit Plan presented to the March 2019 Audit Committee 15 audits have been removed from, and 7 audits added to the original plan. Removal has been for various reasons, including positive independent external assessment feedback, changes to government requirements being forthcoming, services moving to different line management and the impact of Covid-19 on the capacity of services to be audited at the current time. Additions have been because of new issues and risks arising. The specific reason for each audit is documented in Appendix 1.
- 4.5 Stakeholder surveys are completed throughout the year as audits are completed. **Appendix 3** reflects the results of the 8 surveys covering 7 audits. One survey has been completed for 2019/2020 since the last report in April, as understandably this has been a low priority activity for services during this period of dealing with Covid-19. The feedback obtained remains positive, 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. However in this period there is some scope for improvement in the effectiveness of keeping the service being audited informed of progress and the report reflecting the work done and the issues found. The team will work to improve this in future reporting.
- 4.6 The shared team with Castle Point has a resource structure consisting of:
- two Audit Managers (both in post)
  - two Senior Auditors (one post vacant)
  - four Auditors (two posts vacant)
  - outsourcing to accountancy firms to undertake audits, funded by the underspend on salaries from the vacant posts.
- 4.7 That leaves the shared team with three vacancies at 31<sup>st</sup> July. The salaries of the vacant posts are currently being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan.
- 4.8 The expected requirements of the internal audit service into the future continue to evolve and the impact of Covid-19 is causing further consideration to take place. There is a growing requirement for better collaboration between risk functions (risk management, internal audit, compliance and other risk functions) as organisations evolve to embrace the fourth industrial revolution. Risk functions are being expected to be active participants, helping to achieve and protect the value of the organisation. Risks are becoming increasingly complex and interconnected, and without close risk function collaboration it is possible that blind spots to risk will arise for key stakeholders in the organisation that can then impact on strategic, financial and operational initiatives.
- 4.9 Developments continue to be monitored and assessed, with responsibility for corporate risk management having been transferred to the Head of Internal Audit, and the most appropriate team model to deliver those changing responsibilities utilising the financial resources available needs to be determined and agreed. Once the current team resourcing and integration activities are complete, this model will then be implemented to provide an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to continue to deliver the service required by the organisations that it serves.

## **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
- lack of management capacity to support and develop the team, while processing work in a timely manner and providing strategic leadership to the team and support to the Council
- 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 periodically considers whether it provides a value for money service.

#### 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 2019/20

Appendix 2 Audit Assurance and Themes

a Partial Assurance

b Audits Revisited

c Other Audits and Grants

Appendix 3 Stakeholder survey results