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AGENDA

Committee:	AUDIT
Date and Time:	Thursday 26th June 2014 at 7.30 p.m.
Venue:	Committee Room 1
Membership:	Councillors Cross (Chairman), Barrett, Partridge, Mrs Wass and N Watson
Officers attending:	Ian Stapleton, Financial Services Manager Craig Watts, Head of Performance and Service Support Linda Everard, Head of Internal Audit Claire Lavery, Auditor
Also attending	Zoe Thompson, Senior Manager, BDO Lisa Clampin, Partner, BDO
Enquiries:	John Riley, Ext. 2417

PART I

(Business to be taken in public)

1. Apologies

2. Members' Interests

3. Minutes

A copy of the Minutes of the meeting held on 25.3.2013 is attached and action points arising.

4. Summary Audit Progress Report

Report of the Head of Internal Audit is attached.

5. Head of Internal Audit Annual Report 2013/14

Report of the Head of Internal Audit is attached.

6. Annual Governance Statement 2013/14

Report of the Head of Performance and Service Support is attached.

7. **Treasury Management Report 2013/14 out-turn**
Report of the Financial Services Manager is attached.
8. **Internal Audit Charter, Strategy and Audit Plan 2014/15**
Report of the Head of Internal Audit is attached.
9. **BDO Progress Report to Those Charged with Governance**
Report of the External Auditor is attached.

Current Information Items (standing item)

- CIPFA Better Governance Forum Audit Committee Update: Helping Audit Committees to be Effective, Issue 13:
 - Reviewing the Audit Plan
 - Update on the Local Audit and Accountability Act
 - Briefing on Topical Governance Issues
- Audit Commission, Protecting the Public Purse Fraud Briefing 2013 for Castle Point Borough Council

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AUDIT COMMITTEE

25th MARCH 2014

PRESENT:

Councillors Walter (Chairman), Barrett, Dick, E.Egan and J A Payne.

Head of Performance and Service Support, Craig Watts, Head of Internal Audit, Linda Everard, Financial Services Manager, Ian Stapleton, Auditor, Claire Lavery, and External Auditor Zoe Thompson from BDO were also present.

Apologies for absence were received from Councillors Brunt and Burch and Lisa Clampin from BDO.

29. MEMBERS' INTERESTS

No disclosures of interest were made at the meeting.

30. MINUTES

The Minutes of the meeting held on 13th January 2014 were taken as read and signed as correct.

31. BDO PROGRESS REPORT TO THOSE CHARGED WITH GOVERNANCE

Zoe Thompson, BDO, reported on progress in delivering the 2012/13 and 2013/14 Audit Plans.

The progress report to those charged with governance was attached as an appendix to the report and Ms Thompson drew attention to key areas of work. It was noted by the Committee that all the work in the 2012/13 Plan had been completed, and that start dates had been agreed for the areas of work in the 2013/14 Plan.

Resolved - That the Audit Committee notes the progress with the 2012/13 and 2013/14 Audit Plan.

32. QUARTERLY MONITORING REPORT OF THE COUNCIL'S GOVERNANCE ARRANGEMENTS:

The findings from the quarterly monitoring of the governance arrangements in place for the Council were reported to the Committee.

The Head of Performance & Service Support highlighted the monitoring results for key governance processes set out in the report.

The Committee was advised of the ongoing community engagement work through the Local Plan consultation, Business Strategy and Planning work, Risk management training sessions, proposals to develop a new performance management system whilst retaining Covalent and challenge processes.

The Committee debated the review and challenge processes in place in respect of team and departmental plans and for data quality. The meeting also considered the role of complaints as a tool in assisting in the improvement of service delivery.

Resolved – That the Quarterly Monitoring Report is noted.

33. SUMMARY AUDIT PROGRESS REPORT

The summary progress report on the delivery of Internal Audit's Strategy and performance targets for 2013/14 was presented to the Committee.

No reports had been issued since the last meeting of the Audit Committee.

In order to provide some evidence to support the governance element of the Head of Internal Audit's Annual audit opinion, a job had been added to the audit plan to check the validity of a small sample of key performance indicators.

Full details of performance against targets for the financial year 2013/14 were set out at Appendix A.

The current status of the planned audits for the year were shown at Appendix B.

Appendix C presented key themes arising from audit reviews.

Appendix D included a full action plan demonstrating compliance with the UK Public Sector Internal Audit Standards (PSIAS).

Following discussion it was:-

Resolved – That the progress made in delivering the Internal Audit Strategy for 2013/14 is noted and that the amendments made to the Audit Plan this quarter are approved.

34. BDO AUDIT PLAN 2013/14

The External Auditor's Audit Plan for 2013/14 was presented to the Committee.

The Committee noted that BDO's audit plan was designed to respond to significant risks where they intended to focus additional resources in providing their opinion on the financial statements and giving a value for money conclusion.

The Audit Committee also noted the proposed audit fee for the year which agreed to the scale fee published by the Audit Commission.

Resolved – That BDO's Audit Plan for 2013/14 is accepted.

35. BDO PLANNING LETTER 2014/15

The External Auditor's Planning Letter for 2014/15 was presented to the Audit Committee.

As required by the Audit Commission's Code of Audit Practice 2010, the annual document had been produced setting out how the auditors intended to carry out their responsibilities in the light of their assessment of risk.

A summary of the proposed fee and how it compared to the current published Audit Commission scale fee for 2014/15 and the current proposed fees for 2013/14 was set out in the Planning Letter which was attached as an appendix to the report.

Resolved – That the Planning Letter for 2014/15 is approved.

36. INFORMATION ITEMS

- CIPFA Position Statement: Audit Committees in Local Authorities and Police:

Chairman

AUDIT COMMITTEE

26 June 2014

Subject: Summary Audit Progress Report

1. Purpose of Report

To update the Audit Committee on the progress made in delivering Internal Audit's Strategy for 2013/14.

2. Background

To comply with the UK Public Sector Internal Audit Standards, the Head of Internal Audit's Annual report includes details of the team's final performance in 2013/14 in delivering:

- its targets
- the Audit Plan.

3. Performance Targets

Audits completed this quarter with audit opinions given are as follows:

- Evaluating Risks in Corporate Reporting, *Improvement Required*
- Data Quality of Performance Indicators, *Adequate*
- Council Tax, *Good*
- Business Rates, *Good*
- Housing Benefit, *Good*
- Housing Rents, *Adequate*
- Accounts Receivable, *Good*
- Income Receipting and Banking, *Good*
- General Ledger, *Good*
- Accounts Payable, *Good*
- Payroll, *Adequate*
- Treasury Management, *Good*
- Computer-Assisted Testing of Key Financial Systems, *no opinion given*
- Waterside Operational Systems, *Good*
- Implementation of IT Projects, *Good*.

4. Implementing recommendations made

Only the 2012/13 financial systems audits have been followed up in this period. The results of this work have been reflected in the reports issued for 2013/14.

Implementation performance is generally good and all significant improvement opportunities have been addressed.

5. Corporate Implications

Financial Implications

The Audit Plan was delivered within the approved budget.

Legal Implications

The Council is required, by the Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6, to maintain an adequate and effective internal audit function, that complies with relevant professional standards and report upon this annual to the Audit Committee.

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. Therefore this report discharges that duty.

Human Resources and Equality Implications

Human Resources

People issues that are relevant to an audit within the plan are considered as part of the review.

Equality Implications

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

Equality Impact Assessments are completed on relevant internal audit policy / strategy documents whenever they are updated.

IT and Asset Management Implications

People or asset management issues that are relevant to an audit within the plan are considered as part of the review.

5. Links to Council's Aims, Targets and Objectives

Audit work contributes to the delivery of all of the Council's aims, targets and objectives.

6. Timescale for Implementation

The Audit Plan is resourced to be delivered between April 2013 and May 2014 at which time the Head of Internal Audit's annual report is produced for consideration by the Audit Committee at its June meeting.

This is a key piece of evidence available to the Audit Committee when reviewing the annual Governance Statement, which is also presented to the June Audit Committee.

7. Risk Factors

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

This risk is being mitigated to a large extent by the work of the Good Governance Group. Assurance provided by this group is summarised in the Quarterly Monitoring Report on the Council's Governance Arrangements.

The key team risks have been:

- its inability to recruit to a vacant posts
- that external supplier won't deliver contracted in work within the required deadlines to the expected quality standards.

Time has been built into the audit plan for managing external contractors. A further recruitment exercise will be completed by the first week in June. The impact on both of these factors is to reduce the days available to deliver audit work.

Recommendations:

The Audit Committee notes the summary findings reported from work completed this quarter.

Background Papers

- The Accounts and Audit (England) Regulations 2011
- UK Public Service Internal Audit Standards
- CIPFA: Local Governance Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committees, Practical Guidance for Local Authorities and Police 2013
- CIPFA / SOLACE: Delivering Good Governance in Local Government Framework.

Appendices

- Appendix A: Key Themes Arising from Audit Reviews

Report Author: Linda Everard, Head of Internal Audit

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

DELIVERING GOOD GOVERNANCE	
REPORT TITLE	Evaluating Risk in Corporate Reporting
OBJECTIVE	To assess to what extent, risk management is effectively evaluated in reports that are presented to senior management or members, upon which key decisions are made.
STATUS	Report issued May 2014
OPINION	Improvement Required
KEY THEMES ARISING	<p>The Council currently has a standard reporting template that is used to produce reports for senior management teams or committees which cover a number of areas including risk implications.</p> <p>The review identified that:</p> <ul style="list-style-type: none"> • risk information is inconsistently recorded in reports to management team and members • the guidance on how to draft the risk implication section of the report is very brief and could be interpreted in different ways, making it more difficult for the author to communicate and quantify risk in a consistent and meaningful way • the quality of the risk assessments reported also differs • risk is identified, considered at various levels and often discussed at monthly meetings, when discussing risks assessments undertaken with a small sample of report authors although this is not always reflected in the reports • the way in which risk management information is presented in reports may encourage the authors not to be overly wordy or conversely put in too much information. <p>Therefore, it is possible that the decision makers won't be clear what key risks have been considered, what risks have been mitigated and what the residual risk would be if the proposal was to proceed.</p> <p>Similar issues may apply to the other standard elements in the reporting template.</p>
RECOMMENDATIONS	<p>Updated guidance needs to be produced that clearly sets out how risk implications are to be written when drafting reports to senior management or members.</p> <p>This work will be done as part of the project to update the risk management framework during 2014/15.</p>

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

DELIVERING GOOD GOVERNANCE			
REPORT TITLE	Data Quality of Performance Indicators		
OBJECTIVE	To assess whether key corporate performance indicators are consistently and accurately calculated.		
STATUS	Report Issued June 2014		
OPINION	Adequate		
KEY THEMES ARISING	<p>The reported performance for each of the reviewed indicators was free of material errors in calculation and supported by appropriate raw data.</p> <p>The methodologies for calculating all indicators should be documented or, where methodologies are already documented, amended to ensure they accurately reflect how the indicator should be calculated and where necessary provide practical instruction how raw data is verified.</p> <p>In particular, where data is supplied by a third party, the methodologies should also address how the Council is to be assured the supplied data is complete, accurate and valid.</p>		
RECOMMENDATIONS	High: 0	Medium: 6	Total: 6

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

KEY FINANCIAL SYSTEMS	
OBJECTIVE	To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis to ensure that the financial statements are not materially incorrect.

REPORT TITLE	Council Tax		
STATUS	Report Issued June 2014		
OPINION	Good		
RECOMMENDATIONS	High: 0	Medium: 4	Total: 4
Key controls tested			
<ul style="list-style-type: none"> The total amount of Council Tax to be billed from all properties is set up accurately and on a timely basis and Council Tax data is securely sent to the printing contractor. 			Strength of control
<ul style="list-style-type: none"> Discounts, disregards, exemptions and reliefs are accurately set up and on a timely basis. 			Good
<ul style="list-style-type: none"> In-year adjustments to Council Tax accounts are accurate and supported by appropriate evidence to confirm their validity (i.e. change of occupancy, addition and removal of properties). 			Good
<ul style="list-style-type: none"> Correct direct debits are raised and payments received are accurately, completely and allocated in a timely manner to the correct Council Tax account. 			Good
<ul style="list-style-type: none"> Reconciliations between Civica and E-financials systems are complete, accurate and timely. 			Good

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

Business Rates			
REPORT TITLE			
STATUS	Report Issued June 2014		
OPINION	Good		
RECOMMENDATIONS	High: 0	Medium: 3	Total: 3
Key controls tested			
			Strength of control
<ul style="list-style-type: none"> The total amount of Business Rates to be collected from all businesses is set up accurately and on a timely basis. 			Good
<ul style="list-style-type: none"> Discounts regarding small business rate relief and charitable exemptions are accurately calculated, authorised and supported by appropriate evidence to confirm their validity. 			Good
<ul style="list-style-type: none"> In-year adjustments to Business Rates accounts are accurate and supported by appropriate evidence to confirm their validity (i.e. change of occupancy, change of business use, addition and removal of properties). 			Good
<ul style="list-style-type: none"> Correct direct debits are raised and payments received are accurately, completely and allocated in a timely manner to the correct Business Rates account. 			Good
<ul style="list-style-type: none"> Reconciliations between Civica and E-financials systems are complete, accurate and timely. 			Good

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

Housing Benefits				
REPORT TITLE	Housing Benefits			
STATUS	Report Issued June 2014			
OPINION	Good			
RECOMMENDATIONS	High: 0	Medium: 1	Total: 1	
Key controls tested				
Key controls tested			Strength of control	
• Applicable Housing Benefit rates and eligibility parameters are amended accurately and completely on a timely basis.			Good	
• Claims are processed by staff accurately based on the supporting evidence.			Good	
• Payments made to claimants are accurate and complete.			Good	
• Staff access to, and permissions within, the Housing Benefit system are appropriately restricted including taking account of declared interests.			Good	
• Reconciliations are undertaken between all key financial systems and the general ledger and they are complete, accurate and timely.			Good	

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

REPORT TITLE	Housing Rents		
STATUS	Report Issued June 2014		
OPINION	Adequate		
RECOMMENDATIONS	High: 1	Medium: 3	Total: 4
Key controls tested			Strength of control
• There is an accurate, complete and timely uplift of rents, service and other charges and tenants are informed appropriately of such uplifts.			Good
• Cash and BACS rental income received is accurate, complete, timely and secure when receipted and posted to the General Ledger and Housing Rents systems.			Good
• In-year adjustments to rent accounts are accurate, supported by appropriate evidence and authorised (where adjustments include tenants moving in and out of properties, creating new properties and removing demolished properties or properties sold through the right to buy scheme).			Good
• Staff access to, and permissions within, the Housing Rents system are appropriately restricted.			Improvement Required *
• Reconciliations are undertaken between all key financial systems and the general ledger and they are complete, accurate and timely.			Good
* Key themes arising: Separation of Duties within the Housing Rents system			
The required key control of system-enforced separation of duties between allocating and terminating tenancies was not in place throughout the year (but was addressed from 28 February 2014).			
Due to the above, Internal Audit undertook a computer-assisted test of all allocations and terminations during the year to check whether the theoretical risk of a lack of segregation of duties had actually occurred. This test confirmed that in practice there had been the required separation in all cases.			
The overall opinion is adequate assurance meaning the controls to achieve the key system objectives are generally in place but there is scope to increase the likelihood these objectives will continue to be achieved (i.e. in particular through the system enforcing key separations of duty rather than relying on staff doing so).			

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

Accounts Receivable			
REPORT TITLE			
STATUS	Report Issued June 2014		
OPINION	Good		
RECOMMENDATIONS	High: 0	Medium: 2	Total: 2
Key controls tested			
			Strength of control
<ul style="list-style-type: none"> • Debts are appropriately reviewed and authorised to confirm they are accurate and supported by appropriate evidence to confirm their validity. 			Good
<ul style="list-style-type: none"> • All instructions from originating service areas for debtors to be raised are accurately and completely turned into an invoice on a timely basis by the Accounts Receivable team. 			Good
<ul style="list-style-type: none"> • Parked Debt (i.e. debt not being actively pursued) is properly authorised and supported by appropriate evidence to confirm the initial and ongoing validity of the action. 			Good
<ul style="list-style-type: none"> • Reconciliations between all key financial systems and the general ledger are complete, accurate and timely. 			Good

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

Income Receipting and Banking				
REPORT TITLE				
STATUS	Report Issued June 2014			
OPINION	Good			
RECOMMENDATIONS	High: 0	Medium: 1	Total: 1	
Key controls tested			Strength of control	
<ul style="list-style-type: none">Information from originating payment systems is accurately, completely and transferred in a timely manner to the Cash Receipting system.			Good	
<ul style="list-style-type: none">Payments by CHAPS are necessary, authorised and supported by appropriate documentation to confirm their validity.			Good	
<ul style="list-style-type: none">Staff access to, and permissions within, the online banking facility are restricted, based on their respective roles.			Good	
<ul style="list-style-type: none">Direct Debits are authorised properly and supported by appropriate evidence to confirm their necessity and validity when set up and regularly reviewed to confirm their ongoing necessity.			Good	
<ul style="list-style-type: none">Reconciliations are undertaken between all key financial systems and the general ledger and they are complete, accurate and timely.			Good	

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

REPORT TITLE	General Ledger			
STATUS	Report Issued June 2014			
OPINION	Good			
RECOMMENDATIONS	High: 0	Medium: 1	Total: 1	
Key controls tested				Strength of control
• Reconciliations between all key financial systems and the general ledger are complete, accurate and timely.				Good
• Reconciliations between the general ledger and the bank account/s are complete, accurate and timely.				Good
• Journals are accurate, authorised and supported by appropriate evidence to confirm their validity.				Good
• Virements are accurate, authorised and supported by appropriate evidence to confirm their validity.				Good

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

Accounts Payable				
REPORT TITLE	Accounts Payable			
STATUS	Report Issued June 2014			
OPINION	Good			
RECOMMENDATIONS	High: 0	Medium: 1	Total: 1	
Key controls tested			Strength of control	
• Payments are authorised in line with the Council's approved Scheme of Delegation.			Good	
• VAT rates are correctly applied to payments and there is independent review of the VAT return to ensure its accuracy and completeness on a timely basis.			Good	
• BACS payment runs are complete, accurate, and appropriately authorised.			Good	
• Staff access to, and permission within, the BACS system is appropriately restricted.			Good	
• New suppliers and amendments to current supplier details are set up accurately and supported by appropriate evidence to confirm their validity.			Good	
• Reconciliations between the Accounts Payable and General Ledger systems are complete, accurate and timely.			Good	

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

REPORT TITLE	Payroll		
STATUS	Report Issued June 2014		
OPINION	Adequate		
RECOMMENDATIONS	High: 2	Medium: 3	Total: 5
Key controls tested			Strength of control
• Changes to payroll payments to be made (e.g. salary, tax codes, national insurance) are accurately configured at the start of the financial year, and are done so in a timely manner.			Good
• Payments made to HMRC (with respect to PAYE tax and National Insurance) are accurate, complete and supported by appropriate evidence to confirm their validity.			Good
• BACS payment runs are complete, accurate, and appropriately authorised.			Good
• Amendments to the Payroll system (including starters, leavers and amendments to staff records) are accurate, independently authorised and supported by appropriate evidence to confirm their validity.			Improvement required*
• Staff access to, and permissions within, the Payroll system is appropriately restricted.			Good
• Payroll data are sent to Rochford Council efficiently and securely.			Adequate
• Reconciliations are undertaken between all key financial systems and the general ledger and they are complete, accurate and timely.			Good
* Key themes arising: Amendments to the Payroll system			
The current controls of checking payment reports for the accuracy and appropriateness of additions and amendments to the payroll back to the payroll instructions forms should be expanded so it also demonstrates whether:			
• the officer authorising on the instruction form is permitted to do so under the scheme of delegated authorities			
• basic pay elements for existing staff are in line with expectations.			

