

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 27 June 2016

Report of: Head of Finance and Audit

Subject: HEAD OF AUDIT'S ANNUAL OPINION 2015/16

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2015/16 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 2015/16 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 audit plan for 2015/16 included 22 audit assignments of different types to give a good representation of the audit universe (which contains 166 audit titles). 16 of these assignments were designed to produce an audit opinion and 171 days, plus 50 days in-house support, have been used in this work.
4. At the time of giving this annual opinion, 21 of the 2015/16 assignments have been undertaken and sufficient conclusions have been drawn for 19 of these to be useable as a source of assurance. 13 have been fully completed and actions agreed with the Audit Sponsor.
5. The 2 pieces of work from the 2014/15 plan which had not progressed sufficiently at the end of last year, for an assurance opinion to be issued, have now done so and so are also relied upon for this report.
6. This is considered adequate coverage as set out in the Internal Audit Strategy to allow the annual opinion to be produced. [Appendix A](#) gives 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. 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
2015/16	4 (27%)	11	1	0	16
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

8. No opinions of 'Minimal Assurance' were issued in the year. There was 1 'Limited Assurance opinion' awarded for the Software Control audit. Issues found involved clarifying responsibilities for managing adherence to licences, strengthening the checks that the technical team carry out before installing software on machines, and maintaining employee awareness about our software management policies.

9. It should be noted that the audits of the services (Parking Enforcement and Recruitment and Selection) in the year which had undergone “Systems Thinking” interventions both have maintained *reasonable* assurance opinions.

Income or Expenditure Errors found

10. No errors were identified in the year from the testing carried out in planned assignments. Errors are defined as spending we incurred when we shouldn't have, or uncollected income.

Implementation of Recommendations

11. During 2015/16, 8 of the audits included a review of the progress made with implementing previous recommendations. These covered a total of 23 essential or important actions. Testing confirmed that **57%** of the recommendations have been implemented, or are now cancelled, with a further 17% 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 or closed
2015/16	8	23	57% + 17% in progress
2014/15	13	69	57% + 14% in progress
2013/14	17	68	66%
2012/13	16	77	61%
2011/12	23	147	68%

12. No other follow up work has been completed in 2015/16. The new action database is now fully functional and just needs calibrating and updating for movements since the initial import was completed. It will be a priority for the service to get this completed in the coming months and to commence the next full survey of outstanding recommendations, so that stronger assurance in this area is available for next year.

Other Sources of Assurance in the Year

13. [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 piece of work is to streamline the way that the council identifies and manages notifications that residents have deceased.

Governance, Ethics and IT

14. The focus of governance work this year was on ethics. The Public Sector Internal Audit Standards require the *'internal audit activity to evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities'*. A programme of work has now been drawn up to help provide on-going assurances on our ethics arrangements.
15. The work completed this year covered the following:

DESIGN	IMPLEMENTATION	EFFECTIVENESS
Structured discussions with Senior managers and members	Compliance with the Transparency Code Identifying and Managing Conflicts of Interests in Council Applications Test of what honesty checks are conducted in the recruitment and selection process	Employee Perception Survey

The conclusions from this work are:

The senior managers of the council believe they set clear expectations on behaviours and are expected to lead by example. Councillors also believe there is a strong embedded culture in FBC of doing the right thing for the public.

The arrangements we have in place to achieve this, such as the codes of conduct, are well known but the framework is also supported by softer systems such as having long standing officers and councillors and informal management processes which identify potential issues.

Feedback from employees was also high in their perception that the Council showed ethical values and behaviours and our processes help identify unethical behaviour.

However, a few actions have been identified, as result of the work, which include: a) improving our understanding of perceptions of the effectiveness of the whistleblowing policy, b) improving our understanding of perceptions of how effectively we manage conflicts of interest and c) assigning ownership over what Transparency information is being published.

Information Technology Governance

16. 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'.
17. The conclusion arising from this work for 2015/16 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, especially the work done to implement previous recommendations concerning Disaster Recovery. However, full implementation of the strategic direction will not be possible until the conclusions from the Systems Thinking intervention are reached. Other key actions needed are to strengthen the arrangements to manage software licences and clarify the ICT security policies for the Council.

