

Southend-on-Sea City Council

Report of the Deputy Chief Executive and Executive
Director (Finance and Resources)

To

Audit Committee

on

20 July 2022

Report prepared by: Andrew Barnes, Head of Internal Audit

Head of Internal Audit Annual Report 2021/22

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide for the 2021/22 financial year:

- the rationale for and an audit opinion on the adequacy and effectiveness of Southend-on-Sea City 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 2021/22 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 Regular meetings are held with the 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 2022

- 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. Assurance is then required that these processes are fit for purpose and being applied throughout the organisation.
- 4.2 During 2021/22 the Council continued to be impacted by the ongoing Covid-19 pandemic. The Council's response held up well through the year, coordinating a wide range of resources from a range of diverse sources to provide the support, response, and management of the community to meet the requirements of the City as it went through, and then emerged from, different periods of lockdown during the year. Significant changes remained in place over the operations of the Council, including most staff working remotely and many staff being redeployed from their usual duties to support the response to the pandemic. This has enabled the Council to deliver what was required in response to the pandemic, including the significant contribution made by the Public Health team through their work delivering the Local Outbreak Management Plan. The governance arrangements in respect of this work were found to be operating effectively.
- 4.3 The Council continued to build on the work that had been undertaken to create the shared ambition for the borough, now City, and desired outcomes for its residents, visitors, students, and other stakeholders. Updates have been made to refresh the outcomes being sought and their delivery arrangements to ensure that these remain appropriate given the changed context and circumstances being faced. This has included work to continue to transform the culture, the way that the Council operates, so that the Council shifts to a culture, a focus, a structure, and ways of working that are most effective and appropriate to deliver the required outcomes in the changed circumstances. Work is now underway on producing a new Corporate Plan that aims to provide the necessary focus on the priorities for the Council, so that the Council's resources can be applied to the delivery of those priorities.
- 4.4 Further challenges have arisen in respect of the wider economic situation, with the impact of inflation, including the cost of energy, creating additional financial pressures for the Council, residents, the supply chain, and other stakeholders. Management needs to continue to monitor the actual and potential impact of these pressures, the progress against delivery of the forthcoming Corporate Plan, and be ready to adjust, if necessary, as the situation continues to change and the understanding of the impact on future needs and priorities becomes clearer.

- 4.5 There remains much to do, and the Council is preparing to deliver and meet these multiple challenges. As a result, there continues to be changes made to way the Council is operating. The governance arrangements and ways of working are currently being reviewed, and therefore there is a need for changes arising to have the opportunity to be established and embedded before assurance can be provided that they are working effectively as intended. Management continues to need to work in the context of continuous change in the external environment, which makes it difficult to achieve a period of stability that would assist with implementing and embedding revised arrangements.
- 4.6 With regards to the assurance provided by audit work undertaken in these areas, the results of the work indicate that the design of the Council's risk management can be provided with satisfactory assurance, although the Risk Management Policy Statement and Strategy is due to be reviewed and refreshed, but partial assurance in respect of operation, as there is a need for further embedding of the arrangements within the services so that there is increased understanding of the need to capture the conversations about risk that are happening, to provide increased visibility, transparency and accountability for decision making around the risks below those on the corporate risk register. The design and operation of internal control can be provided with satisfactory assurance, but issues have been highlighted in respect of the governance framework as operated for the year indicating that this requires improvement before it can be considered to be satisfactory overall, therefore partial assurance is provided for the year. Work to improve the governance framework and arrangements is being undertaken, as reflected in the Annual Governance Statement action plan, and will be reported to Members later in the year.
- 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 Council's 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 this opinion.

Compliance with Professional Standards, Head of Internal Audit Opinion

- 4.10 I can confirm that I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year for the in-house team and 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 (for all work done including that of external suppliers)
 - reviewing the independent external assessment of compliance with the Standards which is required at least every five years and updating for the position for this year.
- 4.11 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.