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

Treasury Management				
REPORT TITLE	Treasury Management			
STATUS	Report Issued June 2014			
OPINION	Good			
RECOMMENDATIONS	High: 0	Medium: 0	Total: 0	
Key controls tested				
			Strength of control	
• There is appropriate formulation and approval of the Treasury Management Policy and regular reporting in line with the CIPFA Code of Practice.			Good	
• Treasury management transactions are properly authorised and supported by appropriate evidence to confirm their validity (including investments placed, recalled and borrowings made and repaid).			Good	

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

REPORT TITLE	Computer-Assisted Testing of Key Financial Systems
OBJECTIVE	<p>To undertake a series of computer-assisted audit tests and analyses of transactions to assess whether key automated controls and workflows built into financial systems have operated effectively and consistently throughout the year.</p> <p>This work supports and influences the opinions in the applicable annual audits of the key financial systems as specified.</p> <p>The testing and analyses were either:</p> <ul style="list-style-type: none"> • Output tests where whole data sets are retrospectively tested to assess whether the control or workflow has operated as expected (e.g. a predefined condition has been met in all cases or no cases that do not meet the predefined condition are present in the data set) • Statistical analysis which involved an analysis of relevant data sets to identify any anomalies or significant variances for further review including those that could indicate potential fraudulent activity by: <ul style="list-style-type: none"> • duplicate, unexpected or missing data testing • re-calculation of some key performance indicators. • Analytical review which involved an assessment of whether cumulative totals are in line with expectations given known volumes and values of transactions.
STATUS	Report Issued June 2014
OPINION	<p>This work contributed to the opinions of the applicable individual key financial systems (Accounts Payable and Housing Rents).</p> <p>This report is for information and to provide a thematic overview therefore does not have its own opinion.</p> <p>The testing and analyses completed did not identify any significant issues.</p>

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

MANAGING SERVICE RISKS			
REPORT TITLE	Waterside Operational Systems		
OBJECTIVE	To assess the effectiveness of, and compliance with, the key financial controls relating to the management of cash and income at the Waterside Leisure Centre.		
STATUS	Report Issued June 2014		
OPINION	Good		
KEY THEMES ARISING	<p>Cash is well managed and income received is completely and accurately recorded and banked in full. Other areas are satisfactorily controlled. There are a small number of opportunities to further enhance existing controls, which relate to:</p> <ul style="list-style-type: none"> • reconciling the leisure centre's system with the main financial system • introducing additional oversight of (the relatively small number of) instances where no charge is received. 		
RECOMMENDATIONS	HIGH: 0	MEDIUM: 10	TOTAL: 10

APPENDIX A: KEY THEMES ARISING FROM AUDIT REVIEWS

MANAGING SERVICE RISKS	
REPORT TITLE	Implementation of IT Projects
OBJECTIVE	To undertake an advisory review of a range of IT projects that were implemented in 2014. The objective was to evaluate and advise on the programme and project management framework developed and processes applied.
SCOPE	The IT projects assessed were <ul style="list-style-type: none"> • Transfer from Northgate PARIS to Civica ICON payment management system • Windows 7 upgrade on all PCs • IDOX system implementation.
STATUS	Report Issued June 2014
OPINION	Good
KEY THEMES ARISING	<p>There was appropriate overarching programme management to oversee and manage individual and collective project resources.</p> <p>Each individual project assessed effectively adhered to the required project management methodology structure.</p> <p>The three projects assessed all had good controls and arrangements regarding:</p> <ul style="list-style-type: none"> • project planning to articulate roles and responsibilities, key objectives, risk issues and timescales • identification and management of emergent and on-going risks and issues • assessment and management of required key staff resources • design and implementation of required security controls • on-going highlight reporting giving regular and timely updates on achievements and milestones • system and end-user testing including robust data migration testing where relevant • clear 'go live' criteria and assessment of testing results against these criteria informing the go live decision.

AUDIT COMMITTEE

26 June 2014

Subject: Head of Internal Audit Annual Report 2013/14

1. Purpose of Report

To provide:

- the rationale for and an audit opinion on the adequacy and effectiveness of Castle Point Borough Council's (the Council's) framework of governance, risk management and control for the 2013/14 financial year
- 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. Audit Opinion

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

The opinion is predominantly based upon the audit work performed during the year as outlined in the risk based audit plan agreed with the Executive Management Team and the Audit Committee. All individual audit reports are agreed with the relevant Service Managers and Heads of Service or Strategic Directors before being finalised.

The opinion and summary findings from audit reviews are reported to the Executive Management Team and the Audit Committee throughout the year.

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

Head of Internal Audit Opinion for the year ended 31 March 2014

In my opinion, the governance, risk management and control framework designed and operated by the Council throughout the year in order to deliver its objectives overall is adequate.

Within that, the framework of key financial controls that provide assurance that is relied upon to produce the statement of accounts, is generally good.

The basis for forming this opinion is an assessment of:

- the design and operation of the:
 - underpinning governance and assurance framework

- key financial systems.
- 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 recommendations to mitigate identified control risks within reasonable timescales.

3. Supporting Commentary

Appendix A summarises the opinions issued on the audit work undertaken this year and assurance obtained from other relevant sources. **Overall this shows that the majority of areas audited had operating environments that were either well or adequately controlled.** Where necessary, recommendations have been made to improve the control environment.

The following paragraphs:

- summarise findings from blocks of work undertaken during the year
- highlight some the areas requiring improvement
- include details of assurance obtained from other relevant sources.

Governance and Assurance Arrangements

The framework for conducting the Council's business was set out in its **Local Code of Governance** (the Code) and subject to regular review. The current Code was updated and approved in March 2013. The majority of the governance framework it outlines operated during 2013/14.

The **Good Governance Group** is now well established, with a clear Terms of Reference that has been agreed by the Executive Management Team which requires it to ensure:

- the Council maintains arrangements that are fit for purpose and comply with good practice requirements
- that sufficient assurance is available throughout the year to support the production of the Annual Governance Statement.

The Group has an appropriate membership of senior officers who are responsible for maintaining the main corporate business management processes (governance processes) that are then applied at service level.

The main areas of work for the Group to date have been to:

- complete an evaluation of compliance with the CIPFA / SOLACE Delivering Good Governance guidance
- robustly challenge both the Corporate and Manager Assurance Statements for 2013/14 before signing off the assessments and the action required to improve the arrangements
- discuss the draft Annual Governance Statement prior to its submission to Executive Management Team for consideration.

The issues arising from this work have been reflected in the Annual Governance Statement. In 2014/15, the focus will be on monitoring the delivery of the action plan arising from the Delivering Good Governance guidance assessment.

Therefore, it is possible to conclude that the Group provides a good level of assurance on the adequacy of the Council's key governance processes.

Throughout the year, quarterly reports produced by the Head of Performance and Service Support, were presented to and challenged by the Executive Management Team and the Audit Committee regarding the operation of the Council's **key business management arrangements**. No significant concerns were reported. Opportunities to strengthen or develop arrangements were highlighted in year as they arose.

The Council continues to maintain a **Corporate Risk Register** that is regularly taken to the Executive Management Team, and twice a year to the Audit Committee. Heads of Service are required to identify key risks in their service plans. Although there is a standard template for service managers to use, the Group has identified the need to develop the risk element of service level plans. Risks are also expected to be considered when undertaking projects and drafting reports for senior management or members to consider.

Nevertheless, the Council's **risk management arrangements** have not been subject to review for the last few years during which time there have been organisational restructures and changes in roles for some staff.

Action is planned in 2014/15, to:

- refresh and update where necessary the Risk Management Policy, Strategy and any other supporting guidance that is still relevant and useful
- integrate a way of evaluating risk appetite and tolerance into the framework, building on the initial awareness raising session already delivered.

There is a need to clarify expectations of **how to report 'risk' when producing reports for management or members**. At present, the approach is inconsistent at best and may not provide the information required for the decision makers to fully understand the risks involved (either mitigated or residual). This will be considered as part of the work to refresh the framework outlined above.

No problems were identified with the data supporting the small sample of performance indicators reviewed nor their calculation. Nevertheless, the respective services need to ensure clear and up to date instructions are available that set out how to verify the raw data and calculate the indicators. It is also important this defines how the Council is to be assured that data supplied by third parties is complete, accurate and valid.

The **Insurance Group** continues to meet at least twice a year to review the Council's arrangements and claims profile to see if action can be taken to reduce costs. It has been effective in addressing issues as they have arisen as well as identifying potential opportunities to reduce insurance costs that are being explored.

During 2013/14, the Council's arrangements for managing the risk in relation to both Combined Liability and Motor policy areas were assessed as meeting at least minimum standards in all areas except one, which was specialist vehicle management. This means that the Council has complied with any relevant legislation, codes of practice and any other statutory requirements in these areas, which is the expected level of performance.

Areas for improvement identified by this review will be considered by the Insurance Group and where necessary, included in its action plan of work for the year.

Key Financial Systems

The objective of the financial systems work changed this year to just focus on those significant key controls that would help prevent or detect material errors in the financial statements. Therefore the audit opinions no longer give a view on whether the whole system is appropriately designed and operating effectively.

Nevertheless, it was possible to conclude that the key controls in all the financial systems reviewed have operated consistently throughout the year and produced information that the Section 151 Officer can place reliance on when producing her statement of accounts for 2013/14.

No significant issues have arisen from this work that need be highlighted in this report.

Service Delivery Risks

During 2011, additional **specialist staff resource was bought in from South Essex Homes** to provide estate management, procurement and contract administrator duties and assist with the production and the delivery of the asset management plan.

The service required of South Essex Homes had been satisfactorily defined but a more formalised contract management approach needed to be developed. Significant progress was made during the review to further strengthen these arrangements. Work was also in hand to further define some aspects of the standard operating procedures with South Essex Homes and include them in the service level agreement.

Good progress was being made by the **Environmental Health service** in strengthening its operational working practices. Management had successfully restructured the Environmental Health team and there is now:

- greater clarity of individual staff roles
- administrative support provided by a centralised team.

Service objectives and action for the service are now clearly set out in the service plan and aligned with wider Council priorities. Good progress had been made in improving processes and controls in a number of areas.

A more formalised approach needed to be established to monitor delivery against performance targets and evidence that work done complies with the relevant standards.

There was a need to improve the arrangements for monitoring the **Licensing service's** performance in delivering its targets. The service's IT system (LalPac) was not being used to its full potential, data input into it was inconsistent in some areas and staff could process an application from start to finish, which increased the risk of fraud or error.

Therefore as part of the project to update LalPac, action was planned to:

- make better use of the functionality of the system
- ensure there is a monthly reconciliation between it and E-financials which is independently checked.

Work is also in hand to improve operational arrangements by:

- introducing management checks that confirm that staff have made the right decision when processing licensing applications
- developing the content of performance reports and strengthening the monitoring arrangements, particularly where issues or adverse performance is highlighted
- exploring opportunities to periodically evaluate whether the Licensing team provides a cost effective service.

In January 2012, an audit report was issued which concluded that:

- a framework adopted by the Council for **safeguarding** vulnerable children and adults was in line with that set out by Essex County Council (the responsible body)
- the Council needed to take action in order to be able to demonstrate it had robust but proportionate arrangements in place to meet the required standards consistently and in full.

Some progress has been made in moving this forward. Regular reports on the development of these arrangements now go to the Corporate Management Team. An outstanding concern is whether the ongoing challenge of the supporting evidence is sufficiently robust, where it is reported that outstanding actions have been implemented. Given the elapsed time since the original report was issued, no further follow up work will be undertaken in this area.

Implementation of Agreed Action Plans

Service managers are asked to provide an update each month on whether they have implemented recommendations, whose due date has passed. If any issues arise from this, they are reported to the Strategic Director, Transformation and Resources for further action. This provides a good level of assurance that opportunities to strengthen the control framework are being taken on a timely basis.

In 2013/14, Internal Audit moved to revisiting action plans in audit reports once the majority of the implementation dates had passed. The results of such audits are also reported to Executive Management Team and the Audit Committee.

4. Internal Audit Service Performance Assessment

Audit Plan

Appendix B shows the final status of the 2013/14 Audit Plan (which is a comparison of actual work completed against work planned).

As previously reported, a key factor in the team's ability to deliver the Audit Plan this year has been the performance of an external supplier. In the autumn of 2013, alternative arrangements had to be made to resource this element of the Audit Plan. So although all the audits will be delivered, there has been some slippage in the planned timescales for doing this.

The service is buying in additional and specialist resources from a new external supplier for 2014/15.

Conformance with Professional Standards

As reported during the year, Internal Audit was required to adopt the UK Public Sector Internal Audit Standards (the Standards) from 1 April 2013. As the guidance notes supporting the Standards were issued after April 2013, it was not possible for the service to fully meet these requirements for the whole year.

The initial internal performance assessment by the Head of Internal Audit did not identify any significant areas that did not conform to the Standards, as reported to the Audit Committee in January 2014. Attached at **Appendix C**, is the current status of the actions arising from this which shows that substantial progress has been made in addressing them.

The main areas still requiring some attention in 2014/15 are:

- amending aspects of the Audit Manual to reflect the new or more explicit requirements of the Standards and the working practices currently being used
- reporting upon the assurance mapping work undertaken as part of the audit planning exercise
- evaluating the design, implementation and effectiveness of the Council's ethic related objectives, programmes and activities.

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.

Disclosures

The Standards require the Head of Internal Audit to include certain disclosures in the Annual Report. Therefore I can confirm that:

- I have maintained an appropriate Quality and Improvement Programme (QAIP) during the year. As required by the Standards, this consisted of:
 - ongoing supervision and review of individual audit assignments
 - reporting on a set of performance targets to the Audit Committee each quarter
 - undertaking an internal performance assessment which evaluates conformance with the Standards.
- the Internal Audit service has:
 - operated in a manner that maintains its organisational independence throughout the year
 - been able to determine the scope of reviews, perform the work and report on its findings without interference neither has there been any inappropriate resource limitations imposed upon it.

Performance Indicators

The team have delivered against the majority of the 2013/14 performance indicators (refer to **Appendix D**), in that:

- the average day rate for the service remains competitive

- staff productivity has been high and sickness absence low throughout the year
- although the 31 May 2014 target was missed, all bar two reports were finalised by the 14th June. Given the significant resourcing issues experienced during the year, this was still a good performance overall by the team
- the external auditors confirmed that they could rely on Internal Audit's work
- there has been substantial conformance with the Standards during 2013/14
- clients remain satisfied with the:
 - manner in which Internal Audit worked with them to deliver the work
 - focus and quality of the work undertaken.

An assessment was also completed of the team's compliance with both Councils' governance arrangements requirements as set out in the respective Manager Assurance Statements. This highlighted some areas where the team's arrangements should be strengthened and actions are in hand to address this.

Conclusion

Therefore it is possible to conclude that the service has substantially operated in accordance relevant professional and internal operational requirements throughout the year.

5. Issues for the Annual Governance Statement

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.

6. Corporate Implications

(a) Financial Implications

The audit plan was delivered within approved budgets.

(b) Legal Implications

The Council is required, by the Accounts and Audit (England) Regulations 2011 (the Regulations) Section 6, to maintain an adequate and effective internal audit function, that complies with relevant professional standards and report upon this annually to the Audit Committee. This report satisfies this requirement.

(c) Human Resources and Equality Implications

Human Resources

People issues that were relevant to delivering the Audit Plan were raised in the quarterly progress reports.

Equality Implications

The relevance of equality and diversity was considered during the initial planning stage of every audit before the Terms of Reference were agreed.

Any significant changes in the Charter and Strategy would also be subject to assessment.

(d) IT and Asset Management Implications

There are no Asset Management Implications as a result of this report. Any IT implications are set out in the relevant audit reports issued.

7. Links to Council's Aims and Priorities

Audit work contributes to the delivery of all Council aims, priorities and objectives.

8. Timescale for Implementation

This annual audit opinion relates to the 2013/14.

9. Risk Factors

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

10. Conclusion

None.

Recommendations

- **The Audit Committee:**
 - **accepts the Head of Internal Audit's Annual Report for 2013/14**
 - **ensures that the contents of this report are appropriately reflected in the Council's Annual Governance Statement.**

Background Papers

- The Accounts and Audit (England) Regulations 2011
- UK Public Sector Internal Audit Standards
- CIPFA Local Governance Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committees, Practical Guidance for Local Authorities and Police 2013.

