

Southend-on-Sea City Council

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

To

Audit Committee

on

19 July 2023

Report prepared by: Andrew Barnes, Head of Internal Audit

Head of Internal Audit Annual Report 2022/23

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide for the 2022/23 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 2022/23 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 Corporate Plan Priorities. 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, becoming the Governance Board moving forward, 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 2023

- 4.1 Governance comprises 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 2022/23 the Council continued to be challenged by the external environment that it operates within, particularly 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, as well as the wider impacts of the fallout from the Covid-19 pandemic. Significant changes that have occurred to the operations of the Council are becoming embedded, including many staff working remotely and the changes implemented to enable that remote working. These changes enabled the Council to deliver what was required in response to the pandemic, and similar focus now needs to be applied to the financial challenges that the Council is facing, so that the Council can address the medium-term budget gap that has arisen and bring the Council back into a financially sustainable position.
- 4.3 The Council continued to build on the work that had been undertaken to create the shared ambition for the City, and desired outcomes for its residents, visitors, students, and other stakeholders, through the adoption of 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. 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 encountered.
- 4.4 The Transformation Blueprint has been developed with external support to provide the focus that will be necessary to make the further changes that are required to transform the culture and 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 appropriate, effective and financially sustainable to deliver the priority outcomes in the changed circumstances that the Council is now facing.
- 4.5 Management needs to continue to monitor both the actual and potential impact of these pressures, the progress against delivery of the Transformation Blueprint and programme to drive change that arises, as well as delivery of the Corporate Plan. Management and councillors need to be ready to adjust, if necessary, as the situation continues to evolve and the understanding of the impact on future needs and priorities becomes clearer.

- 4.6 There is much to do, and the Council is working to deliver and meet these multiple challenges. As a result, there continues to be updates made to way the Council is operating. The governance arrangements have been reworked during the year and need to become effective and embedded to provide the framework that will drive the delivery of what is required to address the multiple challenges faced. The Transformation Blueprint and change programme will review ways of working, 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 work in the context of ongoing change and challenges arising from the external environment, which makes it difficult to achieve a period of stability that would assist with implementing and embedding revised arrangements.
- 4.7 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 that has been reviewed and refreshed needs to be formally adopted, 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. This has been partly addressed moving forward through the re-introduction of Service Plans for 2023/24.
- 4.8 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 the changes that have been introduced during the year to become effective and embedded before it can be considered to be satisfactory overall, therefore partial assurance is provided for the year. Work to further 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.
- 4.9 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.
- 4.10 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.

4.11 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

4.12 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.

4.13 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 challenging economic operating environment that has arisen as a result of global events that have occurred over the last three years, with the impact of inflation, including the cost of energy, creating additional financial pressures for the Council, residents, the supply chain, and other stakeholders. This has resulted in a significant financial deficit for 2022/23 that is not sustainable, and the Council recognises that action needs to be taken to address this in the short and medium term, to bring the financial position back into balance. Key responses undertaken by the council during the year are set out in the Annual Governance Statement.
- 5.6 As a result Internal Audit has needed to maintain a flexible approach to ensuring audit work meets the needs of the council in this ever-changing risk and control environment. During 2022/23 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 changed during the period of 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 reason for, and the basis of control, to 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 Despite these challenges the council continued to work to make progress towards fulfilment of the Corporate Plan Priorities and the jointly owned ambition for Southend in 2050. (Principle B).
- 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 City caused by the changing operating environment, and introduced the new Corporate Plan to provide additional focus for the Council (Principle C).
- 5.10 Work on transforming the operating model of the Council is being increased during 2023/24 with the next stage being a rapid 14-week investigation and planning period, engaging with the whole organisation, including the review and future state design of 51 service areas within the organisation. The outcome will create implementation plans to deliver the recognised need to change the way the Council works, so that it can become more agile, more efficient, more entrepreneurial and more engaged with residents and customers. This enhanced transformation programme is aiming to deliver the identified necessary operating model across all aspects of the Council's activities so that the council has the right arrangements to achieve its priorities and ambitions, and become financially sustainable. Delivering this change will require a significant change in mind-set and practice across the organisation that work is ongoing to achieve. (Principle D)
- 5.11 Work has also continued on the 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)