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 significant 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 terms 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 The year was dominated by the impact of the Covid-19 pandemic and the key responses of the council are set out in the Annual Governance Statement. The council response ensured that suitable protection was provided to residents and staff in accordance with government regulations and guidelines. Timely and effective action was taken to address and support the implications arising from the periods of lockdown implemented during the year, including the effective coordination with partners and other agencies through the council's Gold command and Silver tactical groups that oversaw an unprecedented mobilisation of council, partner and community resources to address the impact of the pandemic.
- 5.6 As a result Internal Audit have needed to maintain a flexible approach to ensuring audit work meets the needs of the council in this ever-changing risk and control environment. The Internal Audit function has been well placed to play a role in response to the pandemic, from a position of good organisational knowledge and with a relevant skill set. During 2021/22 Internal Audit has been able to continue to provide assurance, help advise management and the Audit Committee on the shifting risk and controls landscape and help anticipate emerging risks.
- 5.7 The council's internal control environment has been sustained during the Covid-19 pandemic. The control framework has been transferred to operate with remote working. Changes to working practices have occurred but where controls were already automated these have been able to continue to operate as intended. Where changes have been required, staff should maintain a clear understanding of the basis of control and ensure that solutions created maintain the integrity of the control arrangements. Where efficiency gains have resulted these need to be recognised and maintained, and where there are further opportunities these need to be identified and implemented.
- 5.8 Later in the year the challenges of the wider economic situation began, with the impact of inflation, including the cost of energy, creating additional financial pressures for the Council, residents, the supply chain, and other stakeholders. Despite these challenges and those of the pandemic during the year the council continued to work to make progress towards fulfilment of the jointly owned ambition for Southend in 2050. (Principle B) However it has also been recognised that the ambition is aimed at the wider City and that the Council would benefit from a more focussed articulation of what it is aiming to achieve and therefore a new Corporate Plan is being developed to provide this focus.
- 5.9 In order to deliver the ambition the council reviewed the desired outcomes that would deliver that ambition, given the changing context for the Borough caused by the pandemic, and this provided an updated Road Map for delivery to 2023. The introduction of the Corporate Plan will provide additional focus for the Council (Principle C). Work continues on developing an outcome-based approach to budgeting, so that resources become more aligned to delivery of the 2050 desired outcomes and, moving forward, the priorities within the Corporate Plan. Delivering this change represents a significant change in mind-set and practice across the organisation that work is ongoing to achieve. The council has also been working to embed the commissioning framework to move the organisation to an outcome-based commissioning organisation, aimed at ensuring alignment with the 2050 outcomes, the Corporate Plan, the annual procurement plan, contract procedure rules and market position statements going forward. (Principle D)

- 5.10 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 an updated, and wider reaching, leadership development programme to ensure the right leadership skills and capacity are in place for what will be needed going forward. Work has also begun on a Member development programme aiming to enhance the mutual understanding between officers and Members of roles and pressures, and how to support each other, to have a positive impact on Member / Officer relationships and improve joint working. (Principle E)
- 5.11 The council has been continuing to work to the stated values of being '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 form the basis of the council's appraisal process that was being embedded during the year. (Principle A)
- 5.12 Arrangements for identifying, recording and monitoring corporate risks are in place through the council's Risk Management Strategy and Toolkit. The level of understanding about how to apply this needs refreshing and the process is not being applied as well or consistently at service level, thus reducing the assurance available that risks at this level were being properly documented and communicated, and as a result, efficiently and effectively mitigated or managed. Work is underway to deliver an updated approach across the organisation 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. (Principle F)
- 5.13 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 overall process is not being optimised. Better arrangements are needed to effectively communicate risks across the organisation as required. There were some gaps in assurance and insufficient evidence of managing the impact for some risks. Some managers and team leaders still need assistance to:
- fully understand the objectives of and risks relating to the services they are delivering
 - understand what evidence they need to obtain to provide assurance that these processes were designed and / or being applied properly by their staff, consistently throughout the year.
- 5.14 Updated governance and corporate planning arrangements are being developed to help to address this.

- 5.15 Overall, the changes in approach that are being applied across the council represent significant change for the council and further work is required to implement those changes fully and effectively. Inevitably the need to respond to the challenges caused by the pandemic has impacted on the progress that has been made. As a result, it is recognised that there is still much 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 and embedded.
- 5.16 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 and the review of governance that officers are currently undertaking. As a result of issues that have arisen during the year that demonstrate the need for the improvements that are being sought, partial assurance over governance arrangements is being provided for this year.
- 5.17 Work previously undertaken on the approach to **Remote Working**, as most of the council moved away from the physical premises, and became increasingly reliant on remote access technology, recognised that any disruption caused by cyber security attacks or IT outages will have a significantly greater operational impact and that the usual manual or physical workarounds used to overcome these issues may be unavailable.
- 5.18 Work undertaken on the **Business World Enterprise Resource Planning Programme of Work** to assess the robustness of the programme governance arrangements to deliver the benefits required from the planned upgrade was the first of two planned reviews of the programme in order to provide assurance at key decision points.
- 5.19 Internal Audit have reviewed key documentation and provided management with feedback and interim recommendations to strengthen the programme control environment. Feedback was provided in the following key areas:
- the need to rescope and rephrase the programme given reported capacity issues in some services preventing them from meeting deadlines for key milestones of the programme
 - to strengthen the programme's control environment prior to moving forward with Phase Two, particularly in relation to governance, decision making and the management of changes to the scope of the programme.
- 5.20 Management have agreed robust implementation dates and we intend to follow up progress of the implementation of actions during September.
- 5.21 Work undertaken to follow up the previous review on **IT Disaster Recovery (ITDR)** identified that partial progress has been made in implementing the agreed management actions. Progress has been slowed down mainly due to management focus to shift the council's IT applications to a new platform before disaster recovery procedures can be fully implemented.

