

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **17 July 2017**

Report of: **Head of Finance and Audit**

Subject: **HEAD OF AUDITS ANNUAL OPINION 2016/17**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2016/17 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 2016/17 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 2016/17 included 21 audit assignments of different types to give a good representation of the audit universe (which contained 162 audit titles). 16 of these assignments were designed to produce an audit opinion and 195 days, plus 50 days in-house support, have been used in this work.
4. At the time of giving this annual opinion, all of the 2016/17 assignments have been undertaken and sufficient conclusions have been drawn for 18 of these to be fully useable as a source of assurance. 15 have been fully completed and actions agreed with the Audit Sponsor.
5. Two of the three pieces of work from the 2015/16 plan which had not progressed sufficiently at the end of last year, for an assurance opinion to be issued, have now been fully completed 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
2016/17	8 (47%)	8	1	0	17
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

8. No opinions of 'Minimal Assurance' were issued again in the year. There was one 'Limited Assurance opinion' awarded for the Outdoor Recreation audit. Weaknesses were found with the system used to manage income collection for sports pitch bookings such that errors were found on a number of invoices tested. This had already been recognised during the vanguard review and a management plan is being implemented.

9. The audit of the service (Air Quality and Pollution) in the year which had undergone a “Systems Thinking” intervention was given a *reasonable* assurance opinion.

Income or Expenditure Errors found

10. Errors are defined as spending we incurred when we shouldn’t have, or uncollected income. Income errors of £475 were noted from one audit in the year.

Implementation of Recommendations

11. During 2016/17, only 4 of the audits included a review of the progress made with implementing previous recommendations. These covered 8 essential or important actions. This was because a high number of audits in the plan had not been audited before, or we already had confirmation of the implementation of previous recommendations associated with the audit.
12. Testing confirmed that **50%** of the recommendations have been implemented. 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
2016/17	4	8	50%
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%

13. No other follow up work has been completed in 2016/17. During the year the new action database was fully updated for movements since the initial import was completed and it is now used on a daily basis by the team. However, we have yet to roll the system out to services and 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 is available for next year.

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, and shows where some opportunities to strengthen internal controls were found. Particularly significant pieces of work were collaborative workshops held with 2 services to see if a better way of collecting and recording credit card income or income through the post can be found.

Governance, Ethics and IT

15. 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 been drawn up to help provide on-going assurances on our ethics arrangements.
16. This year’s work involved an audit of building security at the Civic Offices in support of

the Council's value to *respect the privacy of our customers and keep their personal information confidential*.

17. The conclusions from this work are that reasonable assurance was given in relation to physical security, and that some controls could be strengthened in relation to the management of non-employees who are given access to the building. This had already been recognised by the service and action was in progress including an upgrade to the Tensor system which will allow better recording of access requests.
18. The actions identified from last year's ethics work have yet to be progressed with the exception of assigning ownership over the Transparency information being published.

Information Technology Governance

19. 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*'.
20. The conclusion arising from this work for 2016/17 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 findings from the Technology Forge audit and the work being done by the service to realign the IT strategy and workforce to meet the needs of the organisation and meet the Public Services Network (PSN) requirements. The work being carried out by the new ICT Security Officer appointed during the year was also noted although there is still some work needed to strengthen the arrangements to manage software licences and clarify the ICT security policies for the Council.

Risk Management

21. The review of our risk management processes was completed in 2016/17 and a new policy approved. The principles in the policy now need to be rolled out across the organisation and the proposed monitoring and reporting arrangements implemented to confirm the effectiveness of the process.

HEAD OF AUDIT OPINION

22. 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.
23. 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 2016/17 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.
24. The opinion is particularly based on the fact that:
 - no "minimal" audit assurance opinions were again given this year;
 - income or expenditure errors were only recorded in one audit in the year, totalling

£500;

- the service audited which have undergone a Systems Thinking intervention (Air Quality and Pollution) this year have been given a 'reasonable' audit assurance opinion; another part way through their intervention (Outdoor Recreation) had already identified a similar issue to the audit such that management action had been planned to change the way the system worked;
- only 1 new essential recommendation has arisen from the opinion work this year, which is already being progressed;
- collaborative working on system problem areas in the year has been introduced and the 3 carried out in the year have led to improved control and efficiency.

