

# Southend-on-Sea Borough Council

Report of Corporate Director for Corporate Services

to

**Audit Committee**

on

**21<sup>st</sup> September 2016**

Report prepared by: Linda Everard, Head of Internal Audit

**Agenda  
Item No.**

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**Internal Audit Services, Quarterly Performance Report**

**Executive Councillor – Councillor Moring**

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

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## **1. Purpose of Report**

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2016/17.

## **2. Recommendations**

- 2.1 **The Audit Committee notes the progress made in delivering the 2016/17 Internal Audit Strategy.**

## **3. Internal Audit Plan Status**

- 3.1 When the Audit Plan was presented to the Audit Committee in March 2016, it was estimated that the service would deliver approx. 1,000 days during the year, although this contained a contingency of 120 days.
- 3.2 **Appendix 1** sets out the revised Audit Plan for the year and the current status of individual audits as at 31<sup>st</sup> August 2016. This delivers 718 days (which includes both in-house staff and contractors) and takes into account the:
- work already commissioned from contractors in the first half of the year
  - further vacancies to the in-house staffing available, since the Audit Plan was produced
  - increase in specialist resources being bought in to cover IT audit, project assurance and contract audit work
  - time required to complete 2015/16 audits that had not been finalised as at June 2016, when the Head of Internal Audit produced her annual report
  - need to retain some of the service's budget to fund the permanent recruitment of two staff in 2016/17 now that the independent Internal Audit service review commissioned by the Council, has concluded. The independent service review has indicated the option to pursue a shared service arrangement.
- 3.3 Overall timescales have been agreed for delivering the blocks of remaining work, with named staff being allocated to many of these audits. Start dates for individual audits that have only recently been contracted out, are in the process of being agreed with the services concerned.

#### 4. Audit Opinions and Themes

- 4.1 **Appendix 2** summarises the results of and where appropriate, the audit opinions given on work completed to date. This primarily relates to the outstanding key financial systems work.
- 4.2 No minimal assurance opinions have been issued since the last report to the Audit Committee.

#### 5. Internal Audit Performance Targets

- 5.1 As at 31 August 2016, the service is on target to deliver sufficient work to enable the Head of Internal Audit to give an annual opinion on the adequacy and effectiveness of the Council's risk management, control and governance arrangements as:
- sickness absence remains low at 0.16 days per FTE compared to a target of under 5 days per FTE
  - productivity is over target at 76.4% compared to 75% (including contractors)
  - 38% of reports have been finalised, issued to clients or are at draft report stage (therefore the work is substantially complete).
- 5.2 The UK Public Sector Internal Audit Standards (the Standards) have been updated and came into force on 1 April 2016. The key changes are the inclusion of:
- a Mission Statement
  - Core Principles for Professional Practice in Internal Auditing.
- 5.3 These were included in the Charter presented to the Audit Committee in March 2016. A full assessment of the service's compliance with these revised Standards still needs to be completed. The results of this exercise will be reported to the Audit Committee in due course.
- 5.4 The service has revised its approach to obtaining feedback from stakeholders so it focuses on obtaining evidence of compliance with some of the less tangible elements of the Standards.
- 5.5 Surveys are conducted using a standard template comprising of 10 questions. The maximum possible score is 20 which equates to two points for each 'yes' answer. Otherwise it is one for 'partly' and zero for 'no'. 'Not applicable' responses are disregarded.
- 5.6 Surveys are undertaken each quarter but are not done for every audit completed. Participants are selected so that all departments and as many service areas as possible are covered throughout the year. Different grades of staff are also selected as part of the sample.
- 5.7 Five surveys have been carried out to date in 2016/17:
- four covered six specific different audits
  - one covered a wide range of audits undertaken across a service area (rather than focusing specifically on a particular piece of work).
- 5.8 A summary of the questions and results are attached at **Appendix 3**. The lowest score for any of the ten questions was 80%, which given the way this is scored, still demonstrates a high level of compliance. Five questions scored 100%, including *'do you think internal audit adds value to the Council'*.

5.9 Nevertheless, the service will continue to identify actions it needs to take as a result of the feedback received. They will form part of the action plan that is maintained to address any issues arising from the annual review of compliance with the Standards.

## **6. Corporate Implications**

### 6.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

### 6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

### 6.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

### 6.4 People and Property Implications

People and property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

### 6.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Corporate Directors / Director, and Heads of Service before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Corporate Directors / Director and Heads of Service before being finalised.

### 6.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

### 6.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- loss of in-house staff and the ability of the service to replace this resource in a timely manner
- lack of management capacity to support and process work in timely manner and provide strategic leadership to the team
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- maintaining relationships with clients / partners during a period of uncertainty whilst the service review was undertaken.

## 6.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

## 6.9 Community Safety Implications and Environmental Impact

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

## 7. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

## 8. Appendices

Appendix 1 Internal Audit Plan 2016/17

Appendix 2 Audit Opinions and Themes

- a • High Assurance
- b • Satisfactory Assurance
- c • Partial Assurance
- d • Other Audits and Grant Claims

Appendix 3 Stakeholder Surveys, Compliance with Professional Standards