- 5.22 At the time of reporting the results of our revisit, the following progress has been made:
- The IT team has developed an ITDR plan that defines the roles and responsibilities of various stakeholders and services within the council, which has also been agreed and communicated to stakeholders within the council. This policy has also been shared on the council's intranet for wider communication.
 - Network and architecture diagrams have been developed providing a visual layout of the council's IT environment. It includes the layout of the organisation's local area networks (LANs), wide area networks (WANs) and wireless networks. Additionally, it also covers network applications and services, servers, computers and other devices.
 - There are a number of areas where further work is still required in order to improve the council's ITDR response. In summary:
 - A formalised training plan needs to be developed to identify key staff who should go on the required training, as well as identifying any key-person dependencies. The council is currently performing a skills audit which will provide the basis for this plan to be developed
 - Management needs to scope the council's disaster recovery environment, including identification of all key and critical applications, criticality of systems and dependency mapping of all systems
 - The council has implemented an IT Service Management tool to capture key details of supplier contracts, however this is only in relation to new suppliers. To provide confidence that the third parties are able to continue to provide services in the event of any disaster they experience, a review of all existing third parties' business continuity plans and ITDR plans is required.
- 5.23 Management needs to formalise and define an ITDR testing plan and include this within the council-wide overarching ITDR plan arrangements, then it will need to test the ITDR plan in accordance with the defined frequency and document results of testing and build on the lessons learned.
- 5.24 Work undertaken on an **ICT Risk Assessment** confirmed the key risks being faced by the council in respect of IT that will contribute towards making informed decisions on the council's IT environment, supporting the IT roadmap for improvement and identifying the areas of key risk to be managed going forward.
- 5.25 Work undertaken to support the development of a **Contract Management** manual for contract managers that aims to describe the key contractual provisions for contracts and provide signposting to key documentation. Ensuring consistency of management and continuity of knowledge, will enable the contract manager and other colleagues associated with the contract to apply and demonstrate consistent and proactive management throughout the term, regardless of changes to staffing or any other changes in circumstances.

- 5.26 Internal Audit provided feedback on the draft manual before its presentation to the Council's Commissioning Board. The feedback to enhance the document was based on findings from previous contract audit work and included:
- consideration of potential arrangements for oversight of the manuals to ensure they are robustly completed and maintained
 - ensuring the manual is clear about the significance of the performance outcome and measures, and why they are important to the contract
 - requiring key contract management tasks to be included, for example checking insurance documents, assurance that DBS checks are up to date for services where safeguarding of vulnerable people is essential, compliance with GDPR requirements and assurance over business continuity arrangements
 - clarity around arrangements for escalation of risk and contract disputes to Council senior management
 - clarity around monitoring expenditure against the contract value, as well as the council budget allocated.

Service Delivery Risks

- 5.27 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 2021/22 audit work was undertaken in the following areas.

Safe and Well

- 5.28 Work undertaken on the **Covid 19 Adult Social Care Response** found the Council, working collaboratively with partners and the community, to oversee mobilisation of resources to address the crisis. This response helped to significantly mitigate the impact, saved lives of residents, alleviated a crisis in the NHS and Care sector and supported the most vulnerable in our community.
- 5.29 The Council worked very closely with its health colleagues to ensure hospital capacity remained available by helping care providers prepare to receive those being discharged. Furthermore, support in understanding national guidance, managing workforce challenges, providing PPE, maintaining contact and communication channels and providing financial support to both domiciliary care providers and residential care homes was also part of the Council's response.
- 5.30 In order to respond, the Council made changes to the way services were delivered, managed and monitored. The purpose of this audit was to review how several of these process changes were agreed, implemented, operated and where applicable, have now transitioned back to business as usual.
- 5.31 This audit provided positive feedback on the process changes implemented and the execution of specific decisions across the areas of scope. Where there were minor areas to strengthen the process identified, management acted on these promptly. It is important that the Council looks back and considers what worked well as part of this experience, as well as what didn't, and takes on board any identified key learnings to ensure, in the event a response is needed to a similar largescale incident again, the agility demonstrated through this incident is accompanied by the documentation and governance requirements incumbent on all public bodies in safeguarding public funds.

