

Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

To

Audit Committee

on

12 August 2020

Agend

Item No

Report prepared by: Andrew Barnes, Head of Internal Audit

Head of Internal Audit Annual Report 2019/20

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide for the 2019/20 financial year:

- the rationale for and an audit opinion on the adequacy and effectiveness of Southend-on-Sea Borough Council's (the Council's) risk management, control and governance processes
- a statement on conformance with the UK Public Sector Internal Audit Standards (the Standards) and the results of the Quality Assurance and Improvement Programme.

2. Recommendation

2.1 The Audit Committee accepts the Head of Internal Audit's Annual Report for 2019/20 and confirms that the opinion of the Head of Internal Audit can be relied upon as a key source of evidence to support the Annual Governance Statement.

3. Background

3.1 The Head of Internal Audit's Annual Report and Opinion provides the Council with an independent source of evidence regarding the design of its risk management, control and governance framework, and how well it has operated throughout the year

3.2 The opinion is predominantly based upon the audit work performed during the year, as set out in the risk based Audit Plan discussed with the Corporate Management Team and approved by the Audit Committee.

3.3 As outlined in the Internal Audit Charter, audit coverage is determined by prioritising the significance of the Council's activities to its ability to deliver its Ambition and desired Outcomes. This is done:

- using a combination of Internal Audit and management risk assessments (including those set out in risk registers)
- in consultation with Directors, Executive Directors and the Chief Executive, to ensure work is focused on key risks.

- 3.4 Quarterly meetings are then held with the Chief Executive, the Deputy Chief Executive, the Executive Director (Finance and Resources) and the Good Governance Group to:
- reflect on the original risk profile and work planned
 - determine whether any changes are required to it or the Audit Plan.
- 3.5 Organisationally, this reflects a mature approach to operating an internal audit function.
- 3.6 All individual audit reports are discussed with the relevant Group Managers, Directors and Executive Directors before being finalised.
- 3.7 The opinion and summary findings from audit reviews are reported to the Audit Committee throughout the year.

4 Head of Internal Audit Opinion for the year ended 31 March 2020

- 4.1 Governance comprises of the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Such arrangements can take many forms and still be effective. Appropriate assurance is then required that these processes are fit for purpose and being applied throughout the organisation.
- 4.2 During 2019/20 the Council continued to build on the work that had been undertaken to create the shared ambition for the borough and desired outcomes for its residents, visitors, students and other stakeholders. This has involved continuing to transform the culture, the way that the Council operates and revised governance arrangements, so that the Council develops a culture, a focus, a structure and ways of working that are most effective and appropriate to deliver the required outcomes.
- 4.3 The impact of the covid-19 pandemic began to manifest itself in the latter part of the year as the Council went into emergency response mode in line with the rest of the country and most of the world. The Council's response appears to have held up well, coordinating a wide range of resources from a range of different sources to provide the support, response and management of the community to meet the requirements of the Borough as it goes through the period of lockdown. Clearly there will be a huge amount to do and further challenges as the Borough and the Council moves into recovery mode and the Council is gearing itself up to deliver and meet the multiple challenges ahead.
- 4.4 As a result there continues to be significant change being made to way the Council is operating. The new governance arrangements and ways of working in the current situation continue to develop and evolve, and therefore there is a need for these to have the opportunity to be properly embedded and assurance obtained that they are working effectively as intended, before they can be considered to be operating effectively. However the opportunity for a period of time in which things can begin to settle into a 'new normal' does not appear to be forthcoming very soon.
- 4.5 Therefore, the remainder of this report should be read within this context.
- 4.6 With regards to the assurance provided by audit work undertaken, in these areas, the design and operation of the Council's risk management, control and governance framework in place for the year was satisfactory overall.

4.7 No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.

4.8 The basis for forming this opinion is an assessment of:

- the design and operation of the underpinning governance and assurance framework
- the range of individual opinions arising from risk based and other audit assignments that have been reported during the year, taking into account the relative significance of these areas
- whether management properly implement actions arising from audit work completed, to mitigate identified control risks within reasonable timescales
- observations from advisory and support work undertaken
- changes to the Councils Ambition, management structure and use of technology
- assurance from other providers including independent regulators and peer reviews
- the quality and performance of the Internal Audit service and the extent of compliance with the Public Sector Internal Audit Standards.