Risk Management

18. There is an outstanding action to complete the review of effectiveness of our risk management process in relation to whether it is providing the information most needed by senior managers and members. The Systems Thinking process is in the process of being applied to the framework and so limited formal reporting has occurred in 2015/16.

HEAD OF AUDIT OPINION

19. 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.
20. 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 2015/16 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.
21. The opinion is particularly based on the fact that:
 - a) no “minimal” audit assurance opinions were again given this year;
 - b) no income or expenditure errors were found in the year;
 - c) the services audited which have undergone a Systems Thinking intervention this year have been given a ‘reasonable’ audit assurance opinion;
 - d) only 2 new essential recommendations have been made this year, which are already being progressed.
22. Particular areas for actions noted which will enhance the adequacy and effectiveness of governance, risk management and control include:
 - (a) Complete the review of effectiveness of the Risk Management framework.
 - (b) Roll out the new action management system to improve the management of recommendations arising from audit reports, and update the data available on the level of implementation.
 - (c) Roll out of the Data Protection refresher training that is being developed in Skillgate, and use Skillgate to maintain the records of who has completed the training.
 - (d) Clarify the ICT security policies for the Council.
 - (e) Finalise the action plan for the Contract Completion audit from 2014/15 which includes 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.

AUDIT SERVICE QUALITY ASSURANCE

23. 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.
24. 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.

25. 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

26. In conformance with PSIA 1110, it is confirmed that the internal audit activity was organisationally independent.
27. This is assessed on the basis that the arrangements laid out in the Audit Charter had been adhered to, 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. Opinion audit work is bought in from other providers which gives additional independence for audits of financial services where there might be a conflict of interest.

Self-Assessment against the Standards

29. Our self-assessment against the standards for 2015/16 concludes that we have fully conformed to 48 [45 last year] of the 52 applicable standards with partial conformance with another 3. It should be noted that there are 128 parts making up the 52 standards.
30. Significant improvements made since the last report involved:
- ✓ Finalising the Quality and Improvement Plan (QAIP) for the Service including the performance measures to be used.
 - ✓ The QAIP process now includes feedback from the external assessment process undertaken by the audit contractor.
 - ✓ Setting up a programme of work to support the annual ethics opinion.
 - ✓ Updating the Audit Charter to include the need for “*The Nominated Audit Manager to be notified of all investigations into fraud, corruption or impropriety and the outcomes*”.
31. Instances of non or part conformance are given in [Appendix C](#); we are now down to those where no further action is planned to improve conformance. None of the areas are considered significant enough for reporting in the Annual Governance Statement, particularly as the external assessment requirement is not due for another 3 years.

Local Performance Measures

32. Three local performance measures were used for the service in 2015/16, as discussed below.

Completion of Plan

33. The first measure covers the amount of planned work that is finalised by the time of the Annual Report. There has been some improvement in this indicator this year, as summarised in the table below, but it is still an aspect of the service that we are focusing on.

Table 3 – Completion of Plan	2015/16	2014/15	2013/14	2012/13	2011/12
% of reports finalised by time of Head of	59%	29%	67%	84%	80%

Table 3 – Completion of Plan	2015/16	2014/15	2013/14	2012/13	2011/12
Audits Report (June)	(13/22)	(6/21)	(22/33)	(26/31)	(28/35)

Time Taken to Deliver Assignments

34. The second measure covers the length of time between the initial audit scoping meeting with the customer and the provision of a final report for the work. This is a new measure introduced this year as we know it is an area of weakness for the service. We are compiling detail behind the measure to identify the common causes for delay, and will add in the performance for previous years as the reports get finalised.

Table 4 – Time Taken	2015/16	2014/15
Average number of calendar months between start and finish of audits finalised (Number of audits in the measure)	5.3 (7)	7.9 (16)

Customer Feedback

35. The third measure covers customer feedback. We now 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.

Table 5 - Level of Customer Satisfaction 2015/16	2015/15	2014/15
Audit was above expectations	20% (2)	
Happy with the audit	30% (3)	100% (5)
Minor problems with the audit	50% (5)	
Significant problems with the audit	0	

36. Generally feedback has been positive in relation to the revised audit approach to assignments. The main issue arising in the feedback is the length of time between the end of the audit and the issue of the final report, as would be expected from our performance in the second measure.

