

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 20 July 2023

Report of: Head of Finance and Audit

Subject: HEAD OF INTERNAL AUDITS ANNUAL OPINION

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2022/23 and gives an overall assurance opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

It also covers the results of the Quality Assurance and Improvement Plan for the internal audit service for the year.

RECOMMENDATION

It is RECOMMENDED that the contents of the report are noted as a source of evidence for the 2022/23 Annual Governance Statement.

INTRODUCTION

1. This report covers the assurances that are available through the work of the Internal Audit service on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
2. It is one of the key documents to inform this year's Annual Governance Statement.

ASSURANCES AVAILABLE TO SUPPORT THE OPINION

Completion of Planned Assignments

3. The original audit plan for 2022/23 included 26 audit assignments of different types. Two of the audits in the plan were postponed due to service availability, system slippage or audit resource availability. There has instead been coverage of one of the audits on the reserve list.
4. The revised plan of 25 audits (20 last year) therefore still gave a good representation of the audit universe (which contains 171 audit titles). 15 of these assignments were to produce an audit opinion and 152 days, plus 10 days in-house support, were assigned to this type of work. In addition, 8 days were used to complete the audit opinion of an audit from a previous years' plan (Housing voids follow up 2021-22). This is slightly below the target amount of 180 days set out in the Audit Strategy but is compensated by the Building Control partnership audit completed as part of the Portsmouth City Council audit plan in the year.
5. At the time of giving this annual opinion, all 25 planned assignments for 2022/23 have been undertaken and there has been sufficient coverage on 23 of these for conclusions to have been drawn and to be useable as a source of assurance. 22 (17 last year as at September) have been fully completed and actions agreed with the Audit Sponsor. Three pieces of work from previous plans have also now been completed so can also be used in this report.
6. This is considered adequate coverage to allow the annual opinion to be produced. [Appendices A and B](#) give the latest status of the assignments and the key assurance measures arising from the work.

Spread of Individual Assignment Opinions

7. The majority of assignments result in an individual assurance opinion which reflects the level of internal control found within the system for those areas tested.
8. The table below provides a summary of this information compared to previous years:

Table 1 - Spread of Assignment Assurance Opinions Given					
Year	Strong	Reasonable	Limited	Minimal	Total
2022/23	6 (38%)	10	0	0	16
2021/22	8 (66%)	4	0	0	12
2020/21	10 (63%)	5	1	0	16
2019/20	7 (44%)	5	4	0	16
2018/19	6 (30%)	11	3	0	20

9. No opinions of 'Minimal' or 'Limited Assurance' were issued in the year, and the follow up of previous audits which received limited assurance (Markets and Housing Voids) were given a higher assurance opinion this time.

Income or Expenditure Errors found

10. Errors are defined as spending incurred which shouldn't have been, or income due which was not requested. Three errors were identified during the transaction testing carried out for the Markets Audit.
- Miscoding of VAT amounting to an understatement of £108
 - An overpayment of £80 due to a calculation error on a supplier invoice
 - Potential loss of £35 income due to incorrect charges made

Implementation of Recommendations

11. During 2022/23, 5 of the audits included a review of the progress made with implementing previous recommendations. These covered 40 essential or important actions. Testing confirmed that 56% of the recommendations have been implemented and a further 33% were in progress.
12. Of the recommendations followed up 14 were essential recommendations. Of these, 10 (71%) were closed as complete or no longer needed, and all the rest were in progress. Those outstanding related to Housing Voids and Inspections (1) and Housing Rents (3).
13. The table below compares this to previous years.

Table 2 – Trend in Implementation of Recommendations			
	No of audits with recommendation reviews	No. of recs tested	% of recommendations tested signed off by audit as implemented or closed
2022/23	5	40	56% + 33% in progress
2021/22	7	122	59% + 36% in progress
2020/21	11	67	48% + 41% in progress
2019/20	12	79	66% + 16% in progress
2018/19	15	190	69% + 18% in progress
2017/18	6	20	35% + 24% in progress

Other Sources of Assurance in the Year

14. [Appendix C](#) lists other sources of assurance that have been available this year to support the Annual Audit Opinion. Particular areas of in-depth work which provide assurance on the Councils systems of control and management of risk relate to:
- (a) Participation in phase 2 of the implementation of the finance system
 - (b) Development and implementation of the debt collection vision for the Council
 - (c) Assurance processes for energy rebate payment schemes
15. One finding of note from this work, as detailed in the annual counter fraud report, was the 5 duplicate invoices paid in the year (totalling £19,189). An unplanned audit review was carried out as a consequence and the systems of control have been strengthened as a consequence.
16. In addition, the Policy, Research and Engagement team have completed their annual review of partnerships as a further source of assurance. The highlights from the annual report are provided in Appendix E.