25. However, there are a few areas noted where action will enhance the adequacy and effectiveness of governance, risk management and control. These include:

- a) finalising the work to put together the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which at the moment is breaching FBC Contract Procedure Rules;
- b) fully embedding the new system for managing costs associated with housing repairs;
- c) rolling out the new approach to Risk Management across the organisation;
- d) rolling out the Data Protection refresher training to incorporate the requirements of the General Data Protection Regulation.

26. These issues had already been recognised by managers and they are working to address them.

27. Other issues highlighted last year where progress has been made but work is still needed are:

- e) roll out the new action management system to services to improve the management of recommendations arising from audit reports, and update the data available on the level of implementation;
- f) clarify the ICT security policies for the Council;
- g) finalise the action plan for the Contract Completion audit which includes updating the Financial Regulation on Procurement to be clear on the expectations in relation to pricing variation orders and reporting overspends.

AUDIT SERVICE QUALITY ASSURANCE

28. 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.

29. 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.*

30. 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

31. In conformance with PSIA 1110, it is confirmed that the internal audit activity was organisationally independent.
32. 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.
33. Whilst there is a potential conflict from the dual role of Head of Finance and Head of Audit there are compensating controls in place as follows:
- opinion audit work is bought in from other providers reporting to their own head of audit; the work is reviewed by their manager and a copy of the report they send to us is filed as part of the audit trail;
 - as the teams do liaise on the scope of the audit and the content of the final audit report, we send the audit manager a copy of the final report allowing them to raise any concerns they have with the content with the Section 151 manager;
 - the Section 151 manager meets annually with the audit manager of the external provider.

Self-Assessment against the Standards

34. Our self-assessment against the standards for 2016/17 concludes that we have fully conformed to 48 [as per last year] of the 52 applicable standards with partial conformance with the other 4. It should be noted that there are 128 parts making up the 52 standards.
35. Improvements made since the last report involved:
- ✓ carrying out a desktop peer discussion with the Hampshire Audit Managers Group across 38 (79%) of the standard sections, to provide some additional assurance in relation to external assessment requirements;
 - ✓ documenting what assurances members of the Hampshire Audit Managers Group will provide on partnerships which can be relied upon by other audit teams;
 - ✓ introducing 10/10 questions into the customer feedback process.
36. 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. 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 2 years.
37. New standards have been introduced from 2017/18 and a review of the changes contained in them will be carried out during the year.

Local Performance Measures

38. Three local performance measures were used for the service in 2016/17, as discussed below.

Completion of Plan

39. 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	2016/17	2015/16	2014/15	2013/14	2012/13
% of reports finalised by time of Head of Audits Report	68% (15/21)	59% (13/22)	29% (6/21)	67% (22/33)	84% (26/31)

Time Taken to Deliver Assignments

40. 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 known area of weakness for the service and there has been a slight improvement on last year.

Time Taken	2016/17	2015/16	2014/15
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure)	6.7 (21)	7.2 (11)	6.8 (12)

Customer Feedback

41. 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. 15 interviews, or other methods of feedback, have been completed since the last report (8 relating to the 2016/17 plan) and a score applied as shown in the table below.

Level of Customer Satisfaction	2016/17	2015/16	2014/15
Audit was above expectations		22% (2)	
Happy with the audit	66% (10)	33% (3)	100% (5)
Minor problems with the audit	27% (4)	45% (4)	
Significant problems with the audit	7% (1)	0	

42. Generally feedback has been positive in relation to the revised audit approach to assignments. The main themes with services expressing problems with the audit is where a) the audit report does not adequately express the context of the service being audited or b) the services' expectations from the opening meeting were not met. This feedback is discussed with the provider for each audit so that any lessons can be learnt.

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.