4.9 The Head of Internal Audit has not reviewed all risks and assurances relating to the Council's activities in coming to his opinion.

5. Supporting Commentary

5.1 **Appendix 1** summarises the audit opinions issued this year.

5.2 The following paragraphs then:

- summarise findings from all the work completed this year
- highlight the key areas requiring improvement.

5.3 Where necessary, actions have been agreed with services to improve the arrangements where the more serious control issues were identified during the audits.

Managing the Business

5.4 CIPFA's 'Delivering Good Governance in Local Government' outlines 7 principles that underpin effective governance:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in term of sustainable economic, social and environmental benefit
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- 5.5 During the year the Council was working to make progress towards fulfilment of the jointly owned ambition for Southend in 2050. The ambition was arrived at following a major engagement exercise, involving extensive conversations with those that live, work, visit, do business and study in the borough (Principle B). These conversations have continued during the year as the Council has aimed to engage the wider community in delivering the vision of what the borough should be like in 2050.
- 5.6 In order to deliver the ambition the Council identified 23 desired outcomes, that would deliver that ambition, and provided a focus on actions that need to be delivered through a Road Map for delivery to 2023 (Principle C). For each of the 23 outcomes an initial delivery plan was developed and work was then undertaken on what the outcomes will require in the medium term. Work is also in progress on developing an outcome-based investment approach to budgeting, so that resources become more aligned to the 2050 desired outcomes, rather than being organised with a departmental focus. Delivering this change will represent a significant change in mind-set and practice across the organisation. In addition, the Council has also been working to embed its commissioning framework to move the organisation to an outcome based commissioning organisation, aimed at ensuring alignment with the 2050 outcomes, the annual procurement plan, contract procedure rules and market position statements going forward. (Principle D)
- 5.7 To deliver what is required, the Council has recognised the need to change the way that it works, so that it can become more agile, more efficient, more entrepreneurial and more engaged with residents and customers. Therefore the Council has a transformation programme in place, that is working to deliver the identified necessary conditions for the Council to be in the right place to achieve its ambitions. This has been complemented by a revised leadership programme to ensure the right leadership skills and capacity are in place for what will be needed going forward. (Principle E)
- 5.8 The Council has been embedding the set of values that were adopted in the previous year and these are 'inclusive, collaborative, honest and proud'. It has also been embedding the agreed expected behaviours of staff and councillors that are: 'driving positive change, trust and respect, demonstrating strong leadership, act with integrity and behaving responsibly and building relationships to work well together'. These have become the basis of the Council's new appraisal process during the year. (Principle A)
- 5.9 The Council implemented a revised senior management structure and increased the capacity of the corporate management team so that it could better deliver the Southend 2050 ambition, increase in pace of decision making and delivery and to drive transformation of culture. It also simplified its officer governance structure, to ensure more effective stewardship of public resources and to deliver the best possible outcomes through Southend 2050. This has seen the introduction, during the year of four new boards, focussing on: investment, growth & infrastructure, commissioning and innovation & design, that are reporting into CMT, along with a revised Good Governance Group that now also encompasses information management and a focus on promoting simple and effective governance.

- 5.10 The Local Code of Governance was also revised during the year so that it reflected the Council's updated governance arrangements.
- 5.11 Previously it has been reported that the arrangements for identifying, recording and monitoring corporate risks were good and in compliance with the Council's Risk Management Strategy and Toolkit. The level of understanding about how to apply this was also sound. But the process was not being applied as well or consistently at service level, thus reducing the assurance available that these risks were being properly documented and communicated, and as a result, efficiently and effectively mitigated or managed. A revised Risk Management Policy Statement and Strategy was adopted by Cabinet in September 2019 and work is now being undertaken to deliver the updated approach across the organisation. (Principle F)
- 5.12 In a practical sense, there is a strong understanding of risks being faced by individual Directors and a discipline around the production of the Corporate Risk Register, but the value obtained from the process is not being optimised. Better arrangements are needed to effectively move risks up and down the organisation as required. There were some gaps in assurance and insufficient evidence of managing the impact for some risks, despite the regular update and reporting. Some managers and team leaders still needed assistance to:
- fully understand the objectives of and risks relating to the services they were delivering
 - understand what evidence they needed to obtain to provide assurance that these processes were designed and / or being applied properly by their staff, consistently throughout the year.
- 5.13 The responsibility for the approach to corporate risk management has been transferred to the Head of Internal Audit who lead work on the revised Risk Management Policy Statement and Strategy and is now working to implement that refreshed approach so that it operates in a proportionate, practical way, focussing on adding value and minimising the investment of resources required to support the service and corporate process.
- 5.14 Overall, the changes in approach that are being applied across the Council represent significant change for the Council and it remains early days in the implementation of that change. As a result it is recognised that there is still much work to be done to properly deliver and embed the changes to the ways of working and culture that are being sought. Once the changes have been more fully implemented there will be a need to seek assurance that they are working effectively, as intended, before they can be considered to be operating effectively.
- 5.15 However, as demonstrated above, the Council's overall evolving approach to governing and managing itself is consistent with the principles outlined by CIPFA and therefore provides a good platform from which to continue the ongoing work.
- 5.16 Follow up of the previous audit work on the Council's approach to delivering the comprehensive programme of work that had been scoped in advance of **General Data Protection Regulations** (GDPR), found that progress has been made in implementing the recommendations raised as part of the previous audit report dated February 2019, but that further work is required to help the Council ensure and demonstrate compliance with GDPR requirements