Specific Assurance Responsibilities

17. The following table summarises the key sources of assurance in the year into specific risks and systems of control identified in the Internal Audit Standards for internal audit coverage.

Governance	Planned Audit of the Use of Data Sharing agreements in the Council Planned Audit of Compliance with the Government Counter Fraud Professional Standard
Ethics	Advice given on new online training module for the Whistleblowing policy
IT	Planned Audit of Corporate Software Suite Planned Audit of Housing System – Post Implementation Review
Risk Management	Design of controls used in the Energy Rebates processes Leading on compilation of the 6 monthly risk management reports including actions escalated to senior managers

No significant issues were found in the systems of control being utilised that require highlighting.

HEAD OF AUDIT OPINION

18. I am satisfied that sufficient internal work has been undertaken to allow an opinion to be given on the adequacy and effectiveness of governance, risk management and control. However, it should be noted that, as audit cannot review every decision and transaction of the council, the opinion cannot provide absolute assurance.

19. Using the information outlined in this report, in the opinion of the Head of Finance and Audit, the Council had a framework of governance, risk management and control for the year 2022/23 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the Systems Thinking culture, and the need to address any major weaknesses found.
20. The opinion is based on the following evidence:
- no “minimal” or limited audit assurance opinions were given this year;
 - income or expenditure errors were only recorded in one audit and were very low in value;
 - the expenditure errors found in the NFI data matching have been addressed and new controls put in place to strengthen arrangements.
 - 56% of recommendations followed up were signed off by the audit team and a further 33% were being progressed;
 - collaborative working with services on 1 wider work area in the year (Section 106 developer contributions) is leading to an improved workflow process;
 - completion of work to address 1 issue highlighted last year:
 - ✓ replacing the system to host the employee gifts and hospitality register, supported by the launch of the revised policy
21. Good progress has been made on all the following other issues highlighted last year but some work is still needed:
- (a) Rolling out training and support for contract management. *
 - (b) Strengthening debt collection and write off processes in a number of services.
 - (c) Carrying out stock condition surveys and implementing asset management plans.
 - (d) Fully embedding the new system for managing costs associated with housing repairs.
 - (e) Fully updating the status of previous internal audit recommendations made.
22. Additional areas noted this year where further action will enhance the adequacy and effectiveness of governance, risk management and control include:
- (a) Development of reports and dashboards on the new finance system to provide management information and allow improved internal audit scrutiny of the data.
 - (b) Strengthening awareness of what good looks like in spending decisions and providing increased assurance testing of supplier spending
23. The issue above marked with an asterisk has been included in this year’s Annual Governance Statement.

AUDIT SERVICE QUALITY ASSURANCE

24. As required by the Public Sector Internal Audit Standards (PSIAs), the service has developed a documented Quality Assurance and Improvement Plan (QAIP) which consists of a self-assessment against the standards, on-going monitoring arrangements and local performance measures.
25. The QAIP is designed to provide reasonable assurance to its key stakeholders that the service: performs its work in accordance with its Charter; operates in an effective and efficient manner; is perceived by its key stakeholders as adding value and improving the service that it provides.
26. The PSIAs require the Head of Internal Audit to report on the outcomes of the QAIP each year which is covered by the following sections.

Audit Independence

27. In conformance with PSIAs 1110, it is confirmed that that the internal audit activity was organisationally independent. This is assessed on the basis that the Head of Finance and Audit reported functionally to the Audit and Governance Committee during the year and had free and unfettered access to the Chief Executive Officer and Chair of the Committee.
28. Whilst there is a potential conflict from the dual role of Head of Finance and Head of Audit there are compensating controls which are set out in the Audit Charter as follows:

The Head of Finance and Audit and the External Partner Authorised Officer (at Portsmouth City Council) will be a member of a professional accountancy or auditing body.
The Head of Finance and Audit will assume the auditee role in audits of specific finance and local taxation systems.
The majority of planned "opinion" work will be carried out by the auditors of the external partner who are not employees of the council and who report to their own head of audit.
The original copy of all audit reports submitted by the external partners will be filed as part of the audit trail for that audit.
Although the teams will liaise on the scope of the audit and the content of the final audit report, the External Partner Authorised Officer will be sent a copy of the final report allowing them to raise any concerns they have with the content with the Section 151 Officer.
The Section 151 Officer will meet annually with the External Partner Authorised Officer without the Head of Finance and Audit being present.

