

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **21 September 2015**

Report of: **Director of Finance and Resources**

Subject: **HEAD OF AUDIT'S ANNUAL OPINION**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2014/15 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

That the contents of the report are noted as a source of evidence for the 2014/15 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 which inform this year's Annual Governance Statement.

ASSURANCES AVAILABLE TO SUPPORT THE OPINION

Completion of Planned Assignments

3. The audit plan for 2014/15 included 21 audit assignments of different types to give a good spread across the audit universe. This is fewer compared to previous years as we have changed our focus from 2014/15 to carry out fewer but longer audits which give a deeper understanding of weaknesses found before any actions are agreed with the Sponsor.
4. At the time of giving this annual opinion all 21 assignments had been undertaken and sufficient conclusions drawn to be useable as a source of assurance. 12 had been fully completed and actions agreed with the Audit Sponsor. [Appendix A](#) gives the latest status of the assignments and the key assurance measures arising from the work.

Spread of Individual Assignment Opinions

5. 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. The table below provides a summary of this information compared to previous years:

Year	Strong	Reasonable	Limited	Minimal	Total
2014/15	6 (40%)	8	1	0	15
2013/14	13 (41%)	18	1	0	32
2012/13	8 (30%)	16	3	0	27
2011/12	13 (46%)	14	1	0	28

6. No opinions of 'Minimal Assurance' were issued in the year. There is 1 'Limited Assurance opinion' likely to be awarded in the year for the Contract Completion audit. Issues were found in relation to the clarity of policy and levels of compliance covering the Contracts Payment Register, pricing variation orders and reporting overspends. These will be need to be addressed as part of the major rewrite of the Financial Regulation on Procurement which is planned following a Systems Thinking review of the process.
7. Work has been carried out in the last couple of years to address issues arising from the Data Protection audits. In particular a computer training package (Skillgate) is being developed for roll out to all employees. This is a significant action in terms of governance.

8. It should be noted that the major audit of a service (Benefits) in the year which had undergone a “Systems Thinking” intervention is likely to be given a Strong assurance opinion.

Income or Expenditure Errors found

9. The following two errors were identified in the year from the testing carried out in planned assignments:
- An invoice was incorrectly raised giving a customer a 50% discount (£400) on the annual beach hut fee when he was not a resident of the borough.
 - A variation order had been made to a contract reducing the work that needed to be carried out by £700. However, it had been included in the Final Account and paid.

Essential Recommendations

10. As at the end of 2013 survey there were 4 essential recommendations awaiting implementation. A further 4 were added after the survey. The 2014 survey confirmed that all 8 were now implemented or could be cancelled and have been closed down by internal audit.
11. However, 8 new essential recommendations are likely to arise from the 2014/15 audits of Contract Completion, Penetration testing and Database Administration.

Implementation of All Recommendations

12. During 2014/15, 13 of the audits included a review of the progress made with implementing previous recommendations. These covered a total of 69 essential or important actions. Testing confirmed that **57%** of the recommendations have been implemented with a further 14% in progress. 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
2014/15	13	69	57% + 14% in progress
2013/14	17	68	66%
2012/13	16	77	61%
2011/12	23	147	68%
2010/11	25	262	79%

13. A similar implementation rate was found in the 2014 survey of all 120 recommendations which were reported as still unimplemented at the end of the previous survey or had since been added from new reports. **70 (58%)** were reported by services as implemented and a further **5 (4%)** were nearly complete.
14. However, it should be noted that the audit follow up work during the year concluded that 16/45 (36%) of recommendations previously reported by services as implemented actually required further work.

15. A small pilot was carried out this year in which some audit resources were used to facilitate managers in the implementation of recommendations which have been outstanding for some time. 3 recommendations have been targeted, 2 of which are now signed off as complete and the last 1 is in progress. We will therefore be expanding this approach in 2015/16.
16. A new action database has also been designed to improve the management and reporting of recommendation progress. This will be launched in the next few months and will be a strong addition to the governance framework. Another full survey of outstanding recommendations will then be undertaken.

Other Sources of Assurance in the Year

17. [Appendix B](#) lists other sources of assurance that have been available this year to support the Annual Audit Opinion, and shows where some opportunities to strengthen internal controls were found. The most significant covering the Transport Policy is summarised below.