- 5.17 The **Shareholder Board** was established in November 2017 and now meets on a regular basis. The main objective for the Board is to consider the governance, risk framework, performance and financial performance of the Council's companies. The Terms of Reference have been approved by Cabinet which set these objectives.
- 5.18 As the Board is still relatively new, there is a need for the Board Members to be supported in the delivery of their role and the Terms of Reference (ToR) have been updated during the year to reflect all the functions that the Board need to undertake as part of their roles and responsibilities.
- 5.19 Follow up of audit recommendations in respect of **Business Continuity** found that the recommendations raised in the audit report are substantially completed and that good progress has been made in implementing the recommendations raised as part of the previous revisited audit dated March 2018. However further work is being undertaken to update Business Impact Assessments, ensure training of staff responsible for services Business Continuity Plans and Incident Management Strategy has taken place and ensure key staff and new joiners have received training.
- 5.20 Follow up of audit recommendations in respect of **Emergency Planning** found that the recommendations raised in the audit report are substantially completed and that good progress has been made in implementing the recommendations raised as part of the previous revisited audit dated May 2018. However further work is ongoing to decide what training should be added to the schedule of mandatory training for some, or all, groups of staff and to assess Rest Centres to ensure facilities within them meet the required potential need during an incident.
- 5.21 Towards the end of the year, and since, the Business Continuity and Emergency Planning arrangements have been tested for real, as the Council has responded to the challenges posed by the Covid-19 pandemic and have been found to have substantially delivered what is required.

Service Delivery Risks

- 5.22 A key objective for Internal Audit is to give a view on whether the Council's risk management and control processes are robust enough to enable services to effectively contribute to the delivery of the Council's Ambition and Outcomes. In respect of 2019/20 audit work was undertaken in the following areas.

Safe and Well

- 5.23 Audit work on **Children Centres Contract Management** identified that although the contract is not delivering the original intended outcomes, the Council recognised this and put in place robust contract management arrangements in accordance with recommended practices, to maximise what can be achieved. The contractors ability to achieve the desired outcomes expected by the contract were affected from the outset by a requirement to TUPE existing staff, the cost involved and the remaining small amount of additional resources available between the tender price and the Council's maximum budget that could be allocated to the provider to recruit into restructured posts. As a result the contract is subject to high-level council led intervention to deliver two focused Action Plans.