29. The arrangements laid out in the Audit Charter were adhered to in the year.

Self-Assessment against the Standards

30. Our self-assessment against the Public Sector Internal Audit Standards this year continued with our rolling review of conformance with 10 standards (17 parts) selected by the reviewing officer. It should be noted that there are 106 parts making up the 52 standards.
31. The review this year covered the following standards:

1100	Independence and Objectivity
1210 A1, A2, A3, C1	Proficiency
2050	Coordination and Reliance
2060	Reporting to Senior Management and the Board
2070	External Service Provider and Organisational Responsibility for Internal Auditing
2100	Nature of Work
2110	Governance
2110 A1, A2	Governance
2200	Engagement Planning
2210 A3	Engagement Objectives

32. No areas of non-conformance were found.
33. Our self-assessment for 2022/23 therefore concluded that we have fully conformed to 49 [49 last year] of the 52 applicable standards with partial conformance with the other 3.
34. Instances of non, or part conformance are given in [Appendix D](#); we are now down to those where no further action is planned to improve conformance. Due to the compensating controls documented, none of the areas are considered significant enough for reporting in the Annual Governance Statement.
35. There are new audit standards proposed for the profession and one area of work that will be required in 2023/24 will be to start assessing the service against these standards.

Compliance with the CIPFA Statement on the Role of the Head of Internal Audit

36. During 2019/20 FBC performed a self-assessment of its compliance with the requirements listed within the latest CIPFA Statement on the Role of the Head of Internal Audit, as part of the annual Quality Assurance Improvement Programme (QAIP).
37. Overall, it was found that FBC complied fully with 47 out of 51 requirements (92%) and partially complied with 3 requirements (6%); the area of non-compliance related to the 5-yearly external review of audit quality, as already highlighted in [Appendix D](#). A few areas of action were identified and added to the QAIP action plan.
38. This was followed up in 2022/23 and progress with the action plan is continuing to be made. Audits are being included in the plan which are providing advice and consultancy to the Organisation, and changes have been made to the Internal Audit Charter to include additional responsibilities required by the CIPFA statement.

Local Performance Measures

39. Three local performance measures were used for the service in 2022/23, as discussed below.

Completion of Plan

40. The first measure covers the amount of planned work that is finalised by the time of the Annual Report. The level of completed work is high, which given the effect of the impacts on audit resources in the year is a significant achievement.

Completion of Plan	2022/23	2021/22	2020/21	2019/20
% of reports finalised by time of Head of Audits Report	80% 20/25	85% 17/20	89% (17/19)	95% (21/22)

Time Taken to Deliver Assignments

41. The second measure covers the length of time between the initial scoping meeting with the customer and the provision of a final report. This is a known area of weakness, and the performance has remained steady in comparison to the prior year, albeit the data has not been compiled across the whole plan.

Time Taken	2022/23	2021/22	2020/21	2019/20
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits)	4 (14)	4 (9)	6 (19)	5.1 (23)

Customer Feedback

42. The third measure covers customer feedback. We use a face-to-face interview with an auditor not involved in the assignment in order to obtain feedback. 10 interviews have been completed since the last report and a score applied as shown in the table below.

Level of Customer Satisfaction	2022/23	2021/22	2020/21	2019/20
Audit was above expectations	30% (3)	33% (3)	17% (2)	15% (2)
Happy with the audit	60% (6)	67% (6)	75% (9)	77% (10)
Minor problems with the audit	10% (1)	-	8% (1)	8% (1)
Significant problems with the audit	-	-	-	-

No trends in areas for improvement were identified this year.

RISK ASSESSMENT

43. The Head of Audit's Opinion above highlights those significant control issues where it is recommended that action is taken.

CONCLUSION

44. This annual audit report contains the information required by the Public Sector Internal Audit Standards. The opinion offered within it, is that the Council

continues to have a good framework of governance, risk management and control which has been maintained appropriately during the recent pressures faced by the Council.