Governance

18. Two specific pieces of work were undertaken in the year in relation to governance. The first was a planned audit carried out to test compliance with Financial Regulations in relation to the security and banking of income. The results are summarised in the table below. No significant problems were found.

Table 3 – Results from Testing of Compliance with Financial Regulations		
Rule Tested	Level of Compliance Found	Notes
19.1.6 – Security - Appropriate arrangements must be made for all income collected to safeguard against loss or theft.	9 areas of local income collection tested. Minor issues found for 2 areas.	Managers have now taken action to deal with the minor issues found.
19.1.8 – Timeliness – All income received should be banked in full as soon as practical and within 5 working days.	Arrangements for 9 areas tested including 16 individual receipts. Some issues with promptness found for 2 areas.	Action has been taken to deal with issues found and wider work is planned to make the processes more efficient.
17.1.4 – Floats – Petty cash and float holders are responsible for the safekeeping of the cash.	2 local cash floats tested. No issues found.	N/A

19. The second was a piece of reactive work following a request from the Chief Executives Assurance Group to look at compliance with the Transport Policy, in relation to employees and members who drive their own vehicle for Council business.

Testing was only able to give limited assurance on the level of compliance and it was concluded that the current control process needed strengthening. An action has therefore been agreed to develop a new electronic declaration process linked to the Council's Claims and Expenses process.

Information Technology Governance

The Public Sector Internal Audit Standards require the *“internal audit activity to assess whether the information technology governance of the organisation supports the organisation’s strategies and objectives”*. Resource has been used this year to develop and pilot a process by which this can be achieved.

20. The conclusion arising from this work for 2014/15 is that the information technology governance of the Council is adequate to support the organisation's strategies and objectives. This is based on the knowledge of the work that has been done to realign the IT strategy and workforce to meet the needs of the organisation, and the findings from the computer audit work this year. However, full implementation of the strategic direction will not be possible until the conclusions from the Systems Thinking intervention are reached. One key action will be to clarify the ICT security and assurance responsibilities within the team.

Ethical Governance

21. The Public Sector Internal Audit Standards also require the *'internal audit activity to evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities'*. Resource has been included in the 2015/16 plan to develop a way to carry out this evaluation. However, no assurances are available for 2014/15.

Risk Management

22. During 2014/15 the Committee received six monthly updates on the Corporate Risk Register in accordance with the revised Risk Management Policy adopted in 2012/13. The risk management framework was last audited in 2013/14 and a strong assurance opinion was given.
23. However, the framework is currently being challenged in relation to whether it is providing the information most needed by senior managers. The Systems Thinking process is therefore currently being applied to the framework.

HEAD OF AUDIT OPINION

24. 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.
25. Using the information outlined in this report, in the opinion of the Head of Audit and Assurance, the Council had a framework of governance, risk management and control for the year 2014/15 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms within the developing Systems Thinking culture, and the need to address any major weaknesses found.
26. The opinion is particularly based on the fact that:
- a) no "minimal" audit assurance opinions were again given this year;
 - b) the service audited which had undergone a Systems Thinking intervention has been given a 'strong' audit assurance opinion.
 - c) there were no outstanding essential recommendations at the time of the 2014 recommendation survey.
 - d) 2 of the 3 older recommendations targeted for assistance with implementation this year have now been signed off as implemented.

27. However, it is noted that 2 errors in income and expenditure totalling £1,000 were found this year during audits which is higher than in previous years.
28. Actions have been agreed where opportunities to enhance the adequacy and effectiveness of governance, risk management and control have been noted during the year. Key projects include:
- a) Applying Systems Thinking to the Risk Management framework
 - b) Strengthening the processes which give assurance on compliance with the Council's Transport Policy by those who drive their own vehicles on Council business.
 - c) Rolling out of the Data Protection refresher training that is being developed in Skillgate.
 - d) Clarifying the ICT security and assurance responsibilities following the Systems Thinking intervention and team restructure.
 - e) Updating the Financial Regulation on Procurement to be clear on the expectations in relation to pricing variation orders and reporting overspends.

Actions a to c have been recommended for inclusion in the Annual Governance Statement, as is the need to roll out the new action management system to improve the management of recommendations arising from audit reports.