- 5.12 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)
- 5.13 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)
- 5.14 In a practical sense, there is a strong understanding of risks being faced by individual Directors and a discipline around the maintenance 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.
- 5.15 Service Plans have been introduced from April 2023, setting out service area objectives, how services will contribute to the delivery of the corporate plan, how success will be measured, risks that could impact on delivery and how these are being managed. If used effectively they will help services to plan, organise and increase coordination and consistency across the Council and provide the organisation with the information and assurances required for good governance. Service plans sit underneath the Council's Corporate Plan and form a key component of the golden thread approach (linking individual performance to service tactics and organisational strategy).
- 5.16 Overall, the changes in approach that are being applied across the council represent further significant change and much work will be required to implement those changes fully and effectively. Inevitably the need to respond to the challenges caused by the economic circumstances in the wider operating environment 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 identify, deliver and embed the changes to the ways of working and culture that are being sought, and the Transformation Programme is taking place to organise and drive this. Once the changes have been 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.

- 5.17 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 to enhance and optimise the Council's governance arrangements. 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.
- 5.18 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.
- 5.19 Work undertaken on the **Technology Modernisation Programme Assurance** confirmed that the programme's established governance structures are well defined, supported by a risk and issue management process and include detailed progress reporting. The effectiveness of the governance arrangements could be improved by:
- ensuring consistency of the Red, Amber, Green (RAG) scores applied to key reporting metrics, such as risks, issues and progress
 - clarifying the escalation process to be utilised by the programmes three projects, and
 - updating the programmes plan on a page to include progress against key milestones, to identify any slippage and highlight potential resource pinch points between projects.
- 5.20 Roles and responsibilities of key individuals are documented and operating in practice, except for the Business Lead role, which needs to be fully defined and documented across the programme.
- 5.21 The programme's agreed scope is defined and documented for the Civica and User Data Migration projects and work is underway to document the Technical Remediation and Decommissioning of the Cisco Unified Computing System platform project. The programme could manage potential changes to the programmes scope more efficiently through the introduction of a formal change control process, that ensures changes can be managed in a consistent manner.
- 5.22 The programme's expected benefits are described at a high level in the Programme Business Case, however further work is required to fully define planned benefits in detail, determine baselines and agree targets and methods of measurement.
- 5.23 In our review of **Cyber threat** we reviewed the cyber incident management processes and policies in place; design of incident response plans to promptly contain and respond to incidents; follow up procedures from a cyber incident; incident response accountabilities, responsibilities and delegation; governance around incident response management; and alignment with crisis management plans.
- 5.24 We identified appropriate controls in many areas, particularly the understanding of information and cyber security threats to its operations, supported by suitable Government and other partnerships for cyber threat information sharing; tools in place to capture and analyse IT Security events; the documentation of employees roles and responsibilities in response to cyber incidents;

communication and escalation plans; consistent reporting criteria and containment strategies.

- 5.25 Despite the fact that the Council has established key incident management controls in place to combat cyber attacks, it is important to note that the maturity of cyber security controls is likely to deteriorate over time if no additional activities are performed on a continuous basis, due to the constant changes in the threat landscape.
- 5.26 We identified the following areas for further development and improvement:
- addressing key person dependency risk by ensuring that an operational procedure should be documented based on potential cyber threat scenarios to support circumstances where any key personnel involved were to suddenly leave or be out of office at the time of an incident
 - devise table-top exercises on a quarterly basis and secondly, document observations from the exercises to ensure the processes defined are appropriate and the team involved is comfortable with their parts to play
 - update all playbooks to accurately represent the processes that are followed by the IT security team during an incident response
 - ensure lessons learned are documented and shared with the incident response team, team leads and the wider organisation as appropriate
 - implement a mandatory cyber security awareness training module to be completed on an annual basis for all staff members.
- 5.27 Our review of the **ICT Strategy** confirmed that the ICT department underwent a full restructure in 2019, resulting in a significant change in personnel. The ICT department inherited legacy infrastructure and service contracts, that had historically resulted in the council not having a fit for purpose technology environment. Since then there have been gradual improvements to bring about the desired technology environment by standardising the infrastructure to adapt to future digital requirements. Some of the efficiencies have been brought about through procurement and contract negotiation, and through engaging more with the services in the council.
- 5.28 During these improvement initiatives, ICT continued to operate as a support function responding to the council's needs. Senior leadership recognise ICT's responsiveness to ensure staff were able to work remotely, by ensuring the right equipment and network connectivity were in place, enabling the council's services to continue as normal during the Covid-19 pandemic with minimum disruption.
- 5.29 With the combination of managing these challenges and stabilising the IT infrastructure and processes, ICT produced a formalised Digital Strategy in 2022, which aligns to the Corporate Plan. However, the strategy does not outline clearly the council's IT requirements and understand how ICT will be an enabler to fulfil the council's corporate priorities.
- 5.30 Alongside this, the ICT team has continued to experience challenges caused by service areas engaging late with ICT on the development of new solutions, which impacts the planning, identifying an appropriate solution and prioritising resources to support projects that require IT input and support. This has resulted in ICT not being able to resource some projects sufficiently, and equally not being able to bed in the right underlying IT architecture and solutions, that may be applied holistically to the council's IT needs, which could be scalable and efficiently supported.