Appendices:

- A. Results of Planned Assignments 2022/23
- B. Results of Planned Assignments from previous years not available last year
- C. Additional Sources of Assurance this year
- D. Areas of Non-Conformance with the Public Sector Internal Audit Standards
- E. Partnership Governance Assurance 2022/23

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 11/03/19 on the Internal Audit Strategy

Report to Audit and Governance Committee on 26/09/22 on Head of Audit's Annual Opinion 2020/21

Quarterly Head of Audit reports to the Audit and Governance Committee during 2022/23

Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 – Public Sector Internal Audit Standards (PSIAS)

Chartered Institute of Public Finance and Accountancy (CIPFA) 2019 – Statement on the role of the Head of Internal Audit (HIA) in public service organisations.

Enquiries:

For further information on this report please contact Elaine Hammell (Ext 4344)

APPENDIX A

RESULTS OF PLANNED ASSIGNMENTS 2022/23

[illegible]

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	New Recommendations			Previous Recs. (E and I only)			
						Errors Found? Y/N	Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
Markets (1266)	10	8	Reasonable	↑ 21/22	July 2023	Y	-	6	3	3	1	1
COMPUTER – FUNDAMENTAL SYSTEMS												
Corporate Software Suite (1267)	10	10	Strong	No previous audit	November 2022	N	-	1	-	-	-	-
Housing System - Post Implementation Review (1268)	10	15	Strong	No previous audit	July 2023	N	-	1	-	-	-	-
CORPORATE, SPECIALIST, GOVERNANCE AND RISK												
Data Sharing Agreements (1269)	10	15	Reasonable	No previous audit	July 2023	N	-	4	2	-	-	-
WIDER WORK												
Compliance with the Government Counter Fraud Professional Standard (1256)	10	-	N/A	N/A	November 2022	N/A	-	3	-	-	-	-
Process Flow for S106 Contributions (1270)	4	-										
Business Rates Refunds - Review of 2021/22 Extracts (1271)	10	-	N/A	N/A	July 2023	N	-	-	1	-	-	-
Anti-Bribery Arrangements (1272)	Postponed	-										
Contract Management (1273)	10	-	N/A	N/A	March 2023	N/A	-	6	-	-	-	-
NFI - Data Privacy Notices (1274)	10	-	N/A	N/A	November 2022	N/A	-	-	-	-	-	-
Annual Procurement Transaction Testing (1275)	10	12	Strong	N/A	July 2023	N	-	1	-	-	-	-
Targeted Assistance with Recommendation Implementation (1276)	10	-	N/A	N/A	July 2023	-	-	3	9	8	5	2

APPENDIX B

RESULTS OF PLANNED ASSIGNMENTS FROM PREVIOUS YEARS NOT FULLY AVAILABLE FOR LAST YEAR'S OPINION OR UPDATED

Audit Title & Report Number	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included		New Recommendations		Previous Recs. (E and I only)			
					Errors Found ? Y/N	Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
SERVICES AND SYSTEMS – HIGH RISK											
Sheltered Housing – Safe Spot Checks 2021/22	10	N/A	↔	November 2022	N	-	8	-	-	-	-
LIMITED OPINION FOLLOW UP											
Housing Voids Follow Up 2021/22	5	Reasonable	⬆ 2019/20	November 2022	Y	-	1	10	1	6	1
FOLLOW UP / JOINT WORKING PROJECT											
Building Health and Safety Risks 2016/17	N/A	N/A	N/A	March 2023	N	-	-	-	-	-	-

APPENDIX C

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

Audit Team overview of systems of control	<p>Project to resolve missing and duplicate invoices received from a housing company.</p> <p>Part of the Core team reviewing, designing and implementing the systems of controls associated with the new Finance system.</p> <p>Lead officer for the development and implementation of the Debt Collection Vision and chair of debt recovery group</p> <p>Implementation of the controls in the Energy rebates process for 2022/23</p> <p>Advising on the controls to be used in the Energy Bills Support Scheme Alternative Funding (EBSS AF) and the Alternative Fuel Payment Alternative Fund (AFP AF).</p> <p>Completion of assurance returns and reconciliations for business grants</p>
Reactive work undertaken by the Team	<p>Audit review of the reasons behind the duplicate creditor payments found in the National Fraud Initiative data matches.</p> <p>Assistance with transfer of goods from a deceased tenant</p> <p>Contribution to internal investigations</p>
Other work undertaken by the team	<p>Developer's contributions (S106) working group chair and attendees</p> <p>Review and response to fraud alerts issued by the National Anti-Fraud Network</p> <p>Compilation of evidence for the Annual Governance Statement</p> <p>Facilitation of project to strengthen documentation of contracts in place at a service level.</p> <p>Attendance at meetings to implement a new telephone payment system</p> <p>Advice given on new online training module for the Whistleblowing policy</p>
Other sources	<p>6 monthly risk management reports (September 2022 and March 2023)</p> <p>Attendance at Corporate Financial Forecasting and Finance Strategy meetings</p> <p>Attendance at Procurement Monitoring meetings</p> <p>Response to complaints made to Local Taxation team</p> <p>Partnership Coverage by other Audit Teams (Project Integra, Coastal Partnership, Portchester Crematorium, PfSH)</p> <p>System and Organisational Report for the finance system (Ernst and Young)</p>