- 5.24 Going forward there is recognition that as the delivery of this service approaches the end of the current contractual arrangement, there will be significant opportunities to re-examine how outcomes can best be achieved by applying the principles laid out in the Council's Commissioning Framework. There is acknowledgement that effective commissioning requires collaboration with partners and other key stakeholders. Better defining realistic outcomes and associated performance measures for children and families will ensure the contractual behaviours drives performance for contracted services, if that is the service delivery model selected, necessary to achieve the Council's 2050 ambition and five-year road map.
- 5.25 The **Independent Reviewing Officer (IRO)** audit was in progress when Ofsted announced their inspection of Children's Services in July 2019. A decision was made to pause the audit during this period.
- 5.26 The Ofsted report highlighted some opportunities for improvement within the IRO service and so, in consultation with the Head of Children's Transformation, a decision was made not to continue with the audit while an improvement plan was put in place.
- 5.27 The findings from the audit up to this point were shared with the service and an action plan developed which includes areas where there were opportunities to strengthen arrangements.
- 5.28 The Head of Service had carried out a review of the **In House Foster Carers Service** in February 2019, supported by Essex County Council through Partners in Practice, and detailed areas for improvement in a 'Fostering Diagnostic and Review of Fostering Services' report. Using the report as a starting position for developing required actions, management drafted an In House Foster Carers Action Plan, to use as a key tool for driving positive change to the service.
- 5.29 At the time of starting the audit, the action plan was being reviewed and refreshed. After discussion with management, it was decided that there was greater value to be added by audit, through assisting the service in the development of the revised action plan, in an advice and support capacity.
- 5.30 From December 2019 through to May 2020, Internal Audit met with management on a number of occasions to assist in developing the layout of the plan, to help ensure information within it is clear and concise, easy to follow and understand content of the plan, helping to make actions SMART and outcome focused.
- 5.31 The audit of the **Adult Social Care Financial Assessments** found that because the team is relatively small, it is heavily reliant on key individuals to perform tasks. The audit identified issues with managing the team's capacity and performance. This was more evident when there was insufficient capacity or unavailability to follow-up outstanding information. This meant some key actions have not been performed which may result in a delay of income being collected, exposing the Council to cash flow issues and potential longer-term financial pressures.
- 5.32 The audit of **Data Quality in Children's Services** found that the Corporate Records Management and Data Quality policy in place is not consistently complied with. This specifically relates to compliance with audit trail standards and computer privacy requirements.

- 5.33 It was confirmed there are no formal reporting measures surrounding the accuracy of the children's data within Liquid Logic (the service user data system). Much of the data on children is not confirmed to its source as the source of changes is primarily verbal. There is also a lack of knowledge over how to utilise the audit trail function in Liquid Logic, meaning there is not a clear record of who has processed what changes and why.
- 5.34 Meetings between Children's Services and the Operational Performance & Intelligence Team are held on a regular basis, however the governance of these meetings, particularly the minutes and action tracking, could be improved.
- 5.35 A follow up of the recommendations made in the previous **Building Control** audit found that most of the recommendations had been implemented but that a strategy which outlines how the service will reach a break even position had not been developed. However, this was due to the market changing, leading to a large amount of building control work reverting back to the Council resulting in an increased market share by default.
- 5.36 A follow up of the recommendations made in the previous **Management Response to Quality Assurance Audits** audit found the stages for improving practice detailed within the 'Departmental Response to Audits' process (the process) remain well designed. If consistently applied the process aims to ensure the robustness of action taken to improve social work practice for children whose case files are assessed as inadequate.
- 5.37 Further updates are required to ensure cover arrangements are followed when the Practice Lead is out of the office and the day three meeting is going to be missed and to make clear the requirements of managers to proactively monitor cases found to be inadequate to ensure remedial actions are happening consistently and are effective.
- 5.38 A monitoring spreadsheet has been developed and is well designed to give adequate oversight of the key stages of the process and whether they are being met.
- 5.39 A follow up of the recommendations made in the previous **Social Care Payments to Individuals and Providers** audit found that gaps in arrangements for making payments to providers and service users via the Children's Services database and ContrOCC (the social care finance system) is reducing the assurance that payments made are accurate and valid.
- 5.40 There is scope to improve the review of proposed payments ahead of authorisation, introduce checks by the various social care teams to ensure payments made outside of Liquid Logic are correct and align with arrangements agreed with providers and service users.
- 5.41 Going forward there are plans to significantly improve arrangements by transferring all payments on to Liquid Logic, thereby making the Children's Database obsolete. Access permissions within ContrOCC and Liquid Logic require review to ensure there is appropriate segregation of duties in place between both systems and the payment process.