RISK ASSESSMENT

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

CONCLUSION

38. 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 21/09/15 on Head of Audit's Annual Report 2014/15

Quarterly audit reports to the Audit and Governance Committee during 2015/16

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 not available last year

APPENDIX A

Audit Title	Days in Plan	Stage reached of 10*	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											
Income Collection & Banking	15	Stage 8	Strong	↔	-	1	1	-	-	1	-
CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS											
Corporate Data Protection	7.5	Stage 9	Reasonable	↑	1	4	2	4	3	2	1

RESULTS OF PLANNED ASSIGNMENTS 2015/16

Audit Title	Days in Plan	Stage reached of 10*	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											
Local Tax Collection	15	Stage 10	Strong	↔	-	1	1	-	-	1	1
Payroll and Staff Expenses	15	Stage 10	Strong	↔	-	1	2	-	-	-	-
Capital Expenditure and Accounting	10	Stage 10	Reasonable	↔	-	2	-	-	-	-	-
Fixed Assets	10	Stage 7	Reasonable	↓				-	-	-	1
Accounts Payable	10	Stage 5	Reasonable	↔				1	-	-	1
CORPORATE, SPECIALIST, GOVERNANCE AUDITS											
Recruitment and Selection	15	Stage 7	Reasonable	↔				-	-	-	-
Transparency Code (part of the Ethics audit work)	4	Stage 10	Reasonable	Not Applicable	-	3	7	-	-	-	-
SERVICE AND SYSTEM AUDITS – High Risk											
Parking Enforcement (V)	15	Stage 9	Reasonable	↔	-	3	-	-	-	-	-
Land Charges	12	Stage 8	Reasonable	↓				-	-	-	1
Recycling	10	Stage 6						-	-	-	-
Household Waste Collection	10	Stage 6						-	-	-	-
SERVICE AND SYSTEM AUDITS – Other											
Individual Electoral Registration	7	Stage 10	Strong	↔	-	-	-	-	-	-	-

Audit Title	Days in Plan	Stage reached of 10*	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)			
					Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implem
Protection of Trees	8	Stage 8	Reasonable	Not Applicable				-	-	-	-
COMPUTER AUDITS											
Express (Electoral Register)	5	Stage 10	Reasonable	↔	1	-	-	-	-	-	-
Software Control	10	Stage 10	Limited	↔	-	5	1	1	-	-	1
IT Disaster Recovery	15	Stage 10	Reasonable	↔	-	5	2	4	-	-	-
NON OPINION WORK											
Contract Deeds Management		Not started									
Right to Buy		Stage 10	Not applicable		-	1	-	-	-	-	-
Effectiveness of Ethics Related Activities (4 pieces of work)		Stage 10	Not applicable					-	-	-	-
Problem with Debt Repayment		Stage 10	Not applicable		-	2	2	-	-	-	-
	171				2	28	18	10 (44%)	3 (13%)	4 (17%)	6 (26%)

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

<p>Reactive work undertaken by the Team</p> <p><i>* Opportunities found to improve internal controls</i></p>	<p>Review of how the Council ascertains and manages notifications about deceased residents*</p> <p>Analysis of reasons behind the write off of a large debt*</p> <p>Debtor Tracing pilot using facilities available through the National Anti-Fraud Network*</p> <p>Review of suppliers who put us on hold*</p> <p>Certification of Repair and Renew grant usage (Help with Flooding)</p> <p>Certification of Disabled Facilities Grants claim</p>
<p>Other work undertaken by the team</p>	<p>NFI Fair Processing Checks</p> <p>Participation on working group applying system thinking to the Building Repairs service (including reviewing financial management and invoice processing)</p> <p>Update of Assurance framework for Building Control partnership</p> <p>Updates to key policy documents including financial regulations</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 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. 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.
1312 External Assessments	No external assessments are currently included in the Quality Assurance and Improvement Plan.	No further action proposed This requirement is not yet due for another 3 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 do, however, monitor any feedback on conformance to the standards received from the external auditors and internal audit contractor. We also now monitor the feedback the internal contractor gets from their external quality review process. 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.
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.