AUDIT SERVICE QUALITY ASSURANCE

29. As required by the Public Sector Internal Audit Standards (PSIAs), the service has been developing 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.
30. 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.*
31. 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

32. In conformance with PSIAs 1110, it is confirmed that that the internal audit activity was organisationally independent.
33. This is assessed on the basis that the arrangements laid out in the Audit Charter had been adhered to, the Head of Audit and Assurance 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.

Self-Assessment against the Standards

34. Our self-assessment against the standards for 2014/15 concludes that we have fully conformed to 45 [39 last year] of the 52 applicable standards with partial conformance with another 5. It should be noted that there are 128 parts making up the 52 standards.
35. Significant improvements made since the last report involved:
- ✓ Updating the Audit Strategy
 - ✓ Updating the Audit Needs Risk Assessment and Strategic Audit Plan
 - ✓ Reviewing the sources of Information Governance assurance
 - ✓ Changing the Head of Audits report to reflect the required format of the opinion and including the results of the self-assessment.
36. Instances of non or part conformance are given in [Appendix C](#). None of the areas of non-conformance are considered significant enough for reporting in the Annual Governance Statement, particularly as the external assessment requirement is not due for another 3 years. An action plan is being progressed to address the areas of none or part conformance indicated where it is considered to be of benefit to the Council.

Local Performance Measures

37. Two local performance measures were used for the service in 2014/15. An additional one on the “Time taken to deliver individual assignments” is being added for 2015/16 as this is something we want to improve for next year by strengthening the management information on what most causes the delays.

Completion of Plan

38. The first measure covered the amount of planned work that is finalised by the time of the Annual Report. There have been a number of problems in this area during the year, which have reduced our performance on this indicator, as summarised in the table below, and indeed caused the Annual Report to be delayed until September.

Table 4 – Completion of Plan	2014/15	2013/14	2012/13	2011/12	2010/11
% of reports finalised by time of Head of Audits Report (June)	29% (6/21)	67% (22/33)	84% (26/31)	80% (28/35)	87% (33/38)

39. We have therefore made a number of changes to the audit process for 2015/16 with the expectation that we will see an improvement on this measure next year.

Customer Feedback

The second measure covered customer feedback. We moved away from issuing questionnaires in 2014/15 and instead introduced a face to face interview with an auditor not involved in the assignment. 5 interviews have been completed to date and a score applied as shown in the table below. Generally feedback has been positive in relation to the new audit approach to assignments.

Table 5 - Level of Customer Satisfaction 2014/15	
Audit was above expectations	
Happy with the audit	100% (5)
Minor problems with the audit	
Significant problems with the audit	

RISK ASSESSMENT

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

CONCLUSION

41. 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.

Appendices:

- A. Results of Planned Assignments 2014/15
- B. Additional Sources of Assurance this year
- C. Areas of Non Conformance with the Public Sector Internal Audit Standards

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 23/06/14 on Head of Audit's Annual Report 2013/14

Quarterly audit reports to the Audit and Governance Committee during 2014/15

Public Sector Internal Audit Standards [PSIAS] and Local Government Application Note Guidance [LGAN].

Enquiries:

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

RESULTS OF PLANNED ASSIGNMENTS 2014/15

APPENDIX A

Audit Title	Stage of Audit	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)			
					Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implem
FUNDAMENTAL SYSTEM AUDITS											
Payroll (Light Touch)	Stage 10	7	Strong	↔	-	-	3	2	-	-	-
Benefits (V)	Stage 7	30	Strong	↔	-	-	-	1	-	-	-
Accounts Receivable	Stage 7	12	Reasonable	↔	-	2	-	1	1	-	1
Accounts Payable (Light Touch)	Stage 7	9	Reasonable	↔	-	2	1	3	-	-	-
Income Collection & Banking	Stage 5	15	Not yet available					-	-	1	-
CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS											
Policy Compliance Checks	Stage 10	12	Not Applicable	-	-	2	-	-	-	-	-
VAT	Stage 9	10	Strong	-	-	-	1	5	-	-	-
PAYE	Stage 8	13.5	Strong	-	-	3	-	-	2	1	-
Contract Completion	Stage 7	10	Limited	↔	4	2	2	3	1	-	1
Data Protection	Stage 4	7.5	Not yet available					3	1	5	-
SERVICE AND SYSTEM AUDITS											
Comm. Parks & Open Spaces	Stage 10	6	Strong	-	-	-	1	-	-	-	-
Foreshore (Beach Huts)	Stage 10	5	Strong	-	-	1	2	-	-	-	-
Tenancy Management	Stage 10	10	Reasonable	↔	-	7	2	1	2	2	2
Cheque Control	Stage 10	6	Reasonable	-	-	2	2	-	-	-	-
Virtual Procurement Card	Stage 10	3	Reasonable	-	-	1	1	-	-	-	-
COMPUTER AUDITS											
Payroll & Personnel System	Stage 10	10	Reasonable	↔	-	5	1	-	-	-	-
Penetration Testing	Stage 10	12	Reasonable	-	2	1	2	5	-	-	-
Database Administration	Stage 10	9	Not Applicable	-	2	4	-	-	-	-	-
Information Governance Opinion	Stage 8	6	Not Applicable	-	-	-	-	-	-	-	-
FOLLOW UP											
Legionella and Gas Safety	Stage 10	5	Reasonable	↔	-	3	-	6	9	-	-
IT Recommendations	Stage 10	3	Not Applicable	-	-	-	1	11	1	-	1
		201			8	35	19	39 (57%)	16 (23%)	10 (14%)	4 (6%)