Active and Involved

- 5.42 A follow up of the recommendations made in the previous **South East Active Travel Governance Arrangements** audit found that the Project, Programme and Sponsorship Board meetings have taken place regularly at frequencies of monthly for the Project Board and quarterly for the Programme and Sponsorship Boards. The Dashboard Report acts as an agenda and highlight report, providing an overview of the programmes progress, budget and spend, and risks of current concern.
- 5.43 There is a Risk Register in place that captures the description and impact of the risks, along with any mitigating actions being taken. There is also a Team Plan showing the ownership for each action but not the timeframes for their completion, which may mean that actions drift or become outstanding.
- 5.44 An annual plan to identify potential procurement activity in 2019/20 was completed and support and advice was obtained from the Corporate Procurement Team on two occasions, which helped to make sure that the action being taken was compliant with Contract Procedure Rules (CPRs).
- 5.45 To ensure third parties made the required contribution to the programme as set out in the original grant bid, they were asked to provide a statement of contributions. Three parties were unable to identify or evidence this adequately. As this was a requirement of the grant, it is unclear what the impact of this may be. Now that the extension for funding has been agreed, this will be addressed going forward.

Connected and Smart

- 5.46 It was possible to certify that grant terms and conditions had been complied with for the following grant claims:
- Local Transport Capital Block Funding – Highways Maintenance
 - Pothole Action Fund.

Pride and Joy

- 5.47 It was possible to certify that grant terms and conditions had been complied with for the following grant claims:
- Local Transport Capital Block Funding – Flood Resilience
 - National Productivity Investment Fund.

Key Financial Systems

- 5.48 The **payroll self-serve module** has embedded well and due to the automated features, it has improved the overall controls, including the facility for employees to scan in the supporting evidence for their claims.
- 5.49 The main areas that need to be reviewed and updated were:
- Expenses and Allowance Policies
 - Validation limits.
- 5.50 The audit of the **payroll system** confirmed that there are robust processes in place to ensure annual changes are properly configured at the start of the financial year and staff access permissions to Payroll on Business World is restricted only to those who need it.
- 5.51 The current guidance for staff confirms the steps involved in processing the payroll, but more information is needed to clarify the purpose of reports that are run and the checks that are undertaken.

- 5.52 Pay forms for starters, leavers and amendments, overtime outside of self-serve, first aid and additional run payments are manually input onto Business World. These are not always independently reviewed to confirm they are accurate. Extending the current monthly spot check to include a selection of the manually input allowances and additional run transactions will help identify when the two-step process has been circumvented.
- 5.53 The audit of the **housing benefit system** confirmed that there are robust processes in place including a manual which covers the legislation and processes to be followed for the Housing Benefits function.
- 5.54 Claims need to be supported by evidence to verify certain criteria are being met. The level of evidence required is detailed within the Risk Based Verification Policy. Each applicant is assigned a risk rating (Red, Amber, Green) via Northgate. The required evidence is then obtained and attached to the relevant file.
- 5.55 The Quality and Assurance Team sample 10% of all claims processed at the Council and record all checks they undertake on a spreadsheet. Any errors are recorded and the officer responsible is notified in order to make a correction. The Benefits Service Managers have access to the spreadsheet in order to monitor performance on an ongoing basis.
- 5.56 Monthly performance reports are produced which include a range of statistics on the Benefits service. These include error levels, summary figures, budgetary information, case loads and overpayments. These reports help to ensure that management remain aware of the performance of the service so that mitigating action can be taken if necessary.
- 5.57 The audit of the **council tax system** confirmed that there are robust processes in place including a detailed guidance document provided to officers in both hard copy and electronically, therefore minimising the risk that they are unaware of their expected duties and working practices.
- 5.58 The Council's record of property subject to Council Tax is maintained via the Northgate system. Weekly updates are received from the Valuation Office (VO) in the form of a Schedule of Alterations. A reconciliation is completed weekly by officers in the Council Tax Team to ensure that the Council's records match the VO's.
- 5.59 The Northgate system is updated with the billing amounts for the financial year by the IT Team, as the Council Tax Team do not have access permissions to change rates within the system, providing a segregation of duties. The approved rates are loaded into the system by the IT Team and then checked by the Council Tax Manager who records the checks made in a spreadsheet.
- 5.60 Payments of Council Tax are automatically allocated against the relevant account using the reference number provided. Any incorrect references will not automatically allocate and manual allocation takes place. A daily report from the income management system details any manual allocations along with which officer allocated the payment.
- 5.61 Outstanding debts are subject to a formal debt recovery process, which is detailed within the Debt Collection and Recovery Policy. Examination of the Policy identified that it had not been reviewed and updated since 2017 and contained some outdated information, therefore increasing the risk that inappropriate processes could be followed.
- 5.62 Monthly Revenues and Benefits service meetings are held and used to discuss any performance issues, therefore reducing the risk that staff and management may remain unaware of the performance of the service.