- 5.31 To manage this challenge, ICT has introduced the “Entrance Hall” process to capture the current and proposed project requirements, and enable prioritisation and management of resource requirements accordingly. This has been a key initiative, to curb the reactive approach to IT projects. However this is not a long-term sustainable solution as it will not allow ICT to plan and drive solutions holistically and be the architect of the infrastructure to benefit the council’s overall future digital requirements.
- 5.32 Changing the approach to be more proactive and focused on collaboration with service areas will encourage a greater level of challenge around the thinking on and architecting solution sets, which will enable IT solutions to be better future proofed (for scalability and compatibility), more cost effective and support the management of vendors where applicable.
- 5.33 A clear governance structure needs to be created, with senior management setting the tone and direction on the prioritisation of the council’s IT projects, to fulfil the long-term strategic requirements of the council and services. Forming a governance forum will be key to understand the council’s digital priorities, which will in turn set the tone for prioritising and sequencing of projects. With such a forum in place it will help ICT to get the support at a corporate level to determine which projects, should go ahead and provide a better overview of risks that may impact ICT priorities and other corporate risks. Officers are working to address this through the introduction of a Digital Governance Group, providing oversight and linkages with the Smart Council technology development programme, as part of the council’s current wider review of governance arrangements.
- 5.34 Clear, early and ongoing collaboration is also required between the service areas and the ICT team. Removing this barrier will help to ensure that the services consider IT in their forward planning / decision making, and are also aware of possible solutions that IT can provide. Improvements have been suggested to the Performance Management Framework to aid this collaboration.
- 5.35 Our audit of **Procurement cards** confirmed that these are an important tool to support council staff in the delivery of services, through enabling the purchase of appropriate goods and services in an efficient manner. Effective control of the issue and use of procurement cards is important to support that they are used by appropriate staff to purchase items in accordance with council policy.
- 5.36 We assessed the controls in place in relation to the set-up, use of and approval of procurement card expenditure. We have identified that the controls in place across all areas covered in the scope of this audit are appropriately designed, particularly in relation to setup and use of procurement cards.
- 5.37 However, the Council should ensure that the use of procurement cards is regularly reviewed and monitored through the spend analysis report to ensure appropriate oversight of use of the cards and expenditure arising. This will allow the Council to identify and resolve issues relating to procurement card spend in a timely manner.

Service Delivery Risks

5.38 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 Priorities, Ambition and Outcomes. In respect of 2022/23 audit work was undertaken in the following areas.

Safe and Well

5.39 Work undertaken on the **Alternative Education Provision** covered three teams within the Council that are involved in the commissioning and monitoring of Alternative Education Provisions (AEP) for Children and Young Adults or Persons (CYPs) of school age.