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

<p>Reactive work undertaken by the Team</p> <p><i>Opportunities found to improve internal controls are marked with an asterisk</i></p>	<p>Assurances available for employees who use their own vehicles on Council Business*</p> <p>The parking enforcement service's use of the DVLA batch enquiry facility*</p> <p>Review of new Ferneham Hall voucher scheme</p> <p>Review of CCTV signage*</p> <p>Follow up of payments to supplier with a previous history of receiving late payments</p> <p>Follow up of sources of invoices which were being raised late*</p> <p>Certification of Inspire grant usage</p> <p>Risk analysis of the T card system</p> <p>Participation on working group applying system thinking to procurement in relation to the Building Repairs service.</p>
<p>Other work undertaken by the team</p>	<p>Work undertaken as part of the Counter Fraud Strategy</p> <p>Updates to key policy documents including financial regulations</p> <p>Systems analysis and follow ups arising from investigations</p>
<p>Other sources</p>	<p>Review of assurances available from External organisations</p>

Areas of Non Conformance with the Public Sector Internal Audit Standards

<i>Standard</i>	<i>Area of Non Conformance</i>	<i>Comments</i>
1000 Purpose, Authority and Responsibility (part)	The Internal Audit Charter is not presented to senior managers in addition to the board.	No further action proposed The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility which has been reviewed by the Section 151 Officer and approved by the Audit and Governance Committee where the Monitoring Officer was also present. It is considered unnecessary to formally present the Charter to the rest of the Senior Officers.
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.	No further action proposed Informal mechanisms are in place for concerns about independence to be raised. Regular one to ones occur between the Section 151 Officer and the Head of Audit and Assurance [HAA]. 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 HAA. The HAA 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.
1310 Requirements of the Quality Assurance and Improvement Programme	No external assurances are currently included in the Quality Assurance and Improvement Plan.	Limited further action proposed This requirement is not yet due for another 4 years. However, 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. We will, however, monitor any feedback on conformance to the standards received by the external auditors and internal audit contractor.
1312 External Assessments		We will also monitor discussions on the potential use of peer reviews to provide this assurance which can be met within budget, bearing in mind that the professional body has some reservations about using a near neighbour for peer reviews as they cannot be truly independent.
1320 Reporting on the QAIP (part)	The outcomes of the full Quality Assurance and Improvement Programme are not yet being fully reported.	Included in action plan We have drafted a QAIP which covers the different processes that will be used to monitor quality and adherence to the standards. The results of the self-assessment are reported annually to the Section 151 Officer. We will be working to expand this with other components of the QAIP.
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.	No further action proposed The Audit and Governance Committee is responsible for endorsing the Annual Plan of work which the Director of Finance and Resources as the Section 151 Officer has previously reviewed. Other Directors are consulted on coverage in the plan for their departments before the plan is put together. They also receive information on the proposed Annual Plans and any changes to these before approval and are invited to provide feedback.
2110 Governance (part)	No specific assurance has been given on the effectiveness of ethics related objectives.	Included in action plan Some assurances are currently provided each year from counter fraud initiatives. However, a specific assignment to provide assurance on this is included in the 2015/16 audit plan.