- 5.32 Work undertaken on the **Adult Social Care Recovery Programme's** initial scope was largely based on the outcomes from recovery milestone plans developed, identified the projects that needed to be delivered in the short term. As the programme has progressed, partly due to changes in government policy and the Covid-19 pandemic, the programme's drivers for change have evolved as demand for the Council's Adult Social Care services has changed.
- 5.33 The programme's recovery focus transitioned to be more transformational. Audit work identified a number of areas for management to consider as the programme progresses. Management agreed actions to:
- clarify the aims and objectives of the programme and ensure that the scope of each of the projects is clearly defined, with agreed delivery milestones
 - formalise processes that ensure the expected financial and non-financial benefits of the programme are fully defined, monitored and managed
 - clarify escalation processes to be utilised across the programme including the definitions of Red / Amber / Green (RAG) ratings for defining progress on delivery and stipulating what would warrant escalation from Project Managers to Recovery Board
 - develop detailed resource plans that ensure programme delivery is achievable and highlight any pinch points
 - fully embed risk and issue management processes, including escalation arrangements, across the governance hierarchy
 - the development of a Project Managers Handbook to ensure that project managers are clear on their roles and responsibilities, particularly in relation to progress reporting and escalation of key issues.
- 5.34 Work undertaken to follow up previous work on **Adult Social Care Financial Assessments** identified that the service's own internal management reporting was showing the response to this original audit report as being not implemented / 'overdue'. The previous internal audit review was conducted to assess the robustness of the process that determines eligibility for financial support towards care needs to ensure it is accurate, transparent and accessible.
- 5.35 Limited progress has been made in implementing the agreed management actions. Progress has been hindered by the following factors:
- the COVID-19 pandemic, which has impacted the Financial Assessments team's ability to perform home visits and attend appointments resulting in the backlog of financial assessments not being fully reduced
 - the development of a new reporting dashboard, C-Bench, which had not yet been fully developed. C-Bench is an initiative by ContrOCC (provider of the social care finance system) and is a tool that allows Local Authorities to benchmark using their ContrOCC data and other data sources. The Council is reliant on the developer to produce the next version of the dashboard tool, the timeframe of which is not known
 - an internal restructure within the Financial Assessments team which was completed on 6th June 2022. The restructure took longer than expected and our understanding is that the next phase of the restructure is to recruit the appropriate individuals to align with the new team structure. Management confirmed that some of the posts have already been recruited to but that those individuals have not yet started and that there are still some vacancies in the new structure.

- 5.36 However, it should be noted that in response to these factors, the Council employed a dedicated resource in the form of a temporary agency staff member to reduce the backlog, and was one of the few local authorities that volunteered to 'pilot' the new reporting dashboard and as a result has been contributing to its development via regular feedback to the dashboard developer / provider.
- 5.37 Throughout the audit, management showed awareness of the challenges they face and showed willingness to receive feedback on their current progress towards implementation. The ongoing development and implementation of the reporting dashboard be hugely beneficial and will increase the level of insight that can be used to analyse performance of the Financial Assessments Team.
- 5.38 Advice and support work on the **Children's Quality Assurance Framework** provided support and challenge to the Children's Services Steering Group responsible for monitoring the pilot and roll out of the more targeted and focused approach to case file audits. The aim being to improve overall social work practice by using learning to build on good practice and support those areas where improvements would deliver better outcomes to young people and families.
- 5.39 Feedback was provided in October 2021 and February 2022 to the Chair of the Steering Group and colleagues in the Practice Unit after first and second round of case file audits were completed.
- 5.40 Feedback and discussion was provided regarding:
- the Audit tool to be used in the pilot
 - the content of the July to September Quarterly Assurance report prepared for Children Services Departmental Management Team
 - the risks associated with the transition of the pilot to business as usual
 - clarifying arrangements in procedural documents to make expectations and processes clear
 - the difference in the clarity and / or quality of action plans emanating from case file audits when assessing the actions plans against Specific, Measurable, Achievable, Relevant, and Time-Bound goals (SMART objectives). Internal audit have been asked to provide some further support to the service to develop this area.
- 5.41 The quality assurance work is now transitioning into business as usual. The 2022/23 Audit plan is looking to include an audit towards the end of the year to assess the ongoing robustness of business as usual quality assurance arrangements.
- 5.42 Work on the **Procurement of the joint venture partner for the Council's Passenger Transport Service** has confirmed the procurement was undertaken in an appropriate way. During this work, we undertook a focused internal audit fact-finding approach across ten areas to establish the facts surrounding the procurement of a joint venture partner for passenger transport related services, the specification construction, procurement process, and the financial arrangements of the joint venture partnership contract.
- 5.43 The pre-procurement and procurement phases were managed in accordance with applicable laws and policies and designed to deliver the approved business needs within financial constraints. The business justification behind the procurement was clearly set out in 2016 and remained consistent throughout the life of it.