Appendices

- Appendix A: Sources of Audit Assurance for 2013/14
- Appendix B: Internal Audit Plan 2013/14
- Appendix C: Compliance with the Public Sector Internal Audit Standards (PSIAS) 2013/14: Action Plan Update
- Appendix D: Performance Indicators 2013/14 as at 11 June 2014

Report Author: Linda Everard, Head of Internal Audit

APPENDIX 1: SOURCES OF AUDIT ASSURANCE FOR 2013/14

Strength of Control Environment			
Areas Subject to Audit	Good	Adequate	Improvement Required
Governance and Assurance Arrangements		Data Quality of Performance Indicators (Jun 2014)	Evaluating Risk in Corporate Reports (Jun 2014)
Key Financial Systems (all issued June 2014)	Council Tax Business Rates Housing Benefits Accounts Receivable Income Receipting and Banking General Ledger Accounts Payable Treasury Management Automated workflows in financial systems	Housing Rents Payroll	
Service Delivery Risks	Waterside Operational Systems (Jun 2014) Local Council Tax Support Scheme, Managing the amendment of the IT system (Aug 2013) Implementation of IT Projects (Jun 2014)	Property Management Services Managed by South Essex Homes, Interim Review (Dec 2013)	Licensing (Nov 2013)

APPENDIX 1: SOURCES OF AUDIT ASSURANCE FOR 2013/14

Areas Subject to Audit	Strength of Control Environment		
	Good	Adequate	Improvement Required
Audits revisited and action plans retested	The Monthly Process for Monitoring of Audit Recommendations Made	Environmental Health, Interim Review (Nov 2013)	Safeguarding (June 2014)
Officer Working Groups attended by Internal Audit that also provide assurance	Quarterly Monitoring Report of the Council's Governance Arrangments Good Governance Group Insurance Group		

APPENDIX B: INTERNAL AUDIT PLAN 2013/14

DEPT	AUDIT PLANNED	STATUS AS AT 11 JUNE 2014 (Changes in status highlighted in bold)
MANAGING THE BUSINESS		
DELIVERING GOOD GOVERNANCE		
SD T&R	• Risk Management – Evaluating Risk in Corporate Reporting.	Completed May 2014.
All	• Data Quality re Performance Indicators	Completed June 2014.
KEY FINANCIAL SYSTEMS		
H&C	• Council Tax	Completed June 2014.
H&C	• Business Rates	Completed June 2014.
H&C	• Housing Benefit	Completed June 2014.
H&C	• Housing Rents	Completed June 2014.
H&C	• Accounts Receivable (Debtors)	Completed June 2014.
H&C	• Income Receipting and Banking	Completed June 2014.
Res	• General Ledger (Main Accounting)	Completed June 2014.
Res	• Accounts Payable (Creditors)	Completed June 2014.
Res	• Payroll	Completed June 2014.
Res	• Treasury Management	Completed June 2014.
All	• Summary Financial Systems Report	Not required
All	• Automated workflows in financial systems (IT Review)	Completed June 2014.
IMPLEMENTING RECOMMENDATIONS		
All	• Follow Up of Recommendations Made	Q1, Q2, Q3 and Q4 completed.
MANAGING SERVICE RISKS		
H & C	RISK BASED JOBS	
	Housing	
	• Contract Management, Property Management services Managed by South Essex Homes (2012/13)	Completed December 2013.

APPENDIX B: INTERNAL AUDIT PLAN 2013/14

DEPT	AUDIT PLANNED	STATUS AS AT 11 JUNE 2014 (Changes in status highlighted in bold)
	<ul style="list-style-type: none"> Upgrade and Use of the Housing Management System (IT Review) 	Still awaiting report from external contractor.
	<ul style="list-style-type: none"> Housing Operational Systems: <ul style="list-style-type: none"> Homelessness 	Work in progress.
	Revenues and Benefits	
	<ul style="list-style-type: none"> New NNDR Arrangements 	This will be covered as part of the financial systems work.
Env	RISK BASED JOBS	
	Leisure	
	<ul style="list-style-type: none"> Waterside Refurbishment: Contract Management 	Two reviews completed. Given that no issues had arisen from this work, the planned final review was not undertaken.
	<ul style="list-style-type: none"> Waterside, Operational systems and processes 	Completed June 2014.
	Environmental Health	
	<ul style="list-style-type: none"> Environmental Health Services, systems and processes 	Completed November 2013.
R & N	RISK BASED JOBS	
	<ul style="list-style-type: none"> Licensing, systems and processes 	Completed November 2013.
Res	RISK BASED JOBS	
	<ul style="list-style-type: none"> Local Council Tax Support Scheme: Managing the Amendment of the IT System - managing the changes to Civica (2012/13) 	Completed August 2013.
	<ul style="list-style-type: none"> Implementation of IT Projects (re overall programme management and implementation project assurance regarding IDOX, ICON and Windows operating system replacement) 	Completed Jun 2014.
MANAGING THE AUDIT PLAN		
	Audit Planning, Resourcing and Managing the IT audit work	
	Reporting to Management Team and Audit Committee	
	Managing the Contract	

KEY TO LEAD DEPARTMENTS	
SD T&R	Strategic Director, Transformation & Resources
H&C	Housing and Communities
Env	Environment
R&N	Regeneration and Neighbourhoods
Res	Resources
L&G	Legal and Governance

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard	Evidence / Comment	Action Required	Current Status
3	ATTRIBUTE STANDARDS			
3.1	1000 Purpose, Authority and Responsibility			
C3	Does the internal audit charter also:			
	b) Establish the Head of Internal Auditor's (HoIA) functional reporting relationship with the Audit Committee?	Y	See section in the Charter on Reporting Lines and Relationships.	Assess whether the Audit Committee (AC) Terms of Reference still complies with the PSIAS and new CIPFA Audit Committee guidance due out by 31 Dec 2013.
	d) Establish the responsibility of the Audit Committee and also the role of the statutory officers (such as the Chief Financial Officer, the Monitoring Officer and the Head of Paid Service) with regards to internal audit?	P	The Charter covers some but not all of these roles.	Amend the Charter to cover the role of all the statutory officers with regards to internal audit.
LGAN	m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities?	Y	See section in the Charter on Independence and Accountability.	Assess whether the ethical standards statement that each auditor signs still reflects the requirement of the PSIAS.
				Implemented. All staff have signed an updated statement.
				Implemented. Refer to the Strategy on June 2014 Audit Committee agenda.

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
	o) Define the nature of consulting services?	Y	See section in the Charter on Independence and Accountability.	Amend this definition in the Charter to more explicitly explain the difference between assurance and consulting services once this has been clarified.	Implemented. Refer to the Charter on June 2014 Audit Committee agenda.
	1110 Organisational Independence				
C14	Does the HoIA confirm to the Audit Committee, at least annually, that the internal audit activity is organisationally independent?	N	This is a new requirement.	Include a statement in the in HoIA annual report for 2013/14 concerning organisational independence.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.
C15 f)	Does the Audit Committee seek reassurance from management and the HoIA as to whether there are any inappropriate scope or resource limitations?	N	This has not been done explicitly before.	Include a statement in relevant annual governance reports regarding whether there has been any inappropriate scope or resource limitations regarding the Internal Audit function.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.
C16	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the HoIA?	N	This will be done for the first time for the HoIA's 2013/14 appraisal in April 2014.	Arrangements will be put in place for the Chief Executive and the Chair of the Audit Committee to review the HoIA's performance appraisal with the Strategic Director (Transformation & Resources).	A short questionnaire was produced and feedback was provided in April 2014.
C17	Is feedback sought from the chair of the audit committee for the HoIA's performance appraisal?	N	This will be done for the first time for the HoIA's 2013/14 appraisal in April 2014.		

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard	Evidence / Comment	Action Required	Current Status
1130 Impairment to Independence or Objectivity				
C29 LGAN	Have internal auditors complied with the Bribery Act 2010?	Y The actions required to comply with this are included in the Council's Anti Fraud & Corruption Policies and Strategies which all staff must comply with.	Whilst the new Ethical Statement does not specifically refer to the Bribery Act 2012, it is drafted in such a way as to cover these requirements.	Implemented.
3.3	1200 Proficiency and Due Professional Care			
	1210 Proficiency			
C38	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	Y Auditors do have the skills to evaluate the risk of fraud and one of the SBC team now has a BTEC Level 7 Advanced Professional Certificate in Investigative Practice.	Assess whether the audit approach in the Audit Manual sufficiently covers the role of internal audit in terms of identifying and ensuring adequate control of fraud risks when undertaking audits.	Fraud risks were identified in the 2014/15 Audit Plan, refer June 2014 Audit Committee agenda. Audit Manual update due to be completed by 30 September 2014.
C40	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	Y Via the use of a framework contract with an external supplier. The in-house team at SBC is currently undertaking a project with an external supplier to develop these skills.	Complete the project and confirm the data matching skills have been transferred before the work is signed off.	This project has been satisfactorily completed.

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
1220 Due Professional Care					
C41	Do internal auditors exercise due professional care by considering the: c) Adequacy and effectiveness of governance, risk management and control processes?	Y	This was set out in the Terms of Reference and now the Charter.	Assess whether the audit approach in the Audit Manual sufficiently covers the role of internal audit in assessing the adequacy of risk management processes when undertaking audits.	Audit Manual update due to be completed by 30 September 2014.
3.4 1300 Quality Assurance and Improvement Programme					
C47	Has the HoIA developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	Y	The team has an audit approach that determines how the team operates and work is managed / supervised that includes a performance assessment of each job and client satisfaction surveys. These are used to identify development needs re individual staff or the team and opportunities to improve the overall service delivered. There are also team performance indicators that cover cost, process and customer satisfaction.	Assess whether the quality assurance and improvement programme still covers all the requirements of the PSIAS.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
C50 LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	Y	As evidenced by completion of this assessment. In previous years, an annual assessment was undertaken against relevant professional guidance and supporting evidence was provided of compliance. The results of this were included in the HoIA's annual report.	Update this assessment at the end of the financial year and include the results of this in the HoIA annual report.	Implemented. This action plan has been included in the Head of Internal Audit report for 2013/14. Refer June 2014 Audit Committee agenda.
C57 LGAN	Does ongoing performance monitoring include obtaining stakeholder feedback?	Y	Client satisfaction surveys are sent out at the end of each assignment. The results of this are reported upon to each AC meeting as part of the team's suite of performance indicators.	Develop a short service survey for completion periodically by senior management and the Audit Committee.	2014/15 Not yet due
1312 External Assessments					
C61 LGAN	Has the HoIA considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	Y	The last external assessment by external audit against the CIPFA Code of Practice for Internal Audit in LG in the UK covered the year ended 31 March 2011. To date, the HoIA has completed the assessment and provided it with supporting evidence for someone independent of the service to assess. However the other option is to opt for a full external assessment by a suitably qualified person. The assessment must take place within 5 years of the PSIAS coming into force i.e. April 2013.	Decide on the approach to be adopted with the Strategic Director, Transformation and Resources when the next assessment is due.	This needs to be completed before 31 March 2018. Consideration is being given to commissioning an external assessment in 2015/16.

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard	Evidence / Comment	Action Required	Current Status
C70	Has the HoIA included the results of the QAIP and progress against any improvement plans in the annual report?	Y The HoIA always includes a comment about internal audit's compliance with the relevant professional standards in the annual report.	Ensure the HoIA report also includes a reference to progress made implementing improvement action plans.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.
	1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing' & 1322 Disclosure of Non-conformance			
C71, C72, C73	Has the HoIA stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this? Has the HoIA reported any instances of non-conformance with the PSIAS to the Audit Committee? Has the HoIA considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	These are new requirements.	<p>Evaluate how to comply with the requirements to report any instances of non-conformance with the PSIAS to the Audit Committee once further guidance on this becomes available.</p> <p>Include a relevant declaration about whether internal audit activity conforms with the PSIAS in the 2013/14 HoIA Annual Report.</p> <p>Assess whether there is any need to include a disclosure in the Annual Governance Statement at the year end.</p>	<p>This guidance is starting to be issued now. The implications of such guidance will be evaluated and acted upon as required.</p> <p>Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.</p> <p>Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.</p>

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard	Evidence / Comment	Action Required	Current Status
4	PERFORMANCE STANDARDS			
4.1	2000 Managing the Internal Audit Activity			
	2010 Planning			
D5	Has the HoIA determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	P	Refer AC papers March 2013 The Audit Approach and Audit Strategy were not updated and presented to the Audit Committee in support of the 2013/14 Audit Plan as awaiting CIPFA guidance on the PSIAS application.	Implemented. Refer to the Strategy on June 2014 Audit Committee agenda.
D7 / D33 LGAN	Does the risk-based plan take into account the organisation's assurance framework? Has the HoIA carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	P	The HoIA is very aware of and takes into account the Council's governance framework when planning the audit and giving an opinion. A corporate Good Governance Group has been established. So any work done by the Group going forward will also be considered as part of the Audit Planning process.	Implemented. Summary of the work done will be reported to management by 30 September 2014.
D8	Does the risk-based plan incorporate or is it linked to a strategic or high-level statement of:			

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
	a) How the internal audit service will be delivered?	P	Refer to the Audit Strategy AC papers March 2012, which formed the basis for the 2013/14 plan.	Assess whether the Strategy is still fit for purpose in the light of the requirements of the PSIAS.	Implemented. Refer to the Strategy on June 2014 Audit Committee agenda.
	b) How the internal audit service will be developed in accordance with the internal audit charter?		This is a new requirement although there has always been a Strategy that supported the Terms of Reference which the Charter has replaced.		
	c) How the internal audit service links to organisational objectives and priorities?	N	Although it is usual for audit jobs in the Audit Plan to be linked to corporate objectives, the 2013/14 plan does not do this.	Link audit reviews to corporate objectives when producing the 2014/15 Audit Plan.	Implemented. Refer to the Audit Plan on June 2014 Audit Committee agenda.
D9	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?	P	Refer to the Audit Strategy AC papers March 2012, which formed the basis for the 2013/14 plan.	Review the current arrangements to ensure they are still effective in enabling the HoIA to identify developing Council risks in a timely manner.	Implemented. Refer to the Strategy on June 2014 Audit Committee agenda.
D10	In developing the risk-based plan, has the HoIA taken into account the organisation's risk management framework and relative risk maturity of the organisation?	Y	The risk management framework is considered. Work is underway to develop and risk appetite and tolerance approach that can be integrated in the framework.	Organise the initial training session for key officers regarding risk appetite and tolerance. Develop and integrate the approach into the Council's risk management framework in a practical and pragmatic manner.	Risk Appetite and Tolerance workshop delivered on 16 December 2013. Officers are considering how to develop this further.

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
	2040 Policies and Procedures				
D31 LGAN	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	Y	<p>Until 2013/14 the Strategy was reviewed annually and presented to management and the AC with the Audit Plan.</p> <p>The adequacy of the audit approach was assessed as part of the external audit review of the service in 2010/11.</p> <p>It has not changed significantly since then although it is continually developed.</p>	Assess whether the Audit Manual is still fit for purpose taking into account the new PSIAS.	Audit Manual update due to be completed by 30 September.
	2050 Coordination				
D32	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	N	<p>This is not explicitly stated in any of the audit documents / approach but it is the approach auditors would take should the opportunity arise to do so.</p>	<p>Add a section in the Strategy about using other sources of assurance when undertaking audits.</p> <p>Document the approach that auditors should take when undertaking an audit to identify and assess the level of assurance that can be provided by other sources and how this can be used.</p>	<p>Implemented.</p> <p>Refer to the Strategy on June 2014 Audit Committee agenda.</p> <p>Audit Manual update due to be completed by 30 September.</p>

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
D33 LGAN	Has the HoIA carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	N	This work has not been undertaken at the Council although the Head of Internal Audit is aware of the work of the Good Governance Group.	See D7 Some work is underway with the Head of Performance and Service Support to document this.	The aim is to summarise this for discussion by 30 September 2014.
	2110 Governance				
D42	Does the internal audit activity: a) Promote appropriate ethics and values within the organisation?	N	This is a new requirement. Many of the processes required to ensure this are covered by the Fighting Fraud Locally framework which the Council is aiming to comply with. To date, this has not been a standard audit in the governance part of the Audit Plan.	Include an audit activity in the Audit Plan regarding evaluating the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities.	Time has been included in the 2014/15 Audit Plan to do this.
D44	Has the internal audit activity evaluated the: a) design b) implementation, and c) effectiveness of the organisation's ethics-related objectives, programmes and activities?				

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
	2120 Risk Management				
D47	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that: <ul style="list-style-type: none"> a) Organisational objectives support and align with the organisation's mission? b) Significant risks are identified and assessed? c) Appropriate risk responses are selected that align risks with the organisation's risk appetite? d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the Audit Committee to carry out their responsibilities? 	N	<p>Not recently.</p> <p>A high level self assessment of compliance with the ALARM / CIPFA good practice guidance was completed in Nov 2013.</p> <p>In 2013/14, an audit is planned of how well risks are evaluated and reported upon in reports that go to EMT or any member committee / group.</p>	<p>Ensure a programme of work is produced from the risk assessment undertaken.</p> <p>Monitor progress in delivering the risk management action plan via Operational Management Team.</p>	This work will be done throughout 2014/15.
4.3	2200 Engagement Planning				
D56	Does the engagement plan include the engagement's: <ul style="list-style-type: none"> d) Resource allocations? 	P	<p>It includes the names and grades of the resources allocated to the work.</p> <p>The budget is stated in the Audit Plan and not re-iterated on the Terms of Reference.</p>	Amend the Terms of Reference template to require the budget to be included.	Implemented

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
D57	Do internal auditors consider the following in planning an engagement, and is this documented: a) the objectives of the activity being reviewed? d) the activity's resources?	P	Whilst they would be considered, if relevant, they may not always be clearly documented as such.	Amend the audit approach in the Audit Manual to include all the areas that should be considered when planning an engagement.	Audit Manual update due to be completed by 30 September.
	2210 Engagement Objectives				
D64 to D68	Does the auditor consider the following when preparing engagement objectives: <ul style="list-style-type: none"> • fraud, error and non-compliance risks • performance management arrangements • governance, risk management and control arrangements • value for money arrangements. 	Y	All of these areas would be considered when researching an area to audit. They would be included in the Terms of Reference if they were relevant to the focus of the audit.	See C38 and D31.	
	2330 Documenting Information				
D93	Has the HoIA developed and implemented retention requirements for all types of engagement records?	Y	Refer to the Audit Strategy AC papers Mar 2012.	Confirm this is reflected within the corporate document retention records.	The HoIA has developed the requirements for the service. The corporate Document Retention Policy will be updated to reflect this by July 2014.

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard	Evidence / Comment	Action Required	Current Status
2431 Engagement Disclosure of Non Conformance				
D113	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: a) The principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?	This is a new requirement.	Build the requirement to disclose non-conformance with the PSIAS into the: • Audit Manual • report templates used.	Audit Manual update due to be completed by 30 September.
D125	Does the annual report incorporate the following:			
LGAN	f) A comparison of work actually carried out with the work planned?	P	Consider whether to include actual performance against the Audit Plan in the HoIA annual report.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.
	g) A statement on conformance with the PSIAS?		Include a statement on conformance with the PSIAS in 2013/14 HoIA Annual report.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.

APPENDIX C: COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) 2013/14: ACTION PLAN UPDATE

Ref	Standard		Evidence / Comment	Action Required	Current Status
LGAN	h) The results of the Quality Audit and Improvement Programme (QAIP)? i) Progress against any improvement plans resulting from the QAIP?	P	The annual report for 2012/13 concluded there was sufficient evidence to demonstrate professional standards had been adhered to. A summary of the assessment undertaken and the resulting action plan were not included in the 2012/13 annual report although they have been in previous years.	Ensure the HoIA annual report includes the relevant information regarding the results of the quality assurance and improvement programme. Provide the AC with a mid-year report on the progress made in implementing actions contained in the team's improvement plan.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda. Due Jan 2015
	j) A summary of the performance of the internal audit activity against its performance measures and targets?	P	This is included in the summary audit progress report which is reported to the same AC as the HoIA annual report.	Consider whether to include actual performance against the Audit Plan in the HoIA annual report.	Implemented. Refer to the HoIA Annual Report on June 2014 Audit Committee agenda.