- 5.63 The audit of the **Social Care Debt Collection system** found that there is an Adult Social Care Debt Policy in place, which covers all of the areas required. However, a lack of supporting procedures and management oversight means the implementation of the Policy is inconsistent and not all appropriate actions are being taken to secure and collect debt.
- 5.64 Furthermore, risks in relation to processing of Letters of Agreement and Deferred Payments were identified. Due to the Adult Social Care Debt team being relatively small, it is heavily reliant on key individuals to perform tasks. The audit identified issues with managing the team's capacity and performance. This was evident when there was insufficient capacity or unavailability to follow-up outstanding income payments. This meant key actions have not been performed which may expose the Council to cash flow issues and potential longer-term financial pressures.

Implementing Action Plans

- 5.65 Internal Audit input agreed actions into Pentana¹ once audit reports were issued. Management then used this to monitor their implementation via Departmental Management Team meetings.
- 5.66 Internal Audit only revisited and retested action plans where a partial or minimal assurance opinion was given. Management closed down agreed actions in reports with high and satisfactory audit opinions once they were satisfied they had been properly dealt with. Internal Audit has been working with departments to enhance this process, to enable management to be able to more effectively check that appropriate evidence is presented when agreed actions are to be signed off and is currently reviewing the use of, and information retained on Pentana.

Proactive Advice and Support

- 5.67 The knowledge obtained through the proactive advice and support work undertaken during the year was also taken into account in coming to the overall opinion given. In 2019/20, this work included:
- providing 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 to achieve **cyber security**
 - providing ongoing support and challenge of the arrangements currently in place and being developed within the **Transforming Together** programme to achieve a Council that is geared up to deliver the Southend 2050 Ambition
 - providing support and challenge around the robustness of arrangements for responding to **Subject Access Requests** in **Children's Services** in the required time frames
 - providing support and challenge as the organisation develops and implements governance arrangements to monitor the delivery of the **Better Queensway** Joint Venture programme through the Joint Venture Limited Liability Partnership

¹ Pentana is the Council's Corporate Performance Information System.

- supporting the Council in determining its role and responsibilities in ensuring value for money for the provision of increased pupil places through **Use of the Basic Need Capital Grant for Schools**
- providing support and challenge over the robustness of the arrangements for implementing the agreed improvement actions and for measuring the positive impact of the actions in the **Highways Improvement Plan**.

Grant Claims

5.68 It was possible to certify that grant terms and conditions had been complied with for the following grant claims:

- Disabled Facilities Capital Grant Determination
- Local Transport Capital Block Funding – Flood Resilience
- Local Transport Capital Block Funding – Highways Maintenance
- Pothole Action Fund
- National Productivity Investment Fund – Town Centre Redevelopment Improvement Project.

5.69 The expanded **Troubled Families Programme, Payments by Results (PBR) Scheme for Local Authorities** returns continued to be audited. All claims audited this year had an unqualified audit opinion. The protocols agreed with the service for producing evidence to support the claims, along with the continued independent review of sample claims by its staff to complement Internal Audit's examination of claims work, operated well and the process remains a collaborative one, with strong feedback from the Head of Service about the role that internal audit have played in supporting the service.

6. Compliance with Professional Standards

Head of Internal Audit Opinion

6.1 The Institute of Internal Auditors assessed the in-house team as fully meeting most of the Standards, as well as the Definition, Core Principles and the Code of Ethics in October 2017 (classified as "Generally Conforms", the highest rating).

Good assessments were achieved in relation to:

- reflection of the Standards
- focus on performance, risk and adding value
- the quality assurance and improvement programme.

Needs improvement assessments were given in relation to:

- coordinating and maximising assurance
- the efficiency of its operations.