- 5.44 Some improvements could be made to the control environment, including that whilst the Major Project Board was identified as an appropriate governance structure to oversee the procurement, but no involvement of it was noted the documents provided and that no business continuity plan had been prepared at the commencement of the contract.
- 5.45 It was possible to certify that **grant terms and conditions** had been complied with for the following grant claims:
- Disabled Facilities Capital Grant Determination
 - Troubled Families
 - Local Authority Test and Trace Service Support Payment Scheme
 - Local Authority Community Testing Funding Grant
 - Covid 19 Local Authority Enforcement and Compliance Grant
 - Covid 19 Test and Trace Service Support Grant.

Opportunity and Prosperity

- 5.46 Work on the arrangements to manage the **Partnership Agreement with South Essex Homes (SEH)** confirmed that the Council has a clear overall plan in place for managing the agreement. This plan is based on a Strategic Board, composed of officers from the Council and SEH. The agreement prescribes six subgroups sitting under the Strategic Board which focus on management of specific areas of the agreement, such as 'Operations' and 'Sustainability'. These subgroups report to the Strategic Board on significant issues in their areas, and Key Performance Indicators (KPIs) are also reported to the Strategic Board on a quarterly basis.
- 5.47 The Council's planned approach is largely in line with the principles of effective contract management. However, various aspects of this approach are not yet in place. For example:
- the Partnership Agreement prescribes that SEH should produce a Partnership Plan setting out how it intends to fulfil the Agreement. This Plan is currently only partially complete, and its completion would enable the Council to better scrutinise arrangements and ensure the goals of the two parties remain aligned
 - one of the six subgroups, relating to IT, has not yet been set up. The existence of this subgroup is necessary as SEH's IT arrangements underpin its overall performance, and need to be subject to oversight by individuals with sufficient IT expertise
 - many documents, including Terms of Reference for the subgroups, are in place but have not yet been finalised, limiting the Council's ability to provide scrutiny.
- 5.48 Underpinning these issues is the limited level of resource that the Council currently has allocated to manage the administration of the Partnership Agreement. We have made a number of tailored recommendations as to how the Council can further build on its planned approach.
- 5.49 To assess whether **Barons Court Primary School** has adequate and effective governance, information and asset management, and financial management and reporting arrangements confirmed that business management processes are operating effectively. Risks to delivering objectives are well understood and mitigated to an acceptable level. The results of this audit work were reported to the school Resources Committee in March 2022.