PERFORMANCE INDICATORS 2013/14 AS AT 11 JUNE 2014

COST

DESCRIPTION	TARGET	ACTUAL
<p>Ensure the cost of the internal audit service is competitive, but audit cover is still sufficient to comply with the requirements of the Public Sector Internal Audit Standards.</p> <p>Report on this every two years.</p>	Met	Will review in 2014/15

PRODUCTIVITY OF COMBINED TEAM (SOUTHEND AND CASTLE POINT)

DESCRIPTION	TARGET	ACTUAL
<p>Maximise the staff days available after deducting leave and bank holidays to spend on audit related tasks across the combined team (SBC & CPBC).</p> <p>(i.e. managing the audit plan, delivering audits and reporting to Audit Committee)</p>	75%	87%
Minimise the days lost annually per team member to sickness absence.	2013/14 target = less than 5 days per FTE	1.3 days per FTE

OPERATING ARRANGEMENTS

DESCRIPTION	TARGET	ACTUAL
<i>In Year Target: Delivery of the Audit Plan</i>		
<p>Plan to deliver audits across the year, taking into account staff resource availability and when certain audits have to be undertaken, so as to meet the annual target.</p> <p>(In this context, <i>delivery</i> means field work is complete up to the final report being issued)</p>	100% as at 31 May 2014	<p>93% as at 11 June 2014</p> <p>(Two out of 27 jobs are work in progress)</p>

Quality of Work		
Produce audit work that External Audit can rely on	Met	Met
Report annually on compliance with:		
<ul style="list-style-type: none"> the Public Sector Internal Audit Standards and relevant CIPFA guidance 	Met	Substantial Conformance
<ul style="list-style-type: none"> the CIPFA Statement on the Role of the Head of Internal Audit. 	Met	Not updated this year

IMPACT

DESCRIPTION	TARGET	ACTUAL
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Client Satisfaction with Internal Audit

Deliver audits that clients consider to be timely, professional delivered, well communicated, that also addressed key risks and made useful and practical recommendations that added value to the service.	90% of the surveys are scored as good	75% Based on four returned surveys
<i>The issues arising out of the 1 survey that was not assessed as good have been considered and taken into account in determining how the team resource the Council's audit plan for 2014/15.</i>		

Committee: **AUDIT COMMITTEE**

Sub-Committee:

Date: **26 June 2014**

Subject: **Annual Governance Statement 2013/14**

Report of the: **Head of Performance & Service Support**

Report author: **Craig Watts**

1 Purpose of Report

To present the Annual Governance Statement for 2013/14 to the Committee.

2 Background

The responsibility for ensuring that there is a sound approach to governance, risk management and control rests with the Council. It is required to report on this annually via its Governance Statement which is published with the financial statements.

In order to do this, the Council should seek regular assurance that its systems are functioning effectively. It should also ensure that the controls in place are effective in managing significant risks in the way that it would expect.

The Council has delegated responsibility for monitoring and reporting on the adequacy and effectiveness of its governance, risk management and controls to the Audit Committee.

Therefore the Committee is required to satisfy itself that the Annual Governance Statement is consistent with its view on the Council's systems based upon the assurance presented to it throughout the year.

3 Legal implications

Accounts and Audit Regulations 2011 section 4 states that:

(1) The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.

(2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.

(3) The findings of the review referred to in paragraph (2) must be considered—

(a) in the case of a larger relevant body, by the members of the body meeting as a whole or by a committee, and

(b) in the case of a smaller relevant body, by the members of the body meeting as a whole, and

following the review, the body or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

(4) The relevant body must ensure that the statement referred to in paragraph (3) accompanies—

(a) any statement of accounts it is obliged to prepare in accordance with regulation 7, or

(b) any accounting statement it is obliged to prepare in accordance with regulation 12

For this purpose, proper practice is considered to be the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework.

4. Report

The Annual Governance Statement is attached as Appendix 1.

5. Financial implications

None

6. Human Resource, Equality, IT, Asset Management Implications

None.

7. Links to Council's priorities and objectives

Operating robust governance arrangement contributes to the delivery of all Council aims and priorities but specifically to the Council Priority: Improving the Council and the Corporate Key Objective of Improving Council Performance.

8 Timescale for implementation and risk factors

Failure to operate robust governance arrangements can potentially lead to poor management, performance, stewardship of public money, public engagement and ultimately, poor outcomes for citizens and service users. It increases the risk that corporate priorities won't be delivered.

Recommendations:

The Committee adopts the Annual Governance Statement 2013/14 and subject to any further amendments from external audit recommends its adoption to Council.

Resolution required.

Background Papers:

- Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework.

- Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Guidance Note for English Authorities
- The CIPFA Finance Advisory Network, The Annual Governance Statement, meeting the requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulation 2006, Rough Guide for Practitioners.
- The Accounts and Audit Regulations 2011

Appendix:

- **Appendix 1: Governance Statement 2013/14**

ANNUAL GOVERNANCE STATEMENT

1 SCOPE OF RESPONSIBILITY

Castle Point Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. Castle Point Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Castle Point Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code is on our website at www.castlepoint.gov.uk or can be obtained from the Head of Performance & Service Support by e-mail crwatts@castlepoint.gov.uk or by phone on 01268 882419. This statement explains how the Council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the vision, culture and values, systems and processes and structure by which the Council is organised, directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services. The framework needs to be flexible to ensure it meets the needs of a changing environment.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Castle Point Borough Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

Operation of the governance framework

The governance framework ensures the Council's vision and key priorities are effectively promoted and progressed through its corporate governance arrangements and business planning processes. The key elements of the governance framework are as follows:

- Community Engagement
- Business Strategy and Planning
- Financial Reporting including Budgetary Control
- Asset Management
- Policy Framework
- Risk Management including Fraud and Corruption, Whistleblowing, Health and Safety and Business Continuity
- Performance Management
- Information Governance
- Data Quality

ANNUAL GOVERNANCE STATEMENT

- Procurement
- Partnerships
- Project Management
- Value for Money
- Complaints
- Codes of Conduct for Members and Staff

These areas form the main sources of assurance to be considered in any review of the internal control environment. In support of the review process, the Local Code of Governance sets out further detail to be reviewed in each area before an opinion on the effectiveness of the system of internal control can be expressed.

The Head of Performance & Service Support has been given the responsibility for overseeing the implementation and monitoring of the Code, through a process which includes:

- quarterly reports to Executive Management Team and the Audit Committee which set out:
 - weaknesses identified in the governance arrangements;
 - any corrective action necessary to resolve concerns identified
- an annual review of the governance framework supported by manager assurance statements certified by service managers
- a corporate assurance process for key governance processes with a nominated officer owner undertaking an assessment
- an assessment of compliance with the core principles of the CIPFA delivering good governance assessment
- an annual report to Executive Management Team and the Audit Committee on the adequacy of governance arrangements

The process also includes a governance group of officers responsible for the implementation and monitoring of key governance processes. The group provided a challenge of the operation of the processes and individual assessments of core governance processes for which they were responsible for. Some of their findings and further work have been incorporated into the views expressed in this governance statement. The Council's key governance and business planning processes are also subject to audit on a risk basis. This work forms part of the evidence in support of the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework.

3 REVIEW OF EFFECTIVENESS

Reviewing the effectiveness of the framework

Castle Point Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Heads of Service within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies.

In addition the Head of Internal Audit provided reports throughout the year as well as the annual report which provides an opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework. These reports are considered when reviewing the effectiveness of the framework.

ANNUAL GOVERNANCE STATEMENT

CIPFA/SOLACE Core Principle 1:

Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

During 2013 the Council developed and consulted on a Corporate Plan which was agreed by Cabinet in January 2014 and is to be further considered by full Council. The plan sets out a revised vision for the area and four new corporate priorities: Public Health and Wellbeing, Environment, Transforming our Community and Efficient and Effective Customer Focussed Services. The plan is scheduled to be considered by full Council in June 2014 and is also expected to include an annual report to communicate the authority's activities and achievements.

An annual corporate action plan to help deliver the aims and objectives of the corporate plan was developed and forms the basis for monitoring and highlight reporting. The corporate plan was subject to community consultation and significant consultation was undertaken to assist in the development of the Local Plan. Further consultation was undertaken on service specific issues and on strategic issues such as the Council's Equality Scheme.

The Council maintains its commitment to the Local Strategic Partnership with Rochford District Council, and operates partnership working with the Thames Gateway South Essex Partnership (TGSE) and the Regeneration Partnership. Partnership work is also progressed through the Essex Partnership and through projects such as strengthening communities, public sector reform and housing. The TGSE Partnership is also working to lobby funding from the South East Local Enterprise Board for infrastructure improvements.

There are further opportunities to strengthen the governance arrangements in this area and the Council is currently working with partners to re-develop a community strategy and refresh partnership priorities and governance arrangements for the Local Strategic Partnership. Progress will be monitored as part of the corporate plan programme arrangements through highlight reporting to corporate management team.

Highlight reporting was in place to ensure the delivery of corporate objectives and a quarterly performance scorecard was monitored by Cabinet and Executive Management Team. This included undertaking appropriate corrective action in areas where performance was not to expectation and for example, additional resources were assigned to help improve performance in the processing of planning applications. In addition a new ICT system was introduced which has had a short term impact on performance but which is expected to improve. The member cabinet portfolio holder for Change has been actively involved in monitoring progress.

A review of the Covalent performance management system was undertaken during the year and the results were reported to Executive Management Team and Audit Committee. The review found that there was inadequate use of the system by officers and a number of perceptions relating to its complexity were elicited. Consequently it was decided to discontinue use of Covalent corporately and implement a simpler solution that was based on an Access database. This was developed for the 2014 to 2015 year period with detailed guidance on its operation circulated as well as briefing sessions to operational and senior managers. Controls are to be implemented to elicit the degree of compliance with the system and elicit any issues with its use. The operation of the new approach will be monitored.

The self-assessment by managers for performance management arrangements in the managers' assurance statement demonstrated that most managers assessed themselves to have high or satisfactory assurance although several managers assessed their arrangements to be partial. Further work is still required to ensure the arrangements are embedded and the introduction of a new database will be used to help strengthen the corporate control arrangements.

The Council has faced significant budgetary restraints following the reduction of Revenue Support Grant funding from central government. However the Council has robust financial management

ANNUAL GOVERNANCE STATEMENT

and has identified savings of £662k for the financial year 2013/14 and a further £1.129m for 2014/15. A balanced budget is profiled for 2014/15 and the Council has identified the need for further savings of approximately £486k for 2015/16. The Council continued to implement an efficiency review work programme over the year, and work is detailed in the medium term financial plan and includes assumptions of significant financial savings obtained from improved procurement activity as well as service reviews. The Council continues to develop its approach to efficiencies and its efficiency programme includes a budget challenge and assessment process that is expected to secure the necessary cost savings to achieve a balanced budget for 2015/16. In addition the Council is developing an evolutionary approach to change known as 'Operation Darwin' to develop working practices and procedures and to utilise effective procurement, service reviews and development of ICT systems to enhance value for money and secure significant efficiencies. Initial work has been undertaken and includes the implementation of a new ICT system for Building Control, Development Control, Environmental Health and Land Charges. This will be followed up by a review of processes and procedures. Further process mapping will also be undertaken and a Strategic Land project has also been identified to elicit savings and obtain further income from assets. Progress in the development and implementation of the approach to efficiencies will be monitored.

Whilst the Council has undertaken a significant amount of work to improve value for money by reducing costs and maintaining service performance there was a lack of specific value for money indicators used during the financial year. However, this has been recently addressed with the refresh of the value for money strategy and the identification of a number of value for money indicators. The overall cost of Council services per head of population was near the average for all District Council's in 2012/13. It is also noted that the Council's revenue from fees and charges is low at 12.12% compared to a district average of 20.16% in 2012/13.

Financial monitoring reports are informed by a risk assessment and focus on the Council's large, high risk or volatile budgets. Departures from budget, and corresponding operational performance information, are reported to Executive Management Team and Cabinet on a regular basis.

CIPFA/SOLACE Core Principle 2:

Members and officers working together to achieve a common purpose with clearly defined functions and roles.

There are effective and constructive working relationships between senior officers and members. As a result, a number of significant decisions have been made. Recent examples include the agreement of the Local Council Tax Support Scheme and the development of the Corporate Plan. The Council also recognises that there are further challenges with the need to locate significant financial savings and the need to identify long term sustainable development by progressing a new local plan.

The Monitoring Officer is responsible for the maintenance of the Constitution and for reviewing its relevance and effectiveness. Any significant changes to the Constitution are approved by Full Council following consideration of a report made by the Chief Executive. The constitution was reviewed in May 2013 and allows minor detail changes to be undertaken by the Monitoring Officer.

Decisions made by the Cabinet may be Called-in (in accordance with the procedure for a Call-in, which is shown in the Overview and Scrutiny Procedure Rules) by the Scrutiny Committee. A decision made by Cabinet is published within 4 working days of the Cabinet meeting and can be called-in for consideration by the Scrutiny Committee within 5 working days of the publication by either the Chairman of the committee or by 3 committee members.

The Council maintains a generic Corporate Business Continuity Plan and Service Level Business Continuity Plans. A significant number of managers indicated only partial compliance with the process and testing of service level plans was identified as a specific issue to be addressed. The Corporate Business Continuity Plan was tested during a power cut in January 2014. Lessons were identified and addressed and will be incorporated into a new Corporate Business Continuity

ANNUAL GOVERNANCE STATEMENT

plan which will be developed during the financial year 2014/2015. Progress in the development of the arrangements will be monitored.

The Council has a service planning process and associated guidance. A review of the manager's assurance statements demonstrated that all services assessed themselves to be satisfactory or high compliance. In addition a corporate challenge exercise was undertaken and a number of issues were identified in the completion of the service plans. This was reported to Executive Management Team and further work in the refinement of the service planning guidance and template will be undertaken during the financial year 2014/15. Work was also undertaken to ensure corporate objectives were mapped into directorate service plans and a corporate action plan which is underpinned by the directorate plans is in place.

The Council has established project management arrangements with a process based on PRINCE2 principles. This has been used to undertake significant projects and procurements for example in the successful tendering of the responsive repairs and boiler maintenance contracts by the housing service. In addition a register of projects was created for 2013. A significant number of services reported that they had not managed projects during the financial year 2013/14 and it is considered that there are opportunities to further strengthen arrangements such as the requirement for detailed business cases to help inform all decisions and to introduce further controls to monitor projects. Further work will be undertaken and monitored in this area.

ROLE OF THE CHIEF FINANCIAL OFFICER

The Section 151 Chief Financial Officer (CFO) occupies a key position in the Council, managing the Councils' finances and ensuring that resources are used wisely to secure positive results.

In order to support the post holder in the fulfilment of their duties and ensure that the Council has access to effective financial advice, in 2010 the Chartered Institute of Public Finance and Accounting (CIPFA) issued a Statement on the Role of the Chief Financial Officer in Local Government. The statement sets out how the requirements of legislation and professional standards should be fulfilled by CFOs in the carrying out of their role, and includes five key principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations and the organisational arrangements needed to support them. These statements are set out below

- 1) The CFO in a local authority is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
- 2) The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.
- 3) The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
- 4) The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
- 5) The CFO in a local authority must be professionally qualified and suitably experienced.

The Council has the necessary arrangements and procedures in place which ensure that these principles are either directly complied with or, where not directly complied with, there are alternative procedures in place so that the necessary outcomes and objectives are still achieved and suitable controls are in place. For example the CFO is a member of the leadership team (Executive Management Team) and reports directly to the Chief Executive.

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Council officers and members continue to participate in an array of partnerships and a report on the arrangements was considered by Executive Management Team in 2013. Further work has been identified to examine the potential to rationalise partnership working and re-focus the partnership framework.

CIPFA/SOLACE Core Principle 3:

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

The Council has an established set of organisational values which underpin the approach to engaging with staff and the community.

The Council has Codes of Conduct for Members and staff within the Council's constitution. The Code of Conduct for Members was developed by an Essex wide legal partnership and has been adopted by a number of Council's within Essex.

As a condition of office all members are required to sign an undertaking that they will observe the Code of Conduct. There is a requirement to re-sign this undertaking when there are any major revisions to the Code as well as on election or re-election. The staff Code of Conduct sets out policies and expectations for staff conduct, is published on the Intranet and a copy is issued to every new starter as part of the induction pack.

Arrangements to investigate breaches of proper standards of conduct include a staff handbook which outlines expected codes of conduct and procedures for dealing with breaches e.g. disciplinary procedures for staff. The constitution also includes the requirement for the Council to appoint a Review Committee which has a role which includes promoting and maintaining high standards of conduct and behaviour as well as hearing any complaints of breaches of the code. The Council has appointed 2 Independent Persons who must be consulted before the Council makes a finding as to whether a Member has failed to comply with the Code of Conduct or at any other stage, who may be invited to a meeting of the Review Committee.

The Council communicates its complaints policies and whistle blowing procedures, and ensures all stakeholders have access through the Internet. However, further work is required to improve awareness by undertaking relevant briefing sessions with staff, and through promotion such as the distribution of leaflets on fraud and corruption and whistle blowing.

A detailed complaints procedure is in place, and has a three stage process for the resolution of complaints. Work has begun to update the policy and procedure and re-launch the corporate database for recording complaints which is not used by all services. It is envisaged that a simplified two stage procedure will be developed and monitoring for all services will be implemented during 2014/15. Progress in the development and implementation of this approach will be monitored and reported in quarterly reporting to Audit Committee.

CIPFA/SOLACE Core Principle 4:

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

There are three Policy and Scrutiny Committees which may make proposals in relation to their particular functions, including the review and development of policy items, whose proposals support the Council's published priorities. During the year significant progress was made in the development of the corporate plan which was overseen by the Place and Communities Policy Development Committee and work has also been undertaken regarding the approach to disabled facilities grants by the Wellbeing Policy Development Committee.

The corporate risk register was monitored during the year by Executive Management Team and has been updated by Heads of Service. It has been reported to the Audit Committee. Risks and

ANNUAL GOVERNANCE STATEMENT

health and safety issues were also discussed at team meetings during the year. A corporate health and safety risk register was regularly considered by Executive Management Team. A summary report on risk management issues was produced periodically and reported to Executive Management Team and the Audit Committee.

Whilst the core process is in place, risk management requires further development in the understanding of the risk management process, identification and scoring of risks and establishing organisational appetite and tolerance to risk. As a result two different types of training sessions were held, one for senior corporate officers to have a better understanding of concepts such as risk appetite. Further training was also undertaken for operational managers on basic understanding and awareness of risk management techniques. A meeting was also held with officers from Shropshire who provided guidance on how to effectively implement proportionate but adequate arrangements. Further work is necessary to revise the Risk Management strategy and progress will be monitored and reported to Audit Committee.

The Council continues to maintain a corporate Health and Safety process. For example, risk assessments are recorded on a corporate database, and there is reporting of any significant health and safety issues to Executive Management Team. Furthermore a self-assessment and performance analysis process has been developed for service managers to complete to help enable them to understand how well their current arrangements operate and any potential for further development. This will be administered and monitored corporately to strengthen control arrangements.