APPENDIX D

Areas of Non-Conformance with the Public Sector Internal Audit Standards

<i>Standard</i>	<i>Area of Non-Conformance</i>	<i>Comments</i>
1100 Independence and Objectivity (part)	The Chief Executive Officer and Chair of the Audit and Governance Committee do not formally feed into the performance appraisal of the Chief Audit Executive.	<p>No further action proposed</p> <p>Informal mechanisms are in place for concerns about independence and performance to be raised. Regular meetings occur between the Section 151 Officer and the Head of Finance and Audit [HFA]. There are also regular one to ones between the Chief Executive Officer and Section 151 Officer and an annual one to one between the Chief Executive Officer and the HFA.</p> <p>The HFA has access to the Chair and Vice chairs of the Audit and Governance Committee during the quarterly chairman briefings and can approach them directly should she have any concerns. They can also raise any concerns they have with the performance of the internal audit service.</p>
1312 External Assessments	No external assessments are currently included in the Quality Assurance and Improvement Plan.	<p>No further action proposed</p> <p>Given the current financial climate it is unlikely that we would want to incur additional costs to pay for an independent external verification of our self-assessment. However, our audit partners completed an external assessment in 2022/23 which provides us with assurance on their processes.</p> <p>The in-house team do monitor any feedback on conformance to the standards received from the external auditors, and the internal audit partners.</p>
2020 Communication and Approval (part)	The entire internal audit activity's plan and resource requirements were not presented to senior managers in addition to the board for review.	<p>No further action proposed</p> <p>The Audit and Governance Committee is responsible for endorsing the Annual Plan of work which the Section 151 Officer has previously reviewed. Other Directors are consulted on coverage in the plan for their department and receive information on the proposed Annual Plans and any changes to these before approval and are invited to provide feedback.</p>

APPENDIX E**Partnership Governance Assurance 2022/23**

The Policy, Research and Engagement team have completed their annual review of partnerships and will report the findings to the Chief Executive's Management Team in July 2023. A fuller Partnership Governance report last went to the Audit and Governance Committee in September 2022. The committee concluded that there were no requests for further information or clarification on Significant Partnerships, as Members did not have any concerns over the arrangements in place.

The table below lists the significant and less significant partnerships identified in the review:

Significant Partnerships	Less Significant Partnerships
Southampton and Fareham Legal Services Partnership	Aspect
Project Integra	Hampshire and Isle of Wight
Portchester Crematorium Joint Committee	Local Government
Partnership for South Hampshire (PfSH)	Association
Internal Audit Services Partnership	Hampshire Children's Trust
Fareham and Gosport Environmental Health Partnership	Fareham Local Children's
Fareham, Gosport and Portsmouth Building Control Partnership (BCP)	Partnership
Fareham Community Safety Partnership (CSP)	Wayfarer Partnership
Coastal Partners	

The Council's definition of a significant partnership is a partnership that:

- is a legal requirement or based on statutory guidance; or
- it commissions or delivers activities at a borough wide or local level that contribute substantially towards the Corporate Strategy 2017-2023 outcomes; and
- there is a significant risk to the Council if there is under-performance in this area.

The annual review provided the following assurance:

- All 13 of the partnerships have agreements in place.
- Of the 13 partnerships listed, 12 are progressing well, and 1; Project Integra; needs to improve its performance. The Lead Officer for that partnership provided the following update:

Hampshire County Council (HCC) recently set out revised financial proposals and a timeline for implementation as part of a new Inter Authority Agreement to replace the current Project Integra Memorandum of Understanding. These proposals represent a significant cost to FBC and other district councils. HCC are seeking approval from Waste Collection Authorities in Autumn 2023 with implementation in April 2024