- 5.50 Support provided to the Finance, Quality and Curriculum Governance group formed to oversee bringing in-house the **Southend Adult Community College** was recognised for providing good practice insight and challenge that was valuable as the Council moved through shadow arrangements to fully taking over responsibilities from the Governing Body. Internal audit helped to add appropriate considerations, further knitting the college into the wider organisation and its ways of working.
- 5.51 Work on the **Better Queensway workstreams** confirmed that the project's governance structures are well defined, documented and include progress reporting. Escalation processes are clear however, a lack of application of risk and issue management processes and detailed Council side plans, mean they are not operating as effectively as they could be.
- 5.52 Fully embedding risk and issue management processes, across the governance hierarchy is a particular area for focus going forward to ensure the Operational Group can properly deliver its obligations to the Partnership Board. This will also improve visibility and accountability for internal decision making and gives increased opportunity to demonstrate ongoing alignment to the Council's Values and Behaviour framework.
- 5.53 The introduction of regular internal project communications will ensure that Workstream Leads are clear on the project's priorities and the actions required of them. The appointment of the new Council Programme Manager presents an opportunity to reset and develop relationships across the project more generally.
- 5.54 Council-side project plans and detailed workstream plans need to be fully developed for the current phase of the project, which capture all the required information, outline the critical path of activity and key dependencies, as well as the resources required to deliver Council tasks.
- 5.55 Other audit work was undertaken on the **Better Queensway Highways Scheme** in relation to the specific concerns raised by some councillors regarding the highways scheme element of the Queensway regeneration development to determine whether appropriate procurement processes were followed by officers ahead of the recommendation to councillors in February 2019 regarding the appointment of the preferred bidder for the 50/50 joint venture and the arrangements for sharing and reporting on the evolution of the Queensway highway's proposed alignment were appropriate to support an informed decision-making process by councillors.
- 5.56 This work utilised a significant amount of Internal Audit resource and the results of the work were reported to a Special Audit Committee meeting in September 2021.
- 5.57 Robust arrangements that demonstrate transparency and accountability are key to support a proper decision-making process and maintaining trust between councillors and officers. The council's values and behaviours strongly align to these attributes as well as recognising the need to adapt and change in the interests of continuous improvement. As such, lessons learnt from managing the most complex regeneration project the council has undertaken for many years is important for councillors and officers to embrace in working to deliver the council's overall vision of 'working to make lives better'.

- 5.58 The council established significant external support and challenge arrangements for this complex, marginally viable project and the procurement of a joint venture partner, but there are circumstances that could be explored further to determine learning points that may strengthen the clarity and continuity around reporting to Members so that decisions are clearly understood.
- 5.59 Audit work was undertaken on the **Department for Business, Energy and Industrial Strategy (BEIS)** to provide post-payment assurance work to ensure Covid-19 business support grant funding for the following grants had been awarded in line with the guidance provided by BEIS:
- Small Business Grant Fund
 - Retail, Hospitality and Leisure Grant Fund
 - Local Authority Discretionary Grant Fund.
- 5.60 This work initially assisted with the arrangements set up by the council to introduce an application form and submission process, review and process those applications. The post payment assurance work confirmed that the approach taken by the Council was appropriate and the applications and payments made by the council were appropriate and valid.

Active and Involved

- 5.61 No specific audit work was undertaken in respect of the Active and Involved theme.

Connected and Smart

- 5.62 Work undertaken on the **Energy Projects Status Assurance** to provide an independent perspective as to the status of the council's portfolio of Energy Projects and provide advice in relation to the projects' future governance arrangements identified a number of key overarching elements that had caused issues within individual projects and needed to be addressed. Internal Audit developed a draft Governance Framework that could be utilised to manage the projects and work is ongoing with management to implement the framework so that the benefits can be realised and improvements to arrangements for managing the projects be achieved.
- 5.63 Work undertaken on the **Transport Joint Venture** to assess the robustness of the council's planned arrangements, as they are developed, confirmed that the Contract Management team had begun establishing the contract management processes and controls necessary to oversee the joint venture company's delivery of core services. However, at the time of the audit significant work remained to be completed to be able to robustly assess whether the provider is delivering the services to the required standard.
- 5.64 This was followed by further work on the **Transport Joint Venture Contract Management of Core Services** to review the extent of compliance with delivery of contracted requirements following significant service delivery issues at the start of the autumn term. This work identified a number of issues in relation to the service provider company's processes for managing the contract, as well as in relation to the Council's arrangements for governance over the service and its oversight of the service provider.

- 5.65 In particular, the company did not produce or retain data to demonstrate whether it complies with all of the contract's Minimum Service Requirements (MSRs), though work was underway to implement this. The company's Management Information reporting to the Council did not reflect the contract's Key Performance Indicators, and also contained inaccuracies. Moreover, until November 2021, the company did not have a defined process for logging and responding to Service User complaints.
- 5.66 There were particular issues in relation to subcontractor management, where the company did not have defined processes in place for reporting of management information from subcontractors which deliver parts of the contracts on its behalf, or for cascading relevant information to the Council.
- 5.67 Of ten relevant MSRs, for direct delivery, we evidenced that the company could largely demonstrate compliance with five, could partially demonstrate compliance with three, and did not have the data to demonstrate compliance with the remaining two. In addition the company could only demonstrate compliance with one of nine relevant MSRs by its subcontractors.
- 5.68 We identified further issues in relation to the Council's internal governance arrangements, ongoing communication between the Council and the company, and the production of risk assessments for routes and / or individual children, which are key for managing safeguarding risk.
- 5.69 This work utilised a significant amount of Internal Audit resource and the results of the work were reported to a Special Audit Committee meeting in March 2022.
- 5.70 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 Challenge Fund
 - Local Transport Capital Block Funding – Pothole Action and Challenge Fund
 - Local Transport Capital Block Funding – Integrated Transport and Highways Maintenance
 - Travel Demand Management Grant
 - Additional Dedicated Home to School and College Transport Grant.