The processes for Information Governance are in place and guidance has been incorporated into the 'How it Works' document. There are strong arrangements which are led by the Head of Legal Services and include a number of policies ranging from a clear desk policy and document retention policy to guidance on privacy of data and when data is clearly public. Information asset registers are also in place.

The Council has a comprehensive procurement toolkit and strategy and associated governance processes which have been subject to an annual review by the Head of Legal Services. The arrangements are proving to be effective with for example, high value procurements for responsive repairs and boiler maintenance securing significant cost savings. Further work includes investigation into purchasing order compliance for small value large volume procurements.

Guidance on the importance of data quality requirements was set out in the 'How it Works' document and communicated to all managers. Some work to improve data quality has been undertaken, for example, the development of a detailed performance management framework in the Housing Services. An Internal Audit of data quality arrangements for performance indicators concluded that there was satisfactory compliance with indicator data which was free of material errors. There are opportunities for further strengthening the arrangements in some areas by documenting the procedures required and detailing any methodologies where data is supplied by a third party. The implementation of these recommendations will be subject to review over the year.

Internal Audit

The annual risk based audit plan was prepared in consultation with Heads of Service, Executive Management Team and the Audit Committee. The audit plan was delivered with reports issued to senior managers at the conclusion of each audit highlighting internal control weaknesses identified and the actions required to address them. Recommendations were also reviewed to ensure they were implemented properly, by the due date. A quarterly summary audit report was taken to Executive Management Team and the Audit Committee. The Head of Internal Audit annual report and opinion was also considered by the Audit Committee and the report found the governance, risk management and control framework designed and operated by the Council throughout the year in order to deliver its objectives overall was adequate.

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External audit relies on the work internal audit complete on financial systems where it is relevant to its audit of the Council's financial statements. An annual assessment of compliance with relevant professional standards is undertaken by internal audit and reported to Executive Management Team and the Audit Committee. This is subject to independent challenge and formal external review every five years.

Audit Committee

The Audit Committee consists of a chairman and four other members. The committee provides independent assurance of the adequacy of the risk management framework and associated control environment. It also undertakes an independent scrutiny of the authority's financial and non-financial performance, and it oversees the financial reporting process.

External Audit

External Audit is undertaken by BDO LLP and reviews the design of controls in place within the core financial systems if relevant to their audit opinion. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Final Report to those Charged with Governance.

External Inspections

There were no external inspections of Council services during the financial year 2013/2014.

CIPFA/SOLACE Core Principle 5:

Developing the capacity and capability of members and officers to be effective.

The Constitution sets out the responsibilities for Scrutiny Committee, Policy and Scrutiny Committees and the Audit Committee. The Audit Committee provides a robust challenge of the governance arrangements and receives quarterly monitoring reports on their effectiveness. In addition the committee considered further detail on the review of the Council's performance management system Covalent. All new Audit Committee members receive a standard induction from the Head of Internal Audit and external audit. Additional training is provided to meet identified needs and every agenda to the committee includes any relevant recent publications to help with good practice in governance awareness.

Training and development is also targeted to meet particular committee requirements, for example Development Control and Licensing Committee members receive regular training and briefing sessions before committee business. The information needs for members to effectively develop policy and make decisions is also considered. The Place and Communities Policy and Scrutiny Committee re-designed the content and style of the corporate plan as well as provided views on the consultation approach and questions and considered the findings of the consultation and the impact on objectives.

The Council has an appraisal system in place and has been operating across all Council services for a number of years. However an Internal Audit review of performance management arrangements has identified the need to strengthen the approach by improving the appraisal process as service plans and individual team member's appraisals did not always make clear links between service and individual objectives and corporate priorities. Work has been undertaken to implement this recommendation and a revised draft appraisal process has been devised and is currently subject to consultation. Progress in the implementation of the new approach will be monitored and reported to the Audit Committee.

The Council has effective recruitment and retention arrangements and staff development programmes to ensure staff skills are further developed to improve the capacity of the Council and the continued development of staff. Development and training is varied and includes professional

ANNUAL GOVERNANCE STATEMENT

programmes such as CIPFA qualifications to generic training. The Council also makes use of online training programmes such as training in health and safety arrangements.

Like all other Council's the Council faces significant financial challenges and needs to prepare for future change. In this regard, and as already noted, the Council has identified the need to obtain further efficiencies and over the coming year will be undertaking preparations and the 'Operation Darwin' programme. This includes expectations for obtaining significant financial savings from a variety of approaches including service reviews, maximising the use of estate and assets, utilising new technology to transform working practices and procedures, procurement, and clarifying a fair and cost effective charging policy for services. The approach will bring a number of possible risk issues and the Council will need to ensure its arrangements consider whether capacity is in the right place and there is organisational planning and succession development, including ensuring sufficient corporate resources are available to effectively manage and deliver change and transformation going forward.

The Council has the core processes in place to ensure decisions consider key information requirements. For example all Cabinet reports are required to include considerations for financial, legal and equality issues. The Council also recognises when the need for external advice is required and has for example, service level agreement in place with South Essex Homes to obtain professional advice and support to undertake effective housing estate and procurement functions. The Council has also requested specific specialist support in the development of key documentation such as the Strategic Housing Market Assessment which was commissioned in partnership with other Thames Gateway partners.

CIPFA/SOLACE Core Principle 6:

Engaging with local people and other stakeholders to ensure robust public accountability.

The Council continues its commitment to neighbourhood involvement, with a series of member led Community Liaison Groups throughout the Borough. These were used to help engage with local people in such areas as the development of the Local Plan as well as discuss issues and actions for local concerns. The Council also works closely with Canvey Island Town Council.

During the year the Council undertook planned consultation with residents including extensive consultation for the Local Plan which elicited considerable local interest. Consultation was also undertaken on the Corporate Plan as well as specific issues such as John H Burrows park development proposals. Leaseholders were consulted as part of the procurement process for the grounds maintenance contract, tenant consultation was also undertaken to help inform housing services and to review satisfaction with repairs.

Over the last year the Council has undertaken work to update and refresh its Equality Scheme which included consultation with a range of stakeholders. As part of the development of the scheme work was completed to update records on the groups and organisations in place that represent minority and specialist interest in order to ensure that any future consultations identified and involved these groups as appropriate. The Council also ensures it involves staff in any appropriate decisions and elicits their views on issues. For example a monthly staff forum meets to discuss and agree any issues important to staff.

The Council ensures its services provide clear expectations for service users and members of the public through a set of service standards. These standards are publically available through service access points including the internet site as well as reception areas and through newsletters. The internet address for these is: <http://www.castlepoint.gov.uk/main.cfm?menuId=12081>

The Council works closely with partners in the LSP to focus on joint objectives. As stated earlier the Council is currently working to refresh its community strategy with partners to take into account a number of new partner initiatives which have arisen over the last few years. The governance framework and partnership protocol is also planned to be updated in 2014/15 and progress will be monitored.

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Significant governance issues

The following are the key governance issues that have been identified:

Number	Issues	Action 2014/15	Date of implementation	Responsible officer
1.	The need to deal with the future financial challenges facing the Council.	Further develop and implement the approach to securing efficiencies and outline the 'Operation Darwin' programme.	March 2015	Strategic Director for Transformation and Resources
2.	The need to re-clarify ambitions with partners which take into account recent developments in partnership working.	Re-develop the Community Strategy and associated governance framework and partnership protocol.	September 2014	Head of Partnerships & Safer Places
3.	Ensure revised approach to performance management arrangements are effectively in place.	Establish and review controls for corporate performance indicator database. Re-develop and implement revised performance appraisal process.	September 2014	Head of Performance & Service Support / Human Resources Manager
4.	Business Continuity arrangements need to be progressed to include greater testing by services and re-development of corporate business continuity plan.	Implement controls to require testing by services. Re-develop corporate business continuity plan.	December 2014	Head of Resources / Emergency Planning Officer
5.	Complaints not consistently monitored in corporate database.	Re-develop complaints policy and procedure and refresh complaints database and working procedures.	October 2014	Cabinet & Electoral Services Officer
6.	Risk management arrangements are not fully embedded.	Revise risk management strategy and re-consider working practices. Implement improvements.	March 2015	Head of Internal Audit
7.	Project management arrangements are not fully robust	Revise the project management arrangements and develop and implement effective controls.	March 2015	Head of Performance & Service Support

ANNUAL GOVERNANCE STATEMENT

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

David Marchant
Chief Executive
30 June 2014

Councillor Colin Riley
Leader of the Council
30 June 2014

AUDIT COMMITTEE

26 June 2014

Subject: Annual Report on the Treasury Management Service and Actual Prudential Indicators 2013/14

1 Purpose of Report

The annual treasury report is a requirement of the Council's reporting procedures. It covers both the treasury activity and the actual Prudential Indicators for 2013/14.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

2 Links to Council's priorities and objectives

The scrutiny and approval of the Council's Treasury Management activity is linked to the Council's objective of Improving the Council through sound financial management.

3 Recommendations:

1. That following scrutiny, the Treasury Management Activity Report for 2013/14 is approved.
2. To approve the actual 2013/14 prudential indicators (shown at Annexe D).

Resolution required.

4 Background

- 4.1 The 2013/14 Treasury Management Strategy summarises the Council's obligations defined in the Code of Practice for Treasury Management in the Public Services, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.2 During 2013/14 the Council complied with its legislative and regulatory requirements.

5 Treasury Report for 2013/14 and scrutiny of treasury activity

- 5.1 As required by the Code, the activity report for 2013/14 is submitted at Annexe A for scrutiny by Audit Committee, prior to submission to Cabinet on 16 July 2014.
- 5.2 It is important to ensure that the Council's treasury management activities are subject to a robust process of scrutiny. This report provides Members with information on treasury management activity and variances in order to fulfil this process.

6 Corporate Implications

a Legal implications

This report is presented on behalf of Chris Mills in her role as "section 151 Officer" – the Officer appointed by the Council to have responsibility for the Council's financial administration. Submission of such a report is a requirement of CIPFA's Standard of Professional Practice on Treasury Management.

Under the revised Code of Practice, Cabinet was nominated at Special Council 16th February 2010 to ensure effective scrutiny of the treasury management strategy and policies.

b Financial implications

There are no new implications.

c Human resources and equality implications

There are no new implications.

d Timescale for implementation and risk factors

No new targets applicable.

Report Author: Robert Greenfield - Accountant

Background Papers:

Chartered Institute of Public Finance and Accountancy: *Code of Practice for Treasury Management in the Public Services*.

CPBC: *Treasury Management Strategy Statement for 2013/14*.

CPBC: *Working paper: external loan calculation 2013/14*.

Treasury Management Activity Report for 2013/14

1 Introduction

- 1.1 This report summarises the Council's treasury management activity for 2013/14 and compares actual interest transactions with the revised estimates set for 2013/14.
- 1.2 The Council must comply with the Code of Practice on Treasury Management in the Public Services, issued by CIPFA and updated in 2011. The code requires the Council to annually set a Treasury Management Strategy. The strategy for the 2013/14 financial year was approved by Council on 20th February 2013.
- 1.3 This report confirms that all Treasury Management activity during the year was undertaken in accordance with this strategy and in consultation, where appropriate, with our external advisers, Capita. The Council had no liquidity issues during the year.

2 The Economy

- 2.1 **Short-term interest rates.** The Bank of England base rate has remained at just 0.50% since March 2009 and the Council therefore continues to earn very low rates on its investments, while facing the challenge of increased counterparty risk, resulting in a significantly reduced number of counterparties that the Council can use.
- 2.2 Members will be aware from previous reports that the decision was made to in November 2013 to switch the Council's banking operations from the Co-operative Bank to Lloyds Bank, following the Co-op's downgrading by the rating agencies and continued difficulties and negative publicity.
- 2.3 The Lloyds accounts became fully operational at the end of January 2014. Some of the Co-operative accounts remain open for residual transactions, and will be closed early July 2014. Negligible funds remain held in the Co-op on a daily basis.

3 Borrowing

- 3.1 A summary of external borrowing at 31st March 2014 is in Annexe B.
- 3.2 The Council operated within treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement throughout the year. The outturn for the Prudential Indicators is shown in Annexe D.
- 3.3 During 2013/14 the Council was able to repay £2m of maturing General Fund debt, without the need to take out replacement borrowing. This will result in a considerable saving on future interest costs. There is further General Fund debt of £75,112 which matured in May 2014. Due to its low value this debt was also repaid in full and not replaced.

- 3.4 Annexe B - GF also shows that interest paid on borrowings and chargeable to General Fund was under budget by £3 (0.0%) for the year. Annexe B - HRA shows that interest paid on borrowings chargeable to the HRA exceeded budget by only £40 (0.0%) for the year.

4 Investments

- 4.1 The Council's investment policy is governed by CLG Guidance, which was implemented in the annual Investment Strategy approved by Council on 20th February 2013. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 4.2 Annexe C summarises the Council's activities for the year relating to the temporary investment of surplus funds. The average daily balance increased from £17.1 million in 2012/13 to £17.4 million in 2013/14.
- 4.3 Annexe C also shows that the amount of interest received on these investments was over budget by £17,812 (40.5%). The variance was due to prudent budgeting and average interest rates and balances being moderately higher than estimated. The average interest achieved was 0.36% compared to the 7-day LIBID average of 0.35%.

5 Benchmarking

- 5.1 Three benchmark indicators for 2013/14, explained in the Annual Treasury Management Strategy, are reported as follows:
- **Security – Weighted Credit Rating Score for the year of 6.79 exceeded the target of 4.**
 - **Liquidity – Weighted Average Life was at an extremely liquid level, averaging 2 days over the year.**
 - **Yield – Interest received on investments – income was over budget, as reported in paragraph 4.3 above.**

6 Regulatory Framework, Risk and Performance

- 6.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance, including:
- The Local Government Act 2003, and associated Statutory Instruments;
 - The CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The CIPFA Code of Practice for Treasury Management in the Public Services.

- 6.2 The Council has complied with all of the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

Summary of General Fund Loan Transactions and Interest Payable for the year to 31st March 2014

Annexe B - GF

Loan Transactions Activity for the Year				Interest Payable Comparison of Estimate with Actual		
Type of Loan	Amount o/s 01/04/2013 £	Loans Repaid £	Amount o/s 31/03/2014 £	Revised Estimate 2013/14 £	Actual Interest 31/03/2014 £	Variance 31/03/2014 £
Public Works Loan Board	7,325,112	2,000,000	5,325,112	343,300	343,297	3
Total	7,325,112	2,000,000	5,325,112	343,300	343,297	3 0.0%

Interest Rates		Bank Base Rates	
Average interest rate on Castle Point B.C. loans outstanding for the year to 31/03/2014			%
		11/01/2007	5.25
		11/05/2007	5.50
		06/07/2007	5.75
		06/12/2007	5.50
		07/02/2008	5.25
		09/04/2008	5.00
		08/10/2008	4.50
		06/11/2008	3.00
		04/12/2008	2.00
		08/01/2009	1.50
		05/02/2009	1.00
		05/03/2009	0.50
		31/03/2014	0.50

Average interest rate on Castle Point B.C.
loans outstanding for the year to 31/03/2014

5.12%

Interest Rates
Public Works Loan Board

Range
From 3.700% To 9.375%

Summary of HRA Loan Transactions and Interest Payable for the year to 31st March 2014

Annexe B - HRA

Type of Loan	Loan Transactions Activity for the Year			Interest Payable Comparison of Estimate with Actual		
	Amount o/s 01/04/2013 £	Loans Repaid £	Amount o/s 31/03/2014 £	Original Estimate 2013/14 £	Actual Interest 31/03/2014 £	Variance 31/03/2014 £
PWLB HRA	36,451,000	0	36,451,000	1,087,400	1,087,440	-40
Total	36,451,000	0	36,451,000	1,087,400	1,087,440	-40
						0.0%

Interest Rates

Average interest rate on Castle Point B.C.
loans outstanding for the year to 31/03/2014 2.98%

Interest Rates
Public Works Loan Board

Range	From	To
	2.310%	3.490%

Bank Base Rates

	%
11/01/2007	5.25
11/05/2007	5.50
06/07/2007	5.75
06/12/2007	5.50
07/02/2008	5.25
09/04/2008	5.00
08/10/2008	4.50
06/11/2008	3.00
04/12/2008	2.00
08/01/2009	1.50
05/02/2009	1.00
05/03/2009	0.50
31/03/2014	0.50

Summary of Temporary Investments and Interest Received for the year to 31st March 2014

Type of Borrower	Amount Invested 01/04/2013 £	Made in the Year £	Repaid in the Year £	Amount Invested 31/03/2014 £	Carrying Amount 31/03/2014 £
<i>Investments by Value:</i>					
Debt Management Office	0	21,650,000	21,650,000	0	0
Local Authorities	0	0	0	0	0
Money Market Funds	12,200,000	76,009,536	75,549,536	12,660,000	12,664,382
Bank deposits	-	2,000,000	1,000,000	1,000,000	1,000,921
Investments	12,200,000	99,659,536	98,199,536	13,660,000	13,665,302
Cash equivalents	1,970,208	2,685,550	4,172,624	483,134	483,327
Total	14,170,208	102,345,086	102,372,160	14,143,134	14,148,629

	Number	Number
<i>Number of Investment Transactions:</i>		
Debt Management Office	0	14
Local Authorities	0	0
Money Market Funds	22	121
Bank deposits	0	1
Investments	22	122
Cash equivalents	9	22
Total	31	144

Temporary Investments

Interest Received on Temporary Investments for the year to 31st March 2014

Actual Interest Received	£ 61,812
Revised estimate	44,000
Variance	17,812 40.5%

Average Balance for the Year	17,431,735
Average Interest Rate for the Year	0.355%
Benchmark: Average 7-Day LIBID Rate	0.354%

Prudential Indicators

Indicator 1 - Key indicator of prudence - Gross Debt and the Capital Financing Requirement

"In order to ensure that over the medium term debt (i.e. gross external borrowing) will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The requirement is met for the current year and is expected to be met for the forthcoming two financial years.

Indicator 2 - Capital Expenditure

	2013/14 Revised Estimate £000s	2013/14 Actual £000s
General Fund	3,883	3,375
Housing Revenue Account	2,785	2,232
Total	6,668	5,606

Indicator 3 - Indicator of Ratio of Financing Costs to Net Revenue Stream

	2013/14 Revised Estimate %	2013/14 Actual %
General Fund	6	7
Housing Revenue Account	30	30

This indicator shows financing costs such as interest charges and the minimum revenue provision as a percentage of the net General Fund and HRA revenue budgets.