5.40 The three teams engaged with in this work and an overview of the findings in each area are:

- The Virtual School (VS) team has appropriate procedures in place and had thorough processes to ensure CYPs who are Looked After Children (LAC) are appropriately placed and monitored.
- The Access & Inclusion (A&I) team has overall responsibility for Children Missing Education (CME) and includes monitoring of Alternative Education provision at Schools. We noted a number of opportunities for improvement to controls and process gaps for the team to address, including having clear internal policy and procedure notes so that the team members working on the alternative education provisions have clear processes to follow in their respective teams, and we understand that there are plans being put in place to further mitigate the risks arising.
- The Special Education Needs and Disability (SEND) team. We noted a number of opportunities for improvement to controls and process gaps for the team to address, including having clear internal policy and procedure notes so that the team members working on the alternative education provisions have clear processes to follow in their respective teams, to ensure that the whole team are working together and that there are clear processes put in place within the team to ensure appropriate engagement and monitoring is undertaken for placements to all vulnerable CYPs who fall under their responsibilities.

5.41 The Council should define the key accountabilities, responsibilities, and delegation between the three teams to ensure appropriate controls and processes within the teams are put in place and followed through so that each team has a clarity of responsibilities in ensuring the CYPs are accessing a safe appropriate placement for their alternative education provision and that their educational needs are met.

5.42 In addition, all three teams should enhance the induction programme for new recruits and refresh sessions for current staff, to discuss the Council's guidance and current applicable legislation in relation to Alternative Education Provision.

5.43 The lack of unification of systems for data repositories between the three teams also has the potential to lead to duplication of effort, miscommunication, and mismanagement. The Council should consider unification of the systems used by the learning services departments, and especially these three teams, to record information on children missing education.

- 5.44 Work undertaken on **Direct Payments** confirmed that all direct payment transactions are recorded in the Liquid Logic application and this process therefore underpins the Council's key purpose of reviewing and capturing information regarding funding and monitoring care needs.
- 5.45 We assessed overall governance arrangements in relation to direct payments in both adult and children's social care, monitoring of direct payments, use of direct payments, annual reassessment of the direct payments in place and management information.
- 5.46 We identified that appropriate controls are in place, particularly in relation to the assessment process. In addition, the Council's direct payments are regularly monitored and reported through appropriate management information.
- 5.47 There were areas for improvement in respect of ensuring that procedure notes are regularly reviewed and updated where necessary to reflect best practice and to ensure that written procedures are in line with actual processes, and that the Council should ensure that the care packages are reviewed annually to ensure the recipients of Direct Payment are receiving right amount to support their care needs.
- 5.48 To follow up our previous work on the **Adult Social Care Savings and Recovery Programme** we informally reviewed several documents that had been introduced by the programme to strengthen its control environment, including the Programme Mandate, Transformation Board Terms of Reference, Project Management Handbook and associated project templates. We provided management with interim feedback on the progress of the audit recommendations in relation to the design of controls introduced to mitigate the potential risks. Management acted upon our feedback and the operating effectiveness and ultimate completeness / closure of audit recommendations, was assessed, to determine the extent to which the controls were operating in practice.
- 5.49 Since the original audit, significant progress has been made in implementing the agreed actions, the majority of which are now effectively embedded into the day-to-day operation of the management of the programme.
- 5.50 Since our original audit, the programme has transitioned from recovery to a more transformational focus. The programme's aim is to enable the Adult Social Care vision to work collaboratively with people to enable them to live safe, well and independently in the community, connected to the people and things they love. The programme will now have a maximum planning horizon of 3 years and this will be reviewed regularly by the Transformation Board.
- 5.51 It was possible to certify that **grant terms and conditions** had been complied with for the following grant claims:
- Disabled Facilities Capital Grant Determination
 - Supporting Families Programme
 - Covid-19 Contain Outbreak Management Funding
 - Covid-19 Protect and Vaccinate Grant
 - Covid-19 Test and Trace Support Payment
 - Universal Drug Treatment Grant
- 5.52 All of the above grant work provides assurance that the Council is utilising grant funding in the manner expected by the funding departments.