Pride and Joy

- 5.71 An advisory piece of work was undertaken to assess the robustness of the Council's end-to-end arrangements for managing the **Highways Capitalised Maintenance programme** of works that supports the delivery of improvements to the Council's pavements and highways for the benefit of the citizens of Southend.
- 5.72 We reviewed key documentation and provided management with feedback and interim recommendations to either strengthen the programme control environment or highlight where further clarity is required for the process to operate effectively, whilst also enabling the Capital Board to fulfil its role in monitoring the programme's delivery, to realise the expected outcomes and benefits of strategic relevance from the capital investments made by the Council.

5.73 Feedback was provided in the following key areas:

- the development of a business case and clear scopes of work
- developing robust plans that ensure the programme can be delivered on time and within budget
- clarification of the programme's governance processes and associated roles and responsibilities
- the introduction of a change control process that will ensure proposed changes are impact assessed against the agreed programme aims and the available resources
- the introduction of processes to ensure programme risks and issues are managed and monitored to avoid negatively impacting upon the programme aims.

5.74 Management have agreed robust implementation dates with Internal Audit and we will follow up progress of the implementation of actions.

Key Financial Systems

5.75 Effective control of the **General Ledger** is key to meeting the council's ongoing business objectives, as all financial transactions are recorded in the General Ledger. This process therefore underpins the reporting of the council's financial position, as well as being key to Management Information around budget monitoring.

5.76 In this audit, we assessed overall governance arrangements and internal controls in relation the General Ledger; arrangements for user access rights; key reconciliations; journals and virements; and suspense accounts. We identified appropriate controls in many areas, particularly in relation to bank reconciliations, which are subject to a robust process and to suitable review arrangements. We made five recommendations, none of which represent high risk findings.

5.77 We identified a strong control environment in the **Income Receipting and Banking** process. In particular, we performed detailed testing of the process for cheque receipts; for allocation of income to debtor accounts; and for income reconciliations. We noted that these controls were well designed and did not note any exceptions in relation to these areas.

5.78 There are, however, a small number of opportunities to further streamline the process in certain areas and relating to systems access. In addition, as part of this audit, we considered the council's process to ensure that the right to income is appropriately identified by the council, and that income is invoiced and pursued where it is due. This is closely linked to the budget monitoring process, as identifying income is largely delegated to the Services, with the support of the Finance Business Partners who work alongside them.

Implementing Action Plans

- 5.79 Internal Audit ordinarily input agreed actions into Pentana¹ once audit reports are issued. This was delayed during the year due to the secondment of the Business Support Officer to the pandemic response team, but is now being addressed as the officer has returned to the Internal Audit team. Management then use this to monitor their implementation via Departmental Management Team meetings.
- 5.80 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.

Proactive Advice and Support

- 5.81 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 2021/22, this work included providing ongoing support and challenge:
- over the governance arrangements being developed, implemented and embedded to achieve **simple and effective governance**
 - over the arrangements in place and being developed within the **Future Ways of Working** programme to achieve a Council that is geared up to deliver the Southend 2050 Ambition and the new Corporate Plan
 - of the arrangements being developed and implemented to support delivering **financial sustainability** through the Getting to Know Your Business work to challenge Council services about what they do, why they do it and how they do it, to ensure that the council is delivering the right things effectively and in a financially sustainable manner
 - as the team review and improve arrangements for **reconciling finance and activity data** between Liquid Logic (adult care system) and financial information contained in the ContrOCC (social care finance system) and Business World (Council finance system).
 - to the project team as the risks and control environment for the planned **Corporate Establishment** cloud-based module is implemented, as part of the changes to update the **Business World Enterprise Resource Planning** system
 - to the Children's Services Steering Group responsible for monitoring the pilot and roll out of the more targeted and focused approach to case file audits and developing the **Children's Quality Assurance Framework**
 - to the service area as the **Adult Care Quality Assurance Framework** is developed
 - to the Finance, Quality and Curriculum Governance group established to challenge and monitor the overall performance of the **Southend Adult Community College** and the programme of works to transition the college from an arms-length service to one that is fully integrated into the Council's operations

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

- to the Corporate Procurement Team as improved guidance is developed and launched to support those staff **managing contracts** which are supporting the delivery of Council outcomes
- to the Contract Manager of the **Hayes Agency Recruitment** contract to both identify and improve the Council's quality assurance arrangements for ensuring the robustness of the compliance checks required for agency staff employed.