Indicator 3B - Local Indicator of Ratio of Financing Costs to Net Revenue Stream

	2013/14 Revised Estimate %	2013/14 Actual %
General Fund	22	22
Housing Revenue Account	40	33

This is a variation on the above indicator, which includes in the financing costs any revenue contributions made to fund capital expenditure. There is a large figure for the General Fund calculation as a result of the Waterside Farm Sport Centre refurbishment project being included in the capital programme during 2012/13 and 2013/14.

Indicator 4 - Indicator of Capital Financing Requirement (CFR)		
	2013/14 Revised Estimate £000s	2013/14 Actual £000s
General Fund	7,239	7,128
Housing Revenue Account	36,451	36,451
The CFR is a measure of the capital expenditure incurred historically by the Council that has yet to be financed.		

Indicator 5 - Incremental Impact of Capital Investment		
	2013/14 Revised Estimate £	2013/14 Actual £
Band D Council Tax	35.37	-4.42
Average Weekly Housing Rents	9.92	2.90
This indicator shows how the changes in capital financing charges to revenue from year to year affect the Council Tax and Housing Rent for the year in question.		

Indicator 6 - Authorised Limit for External Debt		
	2013/14 Revised Estimate £000s	2013/14 Final £000s
Borrowing	46,998	46,796
Other Long -Term Liabilities	305	305
	47,303	47,101
This indicator shows the overall limit for total external debt, including allowances for changes in the CFR, contingencies, risks, unusual cash flow movements and so on.		

Indicator 7 - Operational Boundary for External Debt		
	2013/14 Revised Estimate £000s	2013/14 Final £000s
Borrowing	44,164	44,491
Other Long -Term Liabilities	305	305
	44,469	44,796
This indicator shows a similar calculation to the previous indicator, without all of the above allowances for contingencies, etc.		

Indicator 8 - Upper Limits of Fixed and Variable Exposure		
	2013/14 Revised Estimate £m	2013/14 Actual £m
Upper Limit - Fixed Rates	49	44
Upper Limit - Variable Rates	(4)	(14)
<p>This indicator identifies upper limits for net investment / borrowing at variable and fixed rates. Currently all borrowings are at fixed rates and our investments are generally at variable rates. Because of this the fixed rate limit is a positive amount and the variable rate is a negative amount. Both indicators were within the limits at year end.</p>		

Indicator 9 - Maturity Structure of Fixed Rate Borrowing			
	Upper Limit %	Lower Limit %	Actual %
within 1 year	50	0	1
within 2 years	50	0	1
within 5 years	60	0	1
within 10 years	80	0	18
after 10 years	100	0	100
<p>These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.</p>			

Indicator 10 - Housing Revenue Account limit on indebtedness
<p>The debt limit imposed by the Department for Communities and Local Government as at the date of implementation of self financing is £37,470,000. This limit of indebtedness exceeds the value of the HRA self financing settlement and therefore allows some flexibility to accommodate additional future investment.</p>

For further information on prudential indicators including revised estimates for 2013/14 please refer to sections 10 and 11 of the Policy Framework and Budget Setting report for 2014/15, presented to the Special Meeting of the Council on 26 February 2014.

AUDIT COMMITTEE

26 June 2014

Subject: Internal Audit Charter, Strategy and Audit Plan 2014/15

1. Purpose of Report

To present to the Audit Committee the Internal Audit Charter with the supporting Strategy and the proposed initial Audit Plan for 2014/15.

2. Background

The UK Public Sector Internal Audit Standards (the Standards) require the service to produce a risk based plan that:

- takes into account:
 - the requirement to produce an annual internal audit opinion
 - the Council's assurance framework
- incorporates or is linked to a strategic or high level statement of how:
 - the service will be delivered and developed in accordance with the Charter
 - it links to the Council's objectives and priorities.

The rest of the report outlines how these requirements are being met.

3. Charter, Strategy and Audit Plan

The details of the service proposed for 2014/15 are set out in the:

- Charter (Appendix A) that defines the purpose, authority and responsibility of the service
- Strategy (Appendix B) that outlines how the service will be delivered in line with the Charter so as to meet the requirements of the Standards. The Strategy includes the:
 - Proposed Initial Audit Plan for 2014/15 (Appendix B1)
 - Audit Assurance in relation to Corporate Risks (Appendix B2)
 - Performance Indicators (Appendix B3)
 - How We Will Work With You Statement (Appendix B4).

4. Charter

Amendments made to the Charter, which was presented to the Committee in September 2013, have been highlighted in bold for ease of reference. These are minor, but are intended to clarify:

- what is meant by 'consultancy work' and how this will be dealt with should it arise
- the link to the Strategy in setting out the framework to be used for evaluating the Council's governance, risk management and control arrangements
- the Head of Internal Audit's relationship with the statutory officers of the Council (i.e. the Head of Paid Service, the Monitoring Officer and the Section 151 Officer).

5. Strategy and Audit Plan

The Strategy is a new document which sets out:

- the ethical framework audit staff are expected to comply with
- the basis for the audit opinion and the audit approach to be adopted
- the approach to assessing risk and assurance as part of the audit planning process
- the audit plan, resource assessment and performance indicators
- how the service will work with key staff, members and groups within the Council
- how the team will operate on a day to day basis
- how it will assess its compliance with relevant professional standards and report upon this.

As part of this work, the ethical statement used by the service has been updated in line with the Standards. All staff signed a new statement by the 31 March 2014.

The basis for the audit opinion has not changed but the framework used for evaluating the Council's governance, risk management and control arrangements is now much more explicit. In discussion with management, audit assignments will be designed to provide assurance in respect of one or more of the following:

- the adequacy of system design
- whether key controls within a system, process or service are operating effectively
- whether outcomes from systems, processes or services are in line with expectations.

The opportunity has been taken to completely update the audit risk assessment to take into account restructures that have occurred in recent years, changes in the manner in which services are now delivered and the impact of budget cuts on levels of spend.

All operational services have been assessed against six key risks i.e. financial, public impact, operational importance, legal and political, people and property and inherent. This information has been used to determine the level of assurance required on an ongoing basis regarding the operation of each service (i.e. very high, high, medium or low). Independent sources of assurance regarding the operation of services have also been identified, including previous audit reports. These will be evaluated when activities are identified as requiring an audit.

The audit plan attached at Appendix B1 is an initial assessment of the work to be completed this year. It is possible that additional resources may become available and therefore jobs can be added into the plan, later in the year once:

- working arrangements have been established with a new external supplier and the first batch of work has been delivered
- the proposed recruitment exercise has been completed and the impact on the potential resources available to the team have been assessed
- there is greater clarity about the opportunities going forward, for external audit to rely on internal audit work.

As is usual practice, any proposed future amendments to the audit plan will be reported to the Audit Committee for approval.

For the first time, a separate appendix has been produced that identifies where audit reviews provide some assurance regarding the management of corporate risks.

6. Corporate Implications

Financial Implications

Financial risk is one of the categories used when assessing the risk profile of all the activities that the Council delivers.

The audit plan will be delivered within the agreed budget for the service.

Legal Implications

The Council is required, by the Accounts and Audit (England) Regulations 2011, Section 6, to maintain an adequate and effective internal audit function, that complies with relevant professional standards and report upon this annually to the Audit Committee.

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. Therefore this report discharges that duty.

Human Resources / Asset Management

People and property risk is one of the categories used when assessing the risk profile of all the activities that the Council delivers.

Equality Implications

Equality Impact Assessments are completed on relevant internal audit service documents whenever they are updated.

IT Implications

IT risk is taken into account when assessing the risk profile of all the activities that the Council delivers.

7. Links to Council's Aims, Targets and Objectives

The audit plan contributes to the delivery of all of the Council's aims, targets and objectives.

8. Timescale for Implementation

The audit plan covers the 2014/15 financial year although work to deliver this will continue into April / May the following financial year.

9. Risk Factors

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact on the Council's ability to deliver its corporate aims, targets and objectives. This risk is being mitigated by the work of the Good Governance Group. Assurance provided this group is summarised in the Quarterly Monitoring Report of the Council's Governance Arrangements.

The key team risks are:

- its inability to recruit to a vacant post
- that external suppliers won't deliver contracted in work within the required deadlines to the expected quality standards.

Time has been built into the audit plan for managing external contractors. A further recruitment exercise is planned for April / May 2014. The impact of both of these factors is to reduce the days available to deliver audit work.

Internal audit maintain an audit risk assessment which covers all the services that the Council delivers. It uses this to evaluate how important it is for the Council to have independent assurance over their operation. This is discussed with senior management and then used to inform the audit plan that is produced for the year.

Recommendations:

The Audit Committee approves the Charter, Strategy and proposed initial Audit Plan for 2014/15.

Background Papers

- The Accounts and Audit (England) Regulations 2011
- UK Public Service Internal Audit Standards
- CIPFA: Local Governance Application Note for the UK Public Sector Internal Audit Standards
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010
- CIPFA: Audit Committee Practical Guidance for Local Authorities and A Toolkit for Local Authority Audit Committees

- CIPFA / SOLACE: Delivering Good Governance in Local Government Framework.

Appendices

- Appendix A: Internal Audit Charter
- Appendix B: Internal Audit Strategy
 - Appendix B1: Internal Audit Plan for 2014/15
 - Appendix B2: Audit Assurance in relation to Corporate Risks
 - Appendix B3: Internal Audit Performance Indicators 2014/15
 - Appendix B4: How We Will Work With You Statement

Report Author: Linda Everard, Head of Internal Audit



INTERNAL AUDIT CHARTER

Subject to annual review

Approved by Executive Management Team and Audit Committee: May / June 2014

INTERNAL AUDIT CHARTER

This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

The Charter will be reviewed annually and presented to the Audit Committee for approval.

SERVICE OBJECTIVE

The key objective for Internal Audit is to complete sufficient work in order to enable it to provide an independent and objective annual opinion on the adequacy and effectiveness of the Council's system of internal control established to enable it to achieve its objectives.

This includes the Council's working arrangements with partners, contractors and third parties.

In doing this, Internal Audit aims to:

- deliver a high quality, cost effective service in line with best practice and professional standards
- work constructively with management to support new developments and major change programmes
- be pragmatic and proportionate with its recommendations, having regard not just to risk, but also the cost of controls
- be flexible and responsive to the needs of the organisation in all its work
- promote an anti-fraud and corruption culture within the organisation.

RESPONSIBILITIES

Internal Audit is *'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes'*¹.

In a local authority, internal audit:

- provides independent and objective assurance to the organisation, its Members and the Executive Management Team regarding the design and operation of its governance, risk management and control processes
- assists the Head of Resources in discharging her responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is a management responsibility to:

- establish and maintain appropriate governance arrangements and internal control systems
- ensure that resources are properly applied, risks appropriately managed and outcomes achieved.

¹ Institute of Internal Auditors

INTERNAL AUDIT CHARTER

STATUTORY ROLE

Internal Audit is a statutory service in the context of the Accounts and Audit (England) Regulations 2011, which state that:

"A relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with the proper internal audit practices, and any officer or member of that body shall, if the body requires:

- *make available such documents of the body which relate to its accounting and other records as appear to be necessary for the purpose of the audit*
- *supply the body with such information and explanation as the body considers necessary for that purpose."*

The statutory role is recognised and endorsed within the Council's Financial Regulations, which provide the authority for auditors to:

- enter, at any reasonable time, any premises or land owned, leased or controlled by the Council
- examine all records, documents, correspondence or information held by employees, members, contractors or other third parties, pertinent to their audit work
- obtain such information and explanations from any employee, member, contractor or third party as necessary concerning their audit work to enable them to fulfil their duties
- require any employee, member, contractor or third party to produce for examination, Council assets (including cash) under their control.

INDEPENDENCE AND ACCOUNTABILITY

Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities. Where the Head of Internal Audit is responsible for other services, arrangements are in place for ensuring that any internal audit work is subject to appropriate independence and that any conflicts of interest are avoided.

Internal Audit determines its priorities in consultation with 'Those Charged with Governance'. The Head of Internal Audit has direct access to and freedom to report in her own name and without fear of favour to, all officers and Members and particularly those charged with governance including the Chief Executive and Chair of the Audit Committee. This independence is further safeguarded by ensuring that the Head of Internal Audit's annual appraisal / performance review is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of Audit Committee contribute to this performance review. The Head of Internal Audit must confirm to the Audit Committee, at least annually, on the organisational independence of the service.

INTERNAL AUDIT CHARTER

Internal Audit may also provide consultancy services, at the request of the organisation, **which would include activities like providing advice, facilitation and training.** In such circumstances, appropriate arrangements will be put in place to safeguard the independence of Internal Audit.

Accountability for the response to the advice and recommendations of Internal Audit lies with management, who either accept and implement the advice or formally reject it.

All Internal Audit staff are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

INTERNAL AUDIT SCOPE

The scope of Internal Audit includes the entire control environment and therefore all of the Council's operations, resources, services and responsibilities in relation to other bodies. In order to identify audit coverage, activities are prioritised based on risk, using a combination of Internal Audit and management risk assessments (including those set out within Council's risk registers). Extensive consultation also takes place with key stakeholders.

The framework used for evaluating the Council's governance, risk management and control arrangements (as required by the Standards) is set out in the supporting Strategy.

If circumstances arise whereby assurances are to be provided to parties outside the Council, the nature of and approach to be adopted to providing them will be discussed with relevant senior management.

The Head of Internal Audit can consider accepting proposed consulting engagements (should resources allow), based on their potential to improve the management of risks, add value and improve the organisation's operations. Accepted engagements must also be included in the audit plan.

REPORTING LINES AND RELATIONSHIPS

Responsibility for ensuring that statutory internal audit arrangements are in place has been delegated to the Strategic Director, Transformation & Resources (who is a member of the Executive Management Team). These arrangements form a key element of the Council's framework for corporate governance.

Therefore the Strategic Director, Transformation & Resources discharges the administrative responsibilities for managing the internal audit service whilst it reports functionally to the Audit Committee. Details of the functional role of the Audit Committee in this respect are set out in its Terms of Reference (including its annual work programme).

In discharging this function role, the Audit Committee receives reports that cover the results of internal audit activity and details of internal audit performance, including progress on delivering the audit plan.

INTERNAL AUDIT CHARTER

In addition, Internal Audit provides an annual report and opinion to senior management and the Audit Committee on the adequacy and effectiveness of the Council's system of internal control including its governance, risk management and control arrangements.

The Head of Internal Audit also:

- **provides quarterly reports on audit matters that the Strategic Director, Transformation & Resources presents to the Executive Management Team which includes the Head of Paid Service, Section 151 Officer and Monitoring Officer**
- **sits on the Council's Good Governance Group which includes the Section 151 Officer and the Deputy Monitoring Officer and reports to the Executive Management Team.**

Full details of how internal audit works with key officers, members and groups are set out in the Strategy, Appendix B4, How We Will Work With You.

INTERNAL AUDIT STANDARDS

There is a statutory requirement for Internal Audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards' (PSIAS) as defined by Institute of Internal Auditors (IIA) in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA). These Standards have been adopted by the Council's Internal Audit service. With regard to the application of these Standards only, the Council's 'Audit Committee' takes the role of the 'board' and 'Executive Management Team', that of 'senior management'.

In accordance with the Standards, Internal Audit is subject to a quality assurance and improvement regime. This consists of an annual self assessment of the service against the PSIAS, ongoing performance monitoring and an external assessment at least every five years by a suitably qualified, independent assessor. The results of all of this activity are reported to the Executive Management Team and the Audit Committee, along with details of any instances of non-conformance. Where non-conformance is considered significant, this will also be included within the Council's Annual Governance Statement.

The Accounts and Audit (England) Regulations 2011 requires local authorities to produce an annual governance statement in accordance with proper practices. CIPFA's Delivering Good Governance guidance has been given 'proper practice' status by the Department for Communities and Local Government for this purpose. Therefore, the Head of Internal Audit aims to comply with the CIPFA Statement on The Role of the Head of Internal Audit in Public Service Organisations 2010, as required by the guidance.

INTERNAL AUDIT RESOURCES

It is a requirement that Internal Audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience, having regard to its objectives and to professional standards. Internal Auditors need to be properly trained to fulfil their responsibilities and maintain their professional competence through an appropriate ongoing development programme.

INTERNAL AUDIT CHARTER

The Head of Internal Audit is responsible for appointing the staff of the Internal Audit Service and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

In addition to in-house audit staff, the Head of Internal Audit may engage the use of external resources where it is considered appropriate, including the use of specialist providers.

The Head of Internal Audit is responsible for ensuring that the resources of the Internal Audit Service are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby she concluded that resources were insufficient, she must formally report this to the Strategic Director, Transformation & Resources and, if the position is not resolved, to the Audit Committee.

The Internal Audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.

FRAUD AND CORRUPTION

Managing the risk of fraud and corruption is the responsibility of management not Internal Audit. Internal Audit will, however, be alert in all its work to risks and exposures that could allow fraud or corruption. The Fraud Team will investigate allegations of fraud and corruption in line with the Council's Anti Fraud and Corruption Strategy.

The Head of Internal Audit must also be informed of all suspected or detected fraud, corruption or impropriety in order to consider the adequacy of the relevant controls, and evaluate the implication of fraud and corruption for the annual opinion on the control environment.



INTERNAL AUDIT STRATEGY AND AUDIT PLAN

Produced March 2014, Subject to annual review

Approved by: Audit Committee: June 2014

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

INTRODUCTION

The Internal Audit Charter sets out the service objective for Internal Audit, which is to provide an annual opinion on the adequacy and effectiveness of the Council's system of internal control, designed to deliver its aims and priorities.

This Strategy sets out how the service will be delivered and developed in accordance with the Charter and how it links to the delivery of the Council's aims and priorities.

CODE OF ETHICS

All internal auditors working for the Council will comply with:

- the Code of Ethics contained within the UK Public Sector Internal Audit Standards which define:
 - principles that are relevant to the profession and practice of internal auditing
 - rules of conduct that describe behaviour norms expected of internal auditors.
- the ethical standards of any professional body they are members of
- Standards of Public Life's *Seven Principles of Public Life* as defined in the Local Code of Governance.

The four key principles they will adopt are as follows:

- The **integrity** of internal auditors establishes trust and this provides the basis for reliance on their judgement.
- Internal auditors:
 - exhibit the highest level of professional **objectivity** in gathering, evaluating and communicating information about the activity or process being examined
 - make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Internal auditors respect the value and ownership of information they receive and do not disclose information (**confidentiality**) without appropriate authority unless there is a legal or professional obligation to do so.
- Internal auditors apply the knowledge, skills and experience (**competency**) needed in the performance of internal auditing services.

Inappropriate disclosure of information or breaches of the Code of Ethics by internal auditors could be a disciplinary offence

All staff working on the Council's audit will be required to sign an Ethical Governance Statement. In house staff will be required to declare any interests prior to starting an audit and to formally update their statement as part of their six monthly appraisal meeting.