Opportunity and Prosperity

- 5.53 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 were unable to operate effectively.
- 5.54 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. As such management have agreed actions to:
- ensure everyone involved is clear on their roles and responsibilities in relation to risk management, by re-circulating the roles and responsibilities information to Workstream Leads and tabling at Operational Group and Partnership Board meetings
 - work with Workstream Leads and Partnership Board members to ensure that the information contained within the project's risk register is complete, accurate and timely.
- 5.55 The introduction of regular internal project communications will also 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.
- 5.56 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.
- 5.57 As such, management have agreed actions to develop Council-side plans (which are driven by The Porters Place Southend Limited Liability Partnership) that will ensure the project is aware of the key tasks to be completed and the amount of resource required. This will provide the Operational Group and Partnership Board with the information required to fully challenge the completion of tasks and be fully confident the project remains on track to deliver as planned.
- 5.58 Work on **Corporate Asset Management** assessed the governance arrangements to monitor, review and assess the existing Corporate Asset Management Strategy (CAMS), a sample of commercial initiatives run for both the commercial and operational portfolios to confirm whether the commercial team has effectively applied the rent and lease uplifts as expected and, when applicable, the initiatives were supported by a completion statement of work; the reviews of both portfolio performance and finances; processes to identify and understand resourcing needs; and management information.
- 5.59 We noted a number of areas of good practice in relation to the adequacy of the most recent CAMS, which is fit for purpose and provides a clear link to the Corporate Plan and Southend 2050 ambition. Additionally, in relation to the commercial assets, we noted that the initiatives run in the year are adequately recorded and regularly reviewed by the Team Lead for Corporate Property and Asset Management. For all the samples we selected, we also noted that the approval process is robust, as all the approvals were in line with the Council Constitution and sufficient evidence of approvals was retained.

- 5.60 However, we have identified a lack of adequate controls in a number of areas, particularly in relation to the timely collection, reporting and strategic use of management information for both portfolios, which is currently missing, and the lack of regular review of the wider estate portfolio performance and finances for the operational portfolio.
- 5.61 The Council is aware of the current gaps and has future plans to collect management information in relation to overall costs and carbon emissions. This data will then be used to rationalise the wider portfolio and inform strategic decision making around the development, commercialisation, property acquisitions and disposals of assets. Our work confirmed that the project has begun with the first element being the categorisation of the assets through a cost analysis exercise.
- 5.62 We have assessed the overall governance arrangements in place for the **Community Investment Fund and Community Investment Board**. This has included the arrangements for appointing Community Investment Board members, arrangements for awarding the Community Investment Fund and the monitoring and reporting arrangements around the Community Investment Fund. We identified appropriate controls in many areas, particularly the arrangements around awarding the investments to various organisations.
- 5.63 Opportunities for enhancing arrangements were identified in respect of:
- governance information and arrangements being consolidated into one document that board members can access and obtain information from. Currently, the governance arrangements are present, however they are included within multiple documents
 - a recruitment document which captures the end-to-end process of recruiting a board member onto the CIG Board
 - the process for monitoring of expenditure should be conducted annually, as planned, for all investments. Consideration should also be given to the risk level associated with investments and their value individually, so that a proportionate approach can be taken.
- 5.64 Our work on **Housing Allocations** confirmed that the Council has in place a ten-year Housing, Homelessness and Rough Sleeping Strategy covering the period 2018-2028. It considers the future challenges and requirements of residents and the stock required to meet housing needs. Included within the Strategy are a number of commitments.
- 5.65 An Allocations Policy was approved via delegated authority by the Director for Housing and the Executive Director in consultation with the Cabinet Member for Housing in November 2021. We noted that the Policy did not include a target completion period for the review of applications.
- 5.66 The review identified 16 Registered Providers that each have more than 20 properties operating within Southend's boundaries; SCC only have nomination agreements with four. A review of the four nomination agreements identified that all were signed and dated at the point of creation. However, in all cases, the information contained within the agreements had not been updated in line with the stated review procedures.

- 5.67 Reporting of allocations performance information had not been completed in prior years, although a report on both the housing register and allocations was produced in November 2022 and presented to the Cabinet Member for Economic Recovery, Regeneration and Housing. However, additional regular KPI reporting would improve the provision of key allocation information to management and Members.
- 5.68 Some areas relating to counter-fraud controls were identified as having scope for improvement, including the need to complete a counter-fraud risk assessment and utilising the information provided on potential fraud cases via the National Fraud Initiative and the formalisation of procedures surrounding applicant declarations of interests, staff declarations of interest and suspected fraudulent applications.