Grant Claims

5.82 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 – Highways Maintenance Challenge
- Local Transport Capital Block Funding – Pothole and Challenge
- Local Transport Capital Block Funding – Integrated Transport
- Local Authority Test and Trace Service Support Payment Scheme
- Local Authority Community Testing Funding
- Covid 19 Local Authority Enforcement and Compliance Grant
- Covid 19 Test and Trace Service Support Grant
- Travel Demand Management Grant
- Additional Dedicated Home to School and College Transport Grant
- Emergency Active Travel Grant.

5.83 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.

6.2 Preparations are now being made for the next round of external quality assessment.

Quality and Improvement Programme

6.3 I can confirm that I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year for the in-house team and 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 (for all work done including that of external suppliers)
- reviewing the independent external assessment of compliance with the Standards which is required at least every five years and updating for the position for this year.

6.4 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.

6.5 **Appendix 3** summarises the results of the independent external assessment of compliance against each element of the Standards, updated for the position this year.

6.6 **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
- independent external review.

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 Since the last Head of Internal Audit annual report to the Audit Committee there has been further change within the team. The Auditor left the team in August 2021 which impacted the delivery of the planned audit work as the audit they were involved in had to be picked up and completed by the Audit Manager, and those works planned for later in the year had to be re-allocated. A replacement Auditor joined the team from 1 April on a temporary basis for six months.

6.9 Therefore, as at 11 July 2022 that leaves the team with six vacancies out of ten posts. The salaries of the vacant posts are being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan. A recruitment exercise undertaken in the autumn of 2021 did not result in a successful appointment, despite using a more specialist support from Hays.

- 6.10 In December 2021 the internal audit team engaged with the Learning and Development Team to facilitate a session to apply the team's analytical thinking to the current position of the internal audit team and the expected requirements of the internal audit service into the future, as this continues to evolve both at an industry level and at a local level. An action plan was discussed to assist with the development and delivery of the most appropriate team model, utilising the financial resources available. Work to deliver this is ongoing.
- 6.11 The expected requirements of the internal audit service into the future continue to evolve. 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 as part of their response to the covid-19 pandemic and the impact of that. 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.
- 6.12 The remainder of this report needs to be considered within this context.

Audit Plan 2021/22

- 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, but as a result of the impact of the Covid-19 pandemic the DHLUC revised the deadline so that this became 31 July 2022. As reported in **Appendix 2** 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 In respect of the 42 audits included in the final audit plan:
- 77% of audits are complete with finalised reports issued
 - 3% of audits are complete with draft reports issued
 - 15% of audits are work in progress
 - 5% of audits suffered from a loss of planned delivery resource and have therefore been added to the Risk Watch List.
- 6.15 Amendments made to the audit plan included four audits that were deferred to the 2022/23 Audit Plan, with three audits deferred to the 2021/22 risk watch list.
- 6.16 Results of audit work completed that have not previously been reported to the Committee are included at **Appendices 5 to 8**.

Other Performance Indicators

- 6.17 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.
- 6.18 Sickness absence during 2021/22 was very low, equating to an average of 0.4 days per FTE, compared to an average of 11.02 days per FTE in 2020/21.
- 6.19 Stakeholder surveys are designed to assess compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards). No stakeholder surveys have been completed for 2021/22 because of the impact of covid-19 and the redeployment of the Business Support Officer to assist with the council's track and trace team.

Other Disclosures

- 6.20 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 corporate risk management that forms part of 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 and there have been no 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 set out in the Terms of Reference, in the most effective way to achieve best practice, by obtaining the necessary assurances and therefore 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 periodically considers whether it provides a value for money service.

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	Internal Audit Plan 2021/22 as at 30 June 2022
Appendix 2	Assurance Summary 2021/22
Appendix 3	Summary Assessment of Compliance with UK Public Sector Internal Audit Standards 2021/22
Appendix 4	Compliance with the UK Public Sector Internal Audit Standards Action Plan as at 30 June 2022
Appendix 5	Opinion and Summaries: High assurance
Appendix 6	Opinion and Summaries: Partial assurance
Appendix 7	Opinion and Summaries: Other audits and grants
Appendix 8	Opinion and Summaries: Audits revisited