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

BASIS FOR ANNUAL AUDIT OPINION

In summary, the audit opinion will be based upon an assessment of:

- the design and operation of the key processes operated by the Council in order to manage its business (e.g. governance arrangements)
- the range of individual opinions arising from risk-based and other audit assignments delivered during the year (e.g. service activities and financial systems)
- an assessment of how robustly recommendations agreed are implemented and whether this is achieved in a timely manner
- the outcome of any other relevant work undertaken (whether internally or externally) where independence assurance is provided about the operation or performance of a service / system.

AUDIT APPROACH

The audit approach is designed to provide the Council with assurance that its system of internal control is robust enough to ensure its objectives and priorities will be delivered.

It also takes into account, where applicable, the need for the Council to gain assurance that any partnership or other agreement to which it is party, is also operating successfully to this achieve this end.

The framework used for evaluating the Council's governance, risk management and control arrangements (as required by the Standards) is set out below.

Governance

Over a suitable period, an assessment will be made of the adequacy of governance process in accomplishing the following objectives:

- promoting appropriate ethics and values within the Council
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the Council
- co-ordinating the activities of, and communicating information among, the audit committee, external and internal auditors and management.

In doing this, Internal Audit will:

- evaluate the design, implementation and effectiveness of ethics-related objectives, programme and activities
- assess whether the information technology governance supports the delivery of the Council's strategies and objectives.

Risk Management

In determining how effective risk management arrangements are, assessments will be made of whether:

- the Council's objectives support and align with its mission

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the Council's risk appetite
- relevant risk information is captured and communicated in a timely manner across the Council, enabling staff, management and the audit committee to carry out their responsibilities.

This information will be gathered from many sources including audit assignments undertaken each year.

Risk exposures relating to governance, operations and information systems will also be evaluated regarding the:

- achievement of the Council's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets
- compliance with laws, regulations, policies, procedures and contracts.

Internal Audit will also evaluate the potential for the occurrence of fraud and how the Council manages fraud risk.

Control

An evaluation will be made of the adequacy, effectiveness and efficiency of controls in responding to risks within the Council's governance, operations and information systems (taking into account the same areas outlined in the bullet points in the risk exposures paragraph above).

Types of Assurance Provided

Audit assignments will apply one or a combination of approaches which include assessing:

- the adequacy of system design
- whether key controls within a system, process or service are operating effectively
- whether outcomes from systems, processes or services are in line with expectations.

Internal Audit will make recommendations for improving any services, systems or processes audited with a view to promoting continuous improvement.

Any knowledge gained from consultancy engagements will be incorporated into the evaluation of the Council's governance, risk or control processes.

Limitations

Internal Audit will not:

- assume management responsibilities
- control the risks of the Council
- establish and maintain any systems of internal control

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

- determine operational policies or procedures
- detect fraud and irregularity as management is responsible for mitigating this risk.

RISK ASSESSMENT

A risk based approach is used to identify areas for review, which takes into account the risk maturity of the Council. The risk assessment is based on professional judgement but will be informed by:

- key corporate and service level documents (e.g. plans and risk registers)
- regular discussions with the Strategic Director, Transformation & Resources and the Head of Performance & Service Support
- at least annual discussions with the four Heads of Service plus the Head of Law & Deputy Monitoring Officer
- the work of the Good Governance Group
- audit risk assessments
- horizon scanning to establish potential new risks that may materialise during the year
- outcomes from other relevant, independent audits, inspections or work undertaken.

Audit risk assessments will be maintained to support general audit (including anti-fraud and corruption) and information technology work. The IT risk assessment takes into account compliance with a recognised industry standard. The other risk assessment will:

- cover all service activities but exclude certain areas of work that require annual review
- be reviewed annually with the Strategic Director, Transformation & Resources, the Head of Performance & Service Support and other key Heads of Service.

In assessing the level of assurance required by management regarding the satisfactory operation of all Council services, and therefore its priority, account will be taken of:

- financial risk
- public related risks (including satisfaction and reputational)
- operational risks (including importance in delivering corporate priorities)
- legal and political risks
- people and property risks (including health & safety and safeguarding)
- inherent risk (including that of fraud).

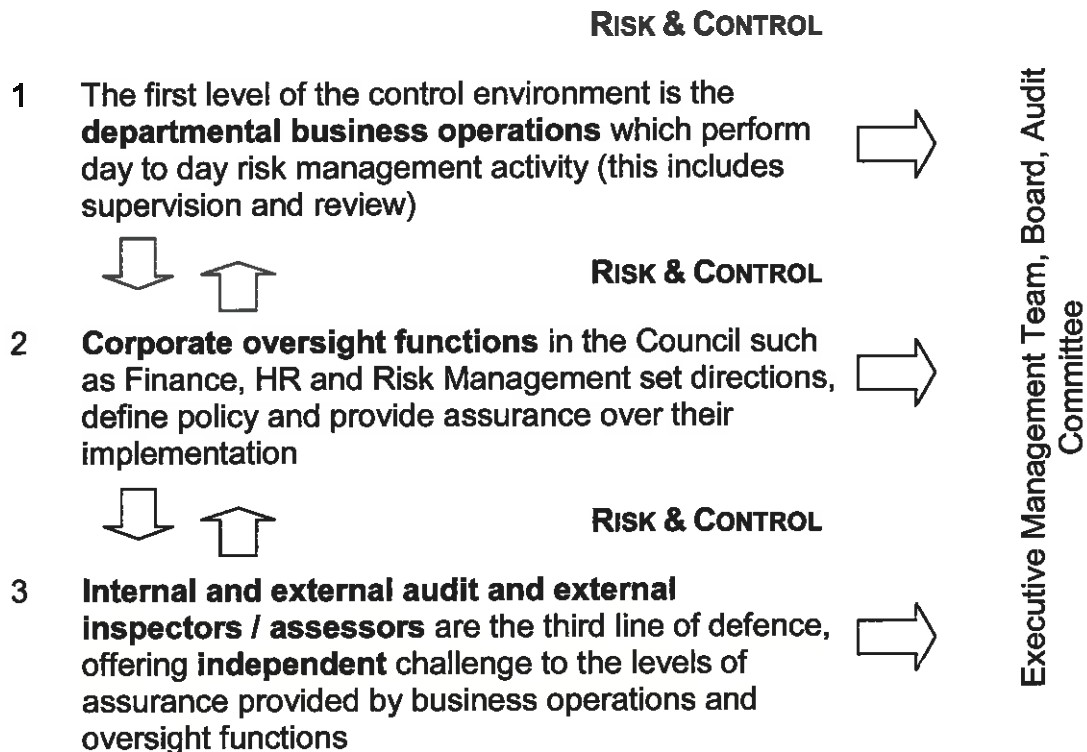
The audit risk assessment helps identify activities that are 'higher risk' because, for example, they are inherently complex, material or susceptible to fraud but well controlled. It is important that regular evidence is obtained by management that controls in these areas remain appropriate and are consistently applied as a significant control failure could have a serious impact on the Council's ability to deliver the service.

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

Assurance Framework

Before producing the audit plan, a high level assessment will be made of the evidence already available about the operation of individual services including both the understanding and good management of related risks.

As part of the planning work, evidence will be looked for and then evaluated at all three levels outlined in the Three Lines of Defence model outlined below:



Some of this evidence will be recorded as part of the audit risk assessment documentation.

Consideration will also be given to the robustness of any other assurance process implemented by management that provides evidence that controls mitigating key service delivery risks are operating properly, as designed.

Before relying on any such evidence, it will be necessary to fully understand what risks and controls such assurance covers and how reliable it is.

Therefore it is likely some re-performance work will need to be undertaken to confirm the validity of the findings before it is relied upon for audit purposes.

THE AUDIT PLAN

A programme of core audits will be agreed with senior management based on the assessment of risk outlined above. The plan will only include activities assessed at risk level 1 or 2 unless a specific in year risk is identified that needs review. The annual plan will also include time for:

- governance reviews
- key financial systems reviews
- checking recommendations have been implemented
- audit planning, reporting and managing contractors.

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

Therefore the audit plan, attached at **Appendix B1**, reflects the results of the risk assessment and the information gathered about the Council's assurance framework. It shows how the work will provide evidence that risks relating to the delivery of the corporate aims and priorities are being managed effectively. **Appendix B2** maps audit work against corporate risks.

A contingency budget has been built into the audit plan. Nevertheless any in year risks that arise will be considered against the need to deliver the core work before the audit plan is amended. Changes to the audit plan will be reported to senior management and the Audit Committee for review and approval.

Fraud and corruption risks will be considered when determining the focus of each relevant audit.

Any fraud investigations that arise will be undertaken by the Council's fraud team. However the Internal Audit team will continue to work closely with the fraud team to provide the Council with an effective and integrated service.

Significant consultancy engagements, if accepted, will be included in the audit plan.

Resources

A staff needs assessment will be maintained to calculate the overall capacity of the service, taking into account the skill mix of the in house team. A summary of this information will be provided to senior management and the Audit Committee for review and approval as part of the annual plan documentation.

The service will predominantly be provided by a combination of resources employed by both Castle Point and Southend-on-Sea Borough Councils under service level agreements. The core team will be supplemented by resources obtained via a framework contract with an external supplier.

The strategy will be to continue with this mixed economy approach to resourcing the service as long as costs remain competitive, productivity is high and quality standards are met as measured by delivery of the agreed performance indicators.

Work will be allocated to staff with the appropriate skills, experience and competence to complete it. Where the Head of Internal Audit is responsible for an area being audited, arrangements will be made for the work to be overseen by an appropriately qualified person from outside the service.

Up to date job profiles will be maintained reflecting modern professional requirements.

Staff will not be allowed to audit the same area for more than three consecutive years thus preventing over-familiarity and complacency that could influence objectivity.

Training and Development

Staff development needs will be continually assessed and fed into the service's training plan to ensure that appropriate skills are available to deliver the strategy. Consideration will also be given to the need for staff to meet mandatory continued professional development requirements.

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

Staff will maintain individual training logs that satisfy relevant professional standards. These will be reviewed by line managers at least every six months as part of the corporate performance appraisal process.

Opportunities to purchase tailored training with other organisations will continue to be explored.

Service Performance Indicators

The performance indicators being proposed are attached at **Appendix B3** and cover economy, staff productivity, efficiency and effectiveness. Performance against targets set will be reported to senior management and the Audit Committee each quarter.

Clients will be requested to complete a client satisfaction survey at the conclusion of each audit. The results of these will be analysed so that themes can be identified and action taken to improve the service where required.

Service Risk Register

Internal Audit will maintain a service risk register that supports the delivery of this strategy. This will be reviewed and reported upon periodically.

DELIVERING AUDIT ASSIGNMENTS

An audit manual will be maintained that guides staff in the performance of their duties. It will be reviewed regularly to reflect changes in working practices and standards. This will ensure that auditors obtain and record sufficient evidence to support their conclusions, professional judgements and recommendations. The standard of files will be such that an experienced auditor, with no previous connection with the audit, will be able to ascertain what work was performed, re-perform it if necessary and support the conclusions reached.

The service will adhere to the Council's clear desk policy with regard to client information and audit files.

Audit files will be retained in accordance with the Council's file retention and disposal policy.

Generally audit files and records are confidential. They will only be shared with the service being audited and external audit. If wider distribution is required, permission must first be obtained from the relevant Strategic Director or Head of Service and the Head of Internal Audit.

HOW WE WILL WORK WITH YOU

Appendix B4 sets out how the service will work with key officers and groups within the Council, which includes details of who will receive key documents and reports.

Internal Audit will liaise with senior management regarding the timing of individual assignments wherever possible.

Terms of Reference and Draft Reports will be discussed and agreed with service managers before being sent to Strategic Directors or Heads of Service to be signed off.

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

Distribution lists are contained on the front of each report and are agreed in principle, with the senior management.

Internal Audit reports contain a disclosure stating they should not be shared with anyone else without the permission of the Head of Internal Audit and the relevant Strategic Directors or Heads of Service.

Audit reports will be designed to:

- give an opinion on the risk and controls in the area under review
- agree and record management actions that improve the control environment, with appropriate delivery dates.

Those weaknesses giving rise to significant risks that are not agreed will be brought to the attention of senior management and if necessary the Audit Committee.

The Head of Internal Audit annual report will include:

- an annual opinion on the adequacy and effectiveness of the Council's governance, risk management and control framework
- a summary of work completed
- a statement of conformance with the Standards and the results of the Quality Assurance and Improvement Programme
- a comparison of actual work completed compared to what was planned as well as performance against its targets
- issues relevant to the preparation of the annual governance statement
- progress in dealing with issues arising from any external performance assessment.

Audit Committee

To support the work of the Audit Committee, Internal Audit will:

- develop agendas and attend meetings
- facilitate the Committee's review of its own remit and effectiveness
- help identify any training needs and work with others to ensure that these are met.

External Audit

Meetings will be arranged with the Council's external auditors to consult on and co-ordinate the respective audit plans, so maximum reliance can be placed on internal audit work.

Partners

Internal Audit will continue to explore opportunities to work effectively with internal audit services of partner organisations where this is beneficial. It will continue to look to make best use of joint audit resources as well as provide opportunities to share learning and good practice.

APPENDIX B: INTERNAL AUDIT STRATEGY AND AUDIT PLAN

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The service will maintain a quality assurance and improvement programme that covers all aspects of internal audit activity. The internal assessment will reflect feedback obtained from:

- ongoing supervision and review of individual assignments
- staff performance assessment forms covering blocks of work as well as client satisfaction surveys
- regular monitoring of service delivery via agreed performance targets
- an annual self assessment of compliance with relevant professional standards, (as required by the Accounts and Audit (England) Regulations 2011)
- a periodic assessment of compliance with the CIPFA statement on the Role of the Head of Internal Audit in Local Government.

Opportunities for peer reviews or independent challenge of the self assessment will continue to be proactively explored.

An external assessment will be conducted at least every five years by a qualified, independent assessor from outside the Council / service. The Head of Internal Audit will discuss and agree with senior management and the Audit Committee the:

- form of external assessment
- qualification and independence of the external assessor including any potential conflict of interest risks
- person who will act as the internal sponsor for this process.

The results of the quality assurance programme will be reported upon in the Head of Internal Audit's annual report and progress made against any improvement plans will be reported to senior management and the Audit Committee.

APPENDICES

- **APPENDIX B1: INTERNAL AUDIT PLAN FOR 2014/15**
- **APPENDIX B2: AUDIT ASSURANCE IN RELATION TO CORPORATE RISKS**
- **APPENDIX B3: INTERNAL AUDIT PERFORMANCE INDICATORS 2014/15**
- **APPENDIX B4: HOW WE WILL WORK WITH YOU**

APPENDIX B1: INTERNAL AUDIT PLAN 2014/15

Dept	Audit Activity	Work type *	Auditable Risks / Focus of the Audit	Relevant Corporate Risk (plus register no.)
Managing the Business				
Key Business Management Process				
L&G	Ethical Governance	Fraud Risk	To assess whether the Council has appropriate policies and guidelines communicated to staff to uphold required ethical standards	All
All	Management Information Quality		To assess the accuracy and usefulness of information on which management rely to make decisions	7. Potential for too many priorities and inadequate staff capacity
All	Working With Partners		To assess whether for a number of partnerships there are robust governance arrangements	2. Partnership working does not result in improved efficiency and effectiveness
Key Financial Systems				
Efficient and Effective Customer Focused Services				
H&C	Council Tax	Annual review linked to financial accounts audit Fraud Risk	To assess whether the key controls in each of the key financial systems effectively prevent or detect material errors on a timely basis to ensure that the financial statements are not materially incorrect	7. Potential for too many priorities and inadequate staff capacity
H&C	National Non-Domestic Rates			
H&C	Housing Benefit			
Res	General Ledger (Main Accounting)			
H&C	Accounts Receivable: General Debtors			
Res	Accounts Payable (Creditors)			
Res	Payroll			
H&C	Cash and Banking (Income)			

APPENDIX B1: INTERNAL AUDIT PLAN 2014/15

Dept	Audit Activity	Work type *	Auditable Risks / Focus of the Audit	Relevant Corporate Risk (plus register no.)
Res	Treasury Management			
H&C	Housing Rents			
Implementing Recommendations				
Efficient and Effective Customer Focused Services				
TBC	Reports to be followed up including IT audits		To check that recommendations made have been implemented, properly, in a timely manner	All
Managing Service Delivery Risks				
Public Health & Wellbeing: Improve the Health and Wellbeing of Castle Point residents through the provision of value for money Leisure and Recreation Services that increases the percentage of adults aged 16 or over participating in sport at least once a week				
Env	Waterside Leisure Centre	Core (R2) Fraud Risk	To assess whether there are robust controls to manage stock and assets	6. Unable to provide full range of existing services
Public Health & Wellbeing: Develop Strategic Partnership working with the public, private and voluntary sector organisations to help achieve joint priorities and obtain efficiencies				
All	Working With Partners (Note this is the same work as set out in Managing the Business section)		To assess whether for a number of partnerships there are robust governance arrangements	2. Partnership working does not result in improved efficiency and effectiveness
Env	Parking Enforcement	Core (R2)	To assess whether the Council receives sufficient assurance from the South Essex Parking Partnership on the delivery of parking enforcement duties (whereby Chelmsford City Council undertakes the administration of relevant 'back office' functions)	6. Unable to provide full range of existing services

APPENDIX B1: INTERNAL AUDIT PLAN 2014/15

Dept	Audit Activity	Work type *	Auditable Risks / Focus of the Audit	Relevant Corporate Risk (plus register no.)
Public Health & Wellbeing: Continue the transformation of the Housing Services				
H&C	Housing Allocations and Voids	Core (R2) Fraud Risk	To assess whether empty properties are: <ul style="list-style-type: none"> re-let efficiently and effectively in line with policy 	1. Changes in Welfare Reforms result in less benefit and greater demand on services
Environment: Ensure high quality grounds maintenance and street scene cleansing is delivered through pro-active monitoring and rectification				
Env	Contract Management	Core (R2) Fraud Risk	To assess whether there is effective management of the street cleansing and grounds maintenance contracts	6. Unable to provide full range of existing services
Transforming our Community: Progress development of the Local Plan for the Borough and progress the regeneration of Canvey and Hadleigh Town Centres				
R&N	Regeneration Capital Projects	Core (R1)	To assess whether capital / regeneration projects are effectively managed	5. Housing Regeneration is not progressed
Efficient and Effective Customer Focused Services: Implement organisational change to transform the Council by March 2016 by using new technology and working practices				
All	Welfare Reform	In year risk	To assess whether there is clear corporate understanding and joined up management of the impacts of welfare reforms introduced to date and readiness for future reforms	1. Welfare Reforms result in less benefit, greater demand on services and reduced recovery levels
All	Financial Planning	In year risk Audit Advisory	To assess whether there are robust plans to meet the Council's medium-term financial challenges to deliver its priority and statutorily required services within balanced budgets	6. Unable to provide full range of existing services

APPENDIX B1: INTERNAL AUDIT PLAN 2014/15

Dept	Audit Activity	Work type *	Auditable Risks / Focus of the Audit	Relevant Corporate Risk (plus register no.)
Res	IT Contract Management	Core (R1)	To assess whether there is robust management of the IT contract	6. Unable to provide full range of existing services
Res	IT Governance	Core (R1)	To understand and assess whether there is sufficient clarity over roles and responsibilities for key IT-related tasks and outcomes (per Information Technology Infrastructure Library practices)	7. Potential for too many priorities and inadequate staff capacity

Managing Delivery of the Audit Plan

	Audit Planning and Resourcing			
	Managing Contractor work			
	Reporting to Management Team and Audit Committee			
	Contingency for In-Year Unplanned Work			

* **Core work** means those service activities that score as high risk (i.e. risk level R1 or R2 out of 4 levels) from an audit perspective based on the criteria set out in the Internal Audit Strategy.