Active and Involved

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

Connected and Smart

- 5.70 During the year work undertaken on the **My Southend** project included meeting with key project stakeholders, reviewing key project documents and providing comments and advice, to management. The output of this work was a mix of informal feedback and comments directly within documentation.
- 5.71 We reviewed the project's business case (as it was developed) and the supporting solution assessment produced by Agilisys, which underpinned, the version of the business case presented to the October 2022 and subsequently approved by the November 2022 Investment Board meeting.
- 5.72 Overall we found the Business Case to be well structured and containing the appropriate elements to aid decision making. The scope, objectives, efficiencies and benefits were well documented and directorate stakeholders had been well engaged and were generally supportive of the process. The following potential enhancements were suggested:
- Business case sign-off - the project is a business transformation impacting most Council directorates and has key dependencies which must be met to ensure a successful on time and on budget delivery, many of the directorate officers will become benefit owners and change enablers. With such a high dependency upon the directorates it would be helpful to include details of their sign off of the business case prior to further approval, particularly in relation to the timeline, resources and a commitment to potentially changed ways of working
 - Resource requirements and associated costs - the high-level information within the document could have been expanded to clarify that all costs were captured, particularly in relation to provisions for cost contingency which may be required, and potential back fill costs for directorate costs
 - Risk management - Risks identified within the business case did include detailed context in terms of cost, time, operational impact or weighting and mitigation actions. The Risk Worksop noted within the business case development plan had not occurred, which could give a false indication as to the level of programme and cost risk being signed off by the Investment Board.

- 5.73 The business case was subsequently approved by Cabinet in January 2023 and it was agreed that these areas would be considered for inclusion within the Project Initiation Document to be developed as part of the project's Initiation Phase.
- 5.74 A Project Manager has been appointed and has been developing key project documentation, such as the Project Initiation Document, RAID (Risks, Assumptions, Issues and Dependencies) log and project plans.
- 5.75 Internal Audit intend to include a review of the Delivery Phase of the My Southend Project as part of the 2023/24 Audit Plan
- 5.76 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.

Pride and Joy

- 5.77 During February 2022 Internal Audit conducted an advisory piece of work on managing the **Highways Capitalised Maintenance programme** and provided management with feedback and interim recommendations to strengthen the programme's control environment, 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. 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.
- 5.78 From initial interviews with staff and review of documentation provided during January 2023, it became apparent that the arrangements in place to manage the delivery of the improvements to the city's pavements and highways had not changed since the original audit.
- 5.79 Overall responsibility for these works transferred over to the Highways team along with the associated resource from February 2023. Internal Audit met with the Service Manager for Highways & Asset Management and have been shown that arrangements are now in motion to clarify the scope of the programme (to now be referred to as the Highway Improvement Programme) and to strengthen the programme's control environment.

- 5.80 Management have agreed robust implementation dates with Internal Audit and we intend to follow up progress of the implementation of actions.
- 5.81 Our original audit work on **Energy Projects Status Assurance** identified a number of key overarching aspects that had consistently caused issues within the individual projects. These included:
- Governance and decision making arrangements
 - Portfolio management
 - Project scoping and approval process
 - Project management processes.
- 5.82 To support addressing some of these issues Internal Audit developed a draft Governance Framework for the Energy and Sustainability team to utilise and the management at the time agreed robust implementation dates for the completion of recommended actions.
- 5.83 We conducted a follow up of the progress of the implementation of actions and found that now the team is under new management, this has resulted in the rationalisation of the number of the energy related projects, with a number of those projects which would not directly deliver benefits aligned to the Councils Climate Change Action Plan being cancelled, and the remaining projects being completed during 2022/23.

Key Financial Systems

- 5.84 The audit of **Accounts Payable** focussed on the processes for ensuring accurate, transparent, and valid payments are made to suppliers and individuals. We identified a suitable control environment in place over the Accounts Payable process. In particular, we performed detailed testing of the process for onboarding new suppliers, making changes to supplier standing data, and for purchase invoice receipt and processing. We noted that these controls were well designed and did not identify any exceptions in relation to these areas.
- 5.85 There are, however, a small number of opportunities to further streamline the process in certain areas:
- Policy and procedure documents should all be reviewed to ensure that they are formalised, and to ensure that policies which have not been reviewed in several years are still reflective of actual working practices. This will mitigate the risk of a lack of clarity in procedures and inconsistencies in processes carried out
 - The process for payment runs and reviewing them for duplicates or other discrepancies is manual in respect of external payment files loaded into the system only, rather than payments generated from invoices processed via the system workflow by the Accounts Payable team, and there is no duplicate payment reporting functionality on Business World, the Council's ERP system in respect of these type of transactions. The Council should investigate ways in which Business World can enable automatic reporting on duplicate payments to mitigate the risk of duplicate payments being made due to fraud or error.