Quality and Improvement Programme

- 6.2 I can confirm that I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year for the in-house team or work undertaken by contractors when being managed by the in-house team. As required by the Standards, this consisted of:
- on-going supervision and review of individual audit assignments completed by in-house staff or contractors working to in-house staff
 - reporting on a limited set of performance targets to the Audit Committee each quarter (for all work done including that of external suppliers)
 - reviewing the independent external assessment of compliance with the Standards in October 2017 which is required at least every five years.
- 6.3 I have received assurance from external suppliers used that where they have undertaken work using their own audit approach, this is also compliant with the Standards.
- 6.4 **Appendix 3** summarises the results of the independent external assessment of compliance against each element of the Standards.
- 6.5 **Appendix 4** sets out the remaining actions that still need to be implemented arising from the:
- Head of Internal Audit's assessment of compliance as reported in the Annual Report presented to the Audit Committee in July 2018
 - independent external review.
- 6.6 A key focus for the team has been to ensure internal audit files and its audit approach complies with the new requirements of the General Data Protection Regulations.
- 6.7 Senior management has chosen not to implement the Standard relating to the appointment and removal of the Head of Internal Audit as the Council's normal HR practices would already mitigate this perceived potential risk.

Resourcing

- 6.8 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.
- 6.9 That leaves the shared team with three vacancies at 31st 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. Therefore, during 2019/20, the continued lack of specific capacity within the team has had an impact on the service's performance and its ability to deliver its normal performance targets.

- 6.10 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.
- 6.11 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.
- 6.12 The remainder of this report needs to be considered within this context.

Audit Plan 2019/20

- 6.13 The target was to deliver 100% of the Audit Plan by mid-May so that the Head of Internal Audit Annual Opinion could be included in the Council's Annual Governance Statement, which ordinarily has to be produced by 31 May. In the event, as a result of the impact of the Covid-19 pandemic the MHCLG revised the deadline so that this became 31 August 2020. As reported in the Internal Audit Quarterly Performance report most pieces of audit work had all of the audit work delivered, although not all of the reporting had been completed and finalised.
- 6.14 Appendix 2 shows the final status of the Audit Plan which is a comparison of actual audit work completed, against the work planned at the start of the year.

Other Performance Indicators

- 6.15 As much of the work this year has continued to be resourced through framework contracts, a more limited set of performance indicators have been reported upon.
- 6.16 Sickness absence during 2019/20 remained low at 2.9 days per FTE compared to a target of less than 5 days per FTE for staff.
- 6.17 Stakeholder surveys are designed to assess compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards). During the year, officers were interviewed and surveyed in respect of our audit work completed by both in-house staff and contractors. **Appendix 5** summarises the final survey results for 2018/19. Overall, the level of satisfaction remains high, particularly with regard to internal audit adding value to the Council (100%).

Other Disclosures

- 6.18 As required by the Standards, I can confirm that the Internal Audit service has:
- operated in a manner that maintains its organisational independence throughout the year, with the exception of the transfer of risk management into the responsibilities of the Head of Internal Audit. As a result independent assurance over the delivery of risk management will need to be obtained from an alternative source in future
 - been able to determine the scope of reviews, perform the work and report on its findings without interference neither has there been any inappropriate resource limitations imposed upon it.

7. Issues for the Annual Governance Statement

- 7.1 No issues have come to my attention this year, other than those already disclosed, that I believe need including in the Council's Annual Governance Statement.

8. Reasons for Recommendations

- 8.1 **The Head of Internal Audit Annual Report assists the Audit Committee to effectively discharge its responsibilities, as per the Terms of Reference, in the most effective way to achieve best practice, in obtaining the necessary assurances and being able to provide assurance to Full Council, including that the Annual Governance Statement appropriately reflects the conditions at the Council.**

Corporate Implications

- 9.1 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.
- 9.2 Financial Implications
The Audit Plan has been delivered within the approved budget.
Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.
- 9.3 Legal Implications
The Accounts and Audit Regulations 2015 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.
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.
- 9.4 People Implications
People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.
- 9.5 Property implications
Property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

9.6 Consultation

The audit risk assessment, the Audit Plan and the results of audits are periodically discussed with the Chief Executive, Executive Directors 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 Executive Directors and Directors before being finalised.

9.7 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.

9.8 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 ambition and outcomes.

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.

9.9 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.

9.10 Community Safety Implications

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

9.11 Environmental Impact

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

10. 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

11. Appendices

Appendix 1	Assurance Summary 2019/20
Appendix 2	Internal Audit Plan 2019/20 as at 31 July 2020
Appendix 3	Summary Assessment of Compliance with UK Public Sector Internal Audit Standards 2019/20
Appendix 4	Compliance with the UK Public Sector Internal Audit Standards Action Plan as at 31 July 2020
Appendix 5	Stakeholder Surveys, Compliance with Professional Standards