

Southend-on-Sea Borough Council

Report of the Executive Director (Finances & Resources)

to

Audit Committee

on

20 October 2021

Report prepared by: Andrew Barnes, Head of Internal Audit

Agenda
Item No.

Internal Audit Charter, Strategy and Audit Plan for 2021/22

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 2021/22.

2. Recommendation

- 2.1 The Audit Committee approves the Charter, Strategy and Audit Plan for 2021/22.**

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 Ambition and Outcomes.

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 2021/22
 - 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 2020. 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:

- clarification that internal audit should have no Council service operational responsibilities.

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 (eg. from Ofsted).
- 6.4 The coverage provided within the proposed Audit Plan for 2021/22 (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.
- 6.6 The work to produce the Audit Plan has been undertaken when Council officers have been required to work from home due to the covid-19 pandemic and therefore it has been more difficult to liaise with colleagues, although this has been overcome through the use of Microsoft Teams, which is working well, enabling colleagues to meet remotely in an effective way.
- 6.7 However the ongoing uncertainties regarding the extent that remote working will continue, the government strategy for addressing the pandemic, the expectations of the Council in assisting with work to address the challenges posed by the pandemic, the Council's response and the impact on the arrangements to deliver Council services moving forward, all mean that it should be recognised that there will be a need for flexibility in both the things that internal audit focusses upon and the way that it undertakes its work.
- 6.8 In addition the external auditors will be delivering their work on the 2021/22 financial year under the revised National Audit Office - Code of Audit Practice, that governs the work of external auditors of local public bodies under the Local Audit and Accountability Act 2014. The revised Code specifies the following value for money arrangements reporting criteria:
- financial sustainability
 - governance
 - improving economy, efficiency and effectiveness.
- 6.9 Internal audit will liaise with external audit in respect of the work that they will be undertaking to meet the requirements of the revised Code of Audit Practice and seek to deliver internal audit work that supports those requirements.

- 6.10 As a result, the Audit Plan will be kept under review so that it can reflect any further changes in circumstances, risks and challenges that the Council is facing that may impact on the way the Council works, 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.
- 6.11 Appendix 2b identifies where audit reviews provide some assurance regarding the management of the Council's corporate risks.
- 6.12 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 usually delivered to its July meeting in line with the completion of the external audit.

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 Ambition and Outcomes.

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 with 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 2019
- 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 2021/22
 - Appendix 2b Audit assurance linked to the Council's corporate risks
 - Appendix 2c: How We Will Work With You Statement