Implementing Action Plans

- 5.86 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 duties have been reallocated within the Internal Audit team. Management then use this to monitor their implementation via Departmental Management Team meetings.
- 5.87 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

- 5.88 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 2022/23, this work included providing ongoing support and challenge:
- 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
 - to the team reviewing arrangements for **device return and issue** arrangements to optimise the utilisation of equipment
 - to the project team as the **Corporate Plan** was being developed
 - 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 Contract Manager of the **Recruitment Management System** to support identifying and optimising the options for a replacement system
 - to the service area as the **Adult Care Quality Assurance Framework** was developed
 - to the service area as the revised framework for **Supporting Families Programme** was implemented
 - to support the work undertaken on the **Homes for Ukraine** scheme and the development of cash distribution arrangements.

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

Grant Claims

- 5.89 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
 - Local Transport Capital Block Funding – Pothole
 - Disabled Facilities Capital Grant Determination
 - Covid-19 Contain Outbreak Management Funding
 - Covid-19 Protect and Vaccinate Grant
 - Covid-19 Test and Trace Support Payment
 - Universal Drug Treatment Grant.
- 5.90 The expanded **Troubled Families Programme, Payments by Results (PBR) Scheme for Local Authorities** returns continued to be audited on a quarterly basis. 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 a 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 that is planned to be undertaken in early 2024.

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. One of the Audit Managers retired in August 2022 and has been very difficult to replace. Subsequently the other Audit Manager began a period of maternity leave in December 2022, resulting in a significant deficit in the management resource available to the team which has impacted the delivery of the planned audit work.
- 6.9 During 2023 there have been three additions to the staffing of the team with the appointment of two new auditors and a new Audit Manager who began working for the team in May.
- 6.10 Therefore, as at 3 July 2023 that leaves the team with five vacancies, with the other Audit Manager currently taking maternity leave. 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.

- 6.11 The internal audit team has engaged with the Southend City Council 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.
- 6.12 The expected requirements of the internal audit service into the future continue to evolve and the ongoing challenges to the local government sector on a number of fronts 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 as part of their response to and subsequent impact of the covid-19 pandemic. 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.
- 6.13 The remainder of this report needs to be considered within this context.

Audit Plan 2022/23

- 6.14 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. As reported in **Appendix 2**, and in the list below, 75% of audits had all of the audit work delivered, although not all of the reporting had been completed and finalised. This provides a sound basis on which to provide the Head of Internal Audit opinion for the year.
- 6.15 In respect of the 46 audits and other audit work included in the final audit plan:
- 57% of audits are complete with finalised reports issued
 - 9% of audits are complete with draft reports issued
 - 7% of audits are complete with draft reports with the Head of Internal Audit
 - 2% of audits are completed with draft reports being produced
 - 15% of audits are in progress
 - 10% of audits have been deferred or removed due to changes of circumstances.

Other Performance Indicators

- 6.16 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.
- 6.17 For the period 1 April 2022 – 31 March 2023 the team had a total of 12 days of sickness absence. 10 days of this absence relates to one member of staff who was unwell with Covid-19.

6.18 Stakeholder surveys are designed to assess compliance with some of the less tangible elements of the UK Public Sector Internal Audit Standards (the Standards). These have not been undertaken during 2022/23 due to the redeployment of the Business Support Officer as part of the Council's reorganisation of business support resource. These are being reintroduced for work completed from 1 April 2023 and will be reported in future quarterly performance updates.

Other Disclosures

6.19 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.

9. Corporate Implications

9.1 Contribution to the Corporate Plan and Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all priorities and 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 2022/23 as at 7 July 2023
Appendix 2	Assurance Summary 2022/23
Appendix 3	Summary Assessment of Compliance with UK Public Sector Internal Audit Standards 2022/23
Appendix 4	Compliance with the UK Public Sector Internal Audit Standards Action Plan as at 7 July 2023