Fraud risk means there is an inherent risk of fraud in the process which will be assessed as part of the audit.

APPENDIX B1: INTERNAL AUDIT PLAN 2014/15

RESOURCE ALLOCATION	
	% OF INDICATIVE TOTAL DAYS
Managing the Business	10%
Key Financial Systems	33%
Implementing Recommendations	8%
Managing Service Delivery Risks:	
• Core Work Programme	28%
• One off current year risks	7%
Managing Delivery of the Audit Plan	6%
Unplanned Work	7%
Total	100%
Total number of days available	350

ANALYSIS OVER DEPARTMENTS		
All	Cross cutting	17%
H&C	Housing and Communities	30%
Env	Environmental Services	13%
R&N	Regeneration and Neighbourhoods	5%
Res	Resources	30%
L&G	Legal and Governance	5%

APPENDIX B2

	Risk Title	Risk	Controls	Audit Assurance
1	Public Health & Wellbeing	Changes in Welfare Reforms result in less benefit, greater demand on services and reduced recovery levels	<p>Tenancy Audits to evaluate personal circumstances</p> <p>Consultation with claimants potentially affected by the new changes</p> <p>Pro-active provision of information (e.g. Website).</p>	Welfare Reform Housing Allocation and Voids
2	Public Health & Wellbeing	Partnership working does not result in improved efficiency and effectiveness and reduces rather than increases organisational capacity	<p>Key partnership frameworks in place such as the LSP with associated governance</p> <p>Other partnerships such as the TGSE and Regeneration framework operate with associated governance arrangements</p>	Working with Partners Parking Enforcement – South Essex Parking Partnership
3	Public Health & Wellbeing	The approach to Safeguarding vulnerable people is not fully effective.	<p>Majority of staff have undertaken training in safeguarding and know how and when to report it</p> <p>Staff consistently report issues to safeguarding lead</p> <p>Safer recruitment practices are in place</p>	No planned audit in 2014/15 (last audit and follow up in 2013/14)
4	Transforming Our Community	Local Plan is not progressed	<p>Local Development Scheme – reported annually to Cabinet.</p> <p>Project plan and programme management and monitoring by officers and Members</p>	No planned audit in 2014/15

APPENDIX B2

	Risk Title	Risk	Controls	Audit Assurance
5	Transforming Our Community	Housing Regeneration is not progressed due to inadequate resources and / or complexities in sites and related planning issues	<div> <div>Action plan for development of two garage sites in place</div> <div>Head of Performance & Service Support & Regeneration Manager core team members</div> <div>Architect appointed to undertake planning permission</div> <div>Liaison with key services – Housing, Planning and Legal</div> </div>	Regeneration capital projects
6	Efficient & Effective Services	Unable to provide full range of existing services for years 2015/16 and beyond due to reductions in government grant funding	<div>Value of efficiencies required identified for each respective financial year and departmental efficiency targets for 2014/15 determined</div> <div>Efficiency work programme for 2013/14 and future years approved by Cabinet February 2013 and bi-monthly monitoring reports considered by CMT</div>	<div>Contract Management</div> <div>Key financial system audits</div> <div>Waterside Leisure Centre – management of stock and assets</div> <div>Financial Planning</div>
7	Efficient & Effective Services	Potential for too many priorities and inadequate staff capacity to pursue all priorities / Insufficient corporate resources to implement change	<div>Directorate and Service Planning in place</div> <div>Corporate objectives drafted</div> <div>New corporate aims in corporate plan</div> <div>Corporate training programme in place</div>	Quality of Management Information

INTERNAL AUDIT PERFORMANCE INDICATORS 2014/15

DESCRIPTION	TARGET
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Cost

Ensure the cost of the internal audit service is competitive.
To be assessed bi-annually.

Met

Productivity of Combined Team (Southend and Castle Point)

Maximise the staff days available to spend on delivering the audit plan.

75% of total
available days

Minimise the days lost annually per full time equivalent (FTE) team member to sickness absence.

Less than five
days

Operating Arrangements

IN YEAR TARGET: DELIVERY OF THE AUDIT PLAN

Deliver sufficient work for the Head of Internal Audit to be able to give an annual opinion on the adequacy and effectiveness of the Council's control environment.

98% of Audit Plan
by 31 May

QUALITY OF WORK

Produce audit work that external audit can rely on

External Audit
confirm this

Report annually on compliance with:

- the Public Sector Internal Audit Standards (PSIAS) and CIPFA Local Government Application Note

Conform to the
PSIAS

- the CIPFA Statement on the Role of the Head of Internal Audit.

Operate in
accordance with
the Statement

DESCRIPTION	TARGET
-------------	--------

Impact

CLIENT SATISFACTION WITH INTERNAL AUDIT

Deliver audits that clients consider to be timely, professionally delivered, well communicated, that also addressed key risks and made useful and practical recommendations that added value to the service.

Under review

CORPORATE TARGET TO IMPROVE THE SYSTEM OF INTERNAL CONTROL

Implement opportunities to mitigate risks by strengthening controls, properly within the agreed timescales.

Refer to
Summary Audit
Progress Report

How We Will Work With You

Internal Audit
Outputs

Charter,
Strategy
Statement,
Audit Plan

Terms of
Reference for

Detailed
audit work

Relevant Service Managers	
Discuss draft Sign off final	Discuss findings on an ongoing basis

Relevant Heads of Service (HoS) / Strategic Directors	Discuss risk assessment	Discuss draft Sign off final	Brief if issues of concern arise during the review
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Head of Resources (Section 151 Officer)		Copy final	
--	--	------------	--

Strategic Director Transformation & Resources (see note 2 below)	Discuss risk assessment	Copy final	Brief if issues of concern arise during the review
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Executive Management Team (EMT) (see note 1 below)	Audit Committee	Consider	Approve
		Report proposed changes to the plan each quarter	

How We Will Work With You

Internal Audit
Outputs

Individual
audit reports

Audit report
action plans

Relevant Service Managers	Relevant Heads of Service (HoS) / Strategic Directors	Head of Resources (Section 151 Officer)	Strategic Director Transformation & Resources (see note 2 below)	Executive Management Team (EMT) (see note 1 below)	Audit Committee
Discuss draft Sign off final	Discuss draft Sign off final	Copy final	Copy final	Final reports also sent to Chief Executive (Head of Paid Service)	
Officers: Monitor the status of outstanding recommendations on a regular basis and update monthly report showing current status of them IA: Check agreed actions have been taken when all implementation dates have passed in each report IA: Produce and agree an updated action plan or sign off the report			Brief on any issues arising		
		Copy final feedback report if one is produced			Consider then note the results of this work contained in the Summary Audit Progress Report

How We Will Work With You

**Internal Audit
Outputs**

**Progress
reports**

**Annual
report**

Relevant Service Managers		
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Relevant Heads of Service (HoS) / Strategic Directors	Discuss audit findings insert for the Summary Audit Progress Report	
--	--	--

Head of Resources (Section 151 Officer)		
--	--	--

Strategic Director Transformation & Resources (see note 2 below)		
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Executive Management Team (EMT) (see note 1 below)	Audit Committee	Consider then note the Summary Audit Progress Report
Consider then accept the Head of Internal Audit Annual Report		

Note 1 This group includes the Council's Head of Paid Service, Monitoring Officer and Section 151 Officer
Note 2 All reports to Executive Management Team and the Audit Committee are signed off by the Strategic
 Director Transformation & Resources in a line management capacity

AUDIT COMMITTEE

25 June 2014

Subject: BDO Progress Report to Those Charged with Governance

1. Purpose of Report

To report on progress in delivering the 2013/14 and 2014/15 Annual Audit Plan.

2. Background

Attached is BDO's (the appointed External Auditor to the Council) Progress report to Those Charged with Governance.

A senior representative of BDO will present the key matters from this report to the Audit Committee and then respond to any questions of clarification by Members

3. Corporate Implications

(a) Financial Implications

The cost to the Council of external audit for 2013/14 is planned to be £74,120 for the Code audit and £27,800 for the certification work.

(b) Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the Audit Commission's Code of Audit Practice (the Code). By considering this report, the Committee can satisfy itself that this requirement is being discharged.

(c) Human Resources and Equality Implications

Human Resources

None

Equality Implications

None.

(d) IT and Asset Management Implications

None

4. Links to Council's Priorities and Objectives

Audit work contributes to the delivery of all the Council's Priorities and Objectives.

5. Timescale for Implementation and Risk Factors

Timescales for delivering elements of the Audit Plan are set out in the progress report.

Recommendation

The Audit Committee notes the progress with the 2013/14 and 2014/15 Audit Plan.

Resolution Required

Background Papers

- None

Attachments

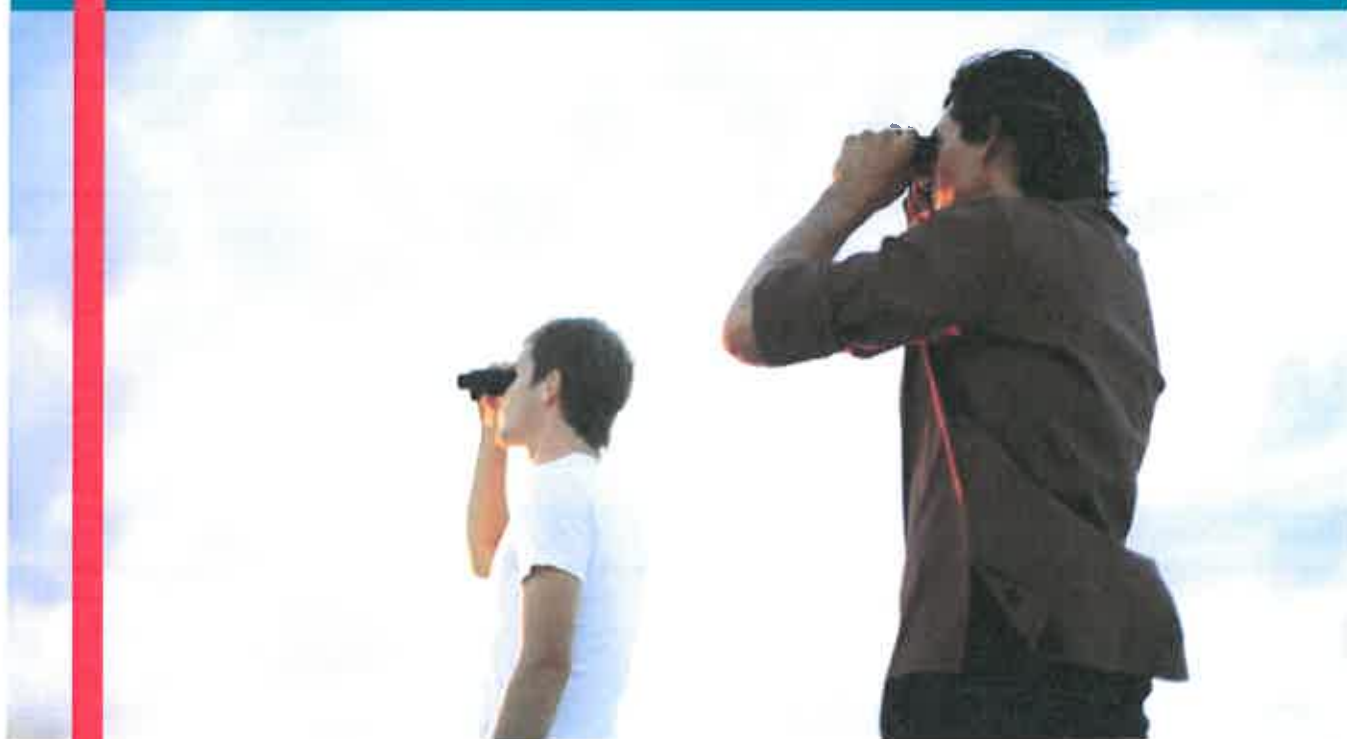
- BDO's Progress Report to Those Charged with Governance

Report Author: Zoe Thompson, Senior Manager, BDO

CASTLE POINT BOROUGH COUNCIL

Progress report to those charged with governance

June 2014



INTRODUCTION

Summary of progress

This report is intended to provide the Audit Committee with an update of the progress in delivering the 2013/14 audit and 2014/15 audit.

Auditors' principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code of Audit Practice for Local Government, the audited body's:

- financial statements
- arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to certify specified grant claims and returns as directed by the Audit Commission.

We have assessed whether the arrangements put in place by the Council will allow us to complete our work by the expected deadlines and whether there are any issues that are likely to have a significant impact on our ability to provide unmodified audit reports and opinions. This is included as a "RAG" assessment in the report.



RED

Unlikely to be able to meet reporting deadlines or modification of audit report or opinion



AMBER





Some concerns around meeting reporting deadlines or potential risk of modification of audit report or opinion







GREEN

On target to meet deadlines and no current concerns over issue of audit report or opinion

2013/14 Annual Audit Plan - progress summary as at 9 June 2014

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	First phase of work completed and Audit Plan issued.	Planning Letter 2013/14 Reported to the Audit Committee in June 2013. Audit Plan 2013/14 Reported to the Audit Committee in March 2014.	
Financial statements				
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in June 2014.	Work in progress and is largely complete.	We report to management any deficiencies in internal control identified during the audit. Where we identify significant deficiencies in internal control identified during the audit we also report those in our Final Audit Report to the Audit Committee .	
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2014.	Start date agreed as 30 June 2014.	Final Audit Report to the Audit Committee Target issue date September 2014. Opinion on the financial statements Target issue date September 2014.	
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion - deadline set as 3 October 2014.	To be completed in September 2014.	Opinion on the WGA Consolidation Pack Target date 3 October 2014.	





CASTLE POINT BOROUGH COUNCIL

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Use of Resources				
Use of resources	<p>Review of use of resources based on:</p> <ul style="list-style-type: none"> proper arrangements in place for securing financial resilience proper arrangements for challenging how the Council secures economy, efficiency and effectiveness. <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2014.</p>	Planning has been completed. Work will continue throughout the audit period.	Final Audit Report to the Audit Committee Target issue date September 2014.	
VFM conclusion	<p>Review to support a conclusion on whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.</p> <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2014.</p>	As above.	Final Audit Report to the Audit Committee Target issue date September 2014. VFM conclusion Target issue date September 2014.	
Reporting				
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2014.	This will follow completion of the Audit.	Annual Audit Letter Target issue date October 2014.	
Grants certification				
Grants and returns	To audit and submit grant claims and returns by the relevant deadlines.	Work to be completed from August to November 2014.	All grants claims and returns to be audited in line with an agreed schedule.	





CASTLE POINT BOROUGH COUNCIL

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Grants Report	Summary of our certification work completed on 31 March 2014 claims, to be issued by February 2015.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2015 (target date December 2014).	

2014/15 Annual Audit Plan - progress summary as at 9 June 2014

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Planning	Risk assessment and formulation of the audit plan. Detailed audit plan to be issued outlining direction of the audit.	Planning letter issued. Detailed planning due to commence following completion of the 2013/14 audit.	Planning Letter 2013/14 Reported to the Audit Committee in March 2014. Audit Plan 2013/14 Target issue date February 2015.	
Financial statements				
Interim audit	Audit of the key financial systems that support the financial statements of accounts. To be completed prior to commencement of the audit of the financial statements in July 2015.	Start date to be agreed.	We report to management any deficiencies in internal control identified during the audit. Where we identify significant deficiencies in internal control identified during the audit we also report those in our Final Audit Report to the Audit Committee.	
Financial Statements audit	Audit of the draft financial statements to determine whether they give a true and fair view of the Council's financial affairs and the income and expenditure for the year. Deadline for issue of audit opinion and publication of the statement of accounts is 30 September 2015.	Start date to be agreed.	Final Audit Report to the Audit Committee Target issue date September 2015. Opinion on the financial statements Target issue date September 2015.	
Whole of government accounts audit	Audit of the consolidation pack for consistency with the audited statement of accounts. Consolidation pack opinion - deadline TBC but expected to be 2 October 2015.	To be completed in September 2015.	Opinion on the WGA Consolidation Pack Target date 2 October 2015.	

CASTLE POINT BOROUGH COUNCIL

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Use of Resources				
Use of resources	<p>Review of use of resources based on:</p> <ul style="list-style-type: none"> proper arrangements in place for securing financial resilience proper arrangements for challenging how the Council secures economy, efficiency and effectiveness. <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2015.</p>	To be completed by September 2015.	Final Audit Report to the Audit Committee Target issue date September 2015.	
VFM conclusion	<p>Review to support a conclusion on whether the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.</p> <p>Conclusion to be given alongside the accounts opinion by the deadline of 30 September 2015.</p>	As above.	Final Audit Report to the Audit Committee Target issue date September 2015. VFM conclusion Target issue date September 2015.	
Reporting				
Annual Audit Letter	Public-facing summary of audit work and key conclusions for the year. To be finalised by 31 October 2015.	This will follow completion of the Audit.	Annual Audit Letter Target issue date October 2015.	
Grants certification				
Grants and returns	To audit and submit grant claims and returns by the relevant deadlines.	Work to be completed from August to November 2015.	All grants claims and returns to be audited in line with an agreed schedule.	

CASTLE POINT BOROUGH COUNCIL

Area of work	Scope / Associated deadlines	Status	Outputs / Date	RAG
Grants Report	Summary of our certification work completed on 31 March 2015 claims, to be issued by February 2016.	To be drafted after certification work concluded.	Grants Report to those charged with governance to be issued by February 2016 (target date December 2015).	

BDO UK

2 ^{Offices} **300** Partners
2 ^{Offices} **3,500** Staff

1 for exceptional
client service¹

90% of our clients
would recommend us¹ | **76%**
already have²

¹ Independent research (Mid Market Monitor 2012 and 2013)
undertaken by Meridian West shows BDO has the highest client
satisfaction rating among its peers

² Client Listening Programme 2012/13

BDO INTERNATIONAL

US\$6.45 ^{bn¹}
2013
revenue

14 ^{Countries} **1,250** Offices
56,000 Staff

¹ US\$6.45bn (64.92 bn) combined fee income 2013