Appendices:

- A. Results of Planned Assignments 2016/17
- 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

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 27/06/16 on Head of Audit's Annual Opinion 2015/16

Quarterly audit reports to the Audit and Governance Committee during 2016/17

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 2016/17

Audit Title	Stage reached of 10*	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												
Banking	10	10	Reasonable	↔	-	2	2	-	-	-	-	
Accounts Payable	10	10	Strong	↑	-	1	-	1	-	-	-	
Payroll and Employee Expenses	10	10	Strong	↔	-	1	1	1	-	-	2	
Treasury Management	10	10	Strong	↔	-	2	3	-	-	-	-	
Housing Rents	9	15	Reasonable	↔	-	5	3	2	-	-	1	
CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS												
NONE												
SERVICES & SYSTEMS – HIGH RISK												
Building Control	10	15	Reasonable	↓	-	4	1	-	-	-	1	
Sheltered Housing	10	15	Reasonable	↔	-	3	1	-	-	-	-	
Trade Waste and Recycling	10	15	Strong	↔	-	-	1	-	-	-	-	
Daedalus	8	12	Strong	N/A	-	-	1	-	-	-	-	
Outdoor Sport and Recreation	10	18	Limited	↓	1	8	1	-	-	-	-	
SERVICES & SYSTEMS – Other												
Neighbourhood Working, Public relations and Consultation	10	10	Strong	N/A	-	-	3	-	-	-	-	
Air Quality and Pollution	10	17	Reasonable	N/A	-	6	-	-	-	-	-	
Countryside Management	10	8	Reasonable	N/A	-	3	-	-	-	-	-	
COMPUTER AUDITS												
Technology Forge	10	15	Reasonable	↓	-	3	1	-	-	-	-	
Cloud Computing	8	15		N/A	-	7	4	-	-	-	-	
WIDER WORK												
Leaseholder Charges	5	N/A	N/A	N/A				-	-	-	-	
Effectiveness of Ethics Related activities – physical security	9	5	Reasonable	N/A	-	1	2	-	-	-	-	

Audit Title	Stage reached of 10*	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
Data Protection	10	N/A	N/A	N/A	-	8	1	-	-	-	-
Risk Management	10	N/A	N/A	N/A	-	-	-	-	-	-	-
Building Health and Safety Risks	5	5	N/A	↑							
Building Service Invoicing and Stock Control (part 1)	10	N/A	N/A	N/A	Joint action plan in place containing 15 actions for the service - some of which are fact finding rather than system improvements			-	-	-	-
Totals		205			1	54	25	4	-	-	4

APPENDIX B

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

Audit Title	Stage reached of 10*	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
SERVICE AND SYSTEM AUDITS – High Risk											
Household Waste Collection	Stage 10	10	Strong	↔	-	1	-	-	-	-	-
Recycling	Stage 10	10	Strong	↔	-	-	-	-	-	-	-

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>Password protection testing of facebook and twitter accounts.</p> <p>Assistance with former tenant who believed he owed the Council money since 2000.</p> <p>Review of Right to Buy Calculations process.</p> <p>Review of Temporary Creditor Coding on Financial Management System*</p> <p>Work undertaken to understand the monitoring reports relating to the batch file transfer process to County Court for unpaid PCNs.</p>
<p>Other work undertaken by the team</p> <p><i>* Opportunities found to improve internal controls</i></p>	<p>NFI Fair Processing Checks*</p> <p>Fraud risk assessment of Recruitment and Selection*</p> <p>Leading on working group to improve Credit Card Payment system in Building Control *</p> <p>Leading on working group to improve Street Scene income collection process through the post*</p> <p>Leading on working group to improve urgent payment process for Housing Options*</p> <p>Participation on working group applying system thinking to the Cash Office</p> <p>Advisory work on residents permits process</p> <p>Horizon scanning on Apprenticeship Levy.</p>
<p>Other sources</p>	<p>Coastal Partnership audit undertaken by Portsmouth CC</p> <p>PUSH audit by Hampshire CC</p> <p>Project Integra audit by Hampshire CC</p> <p>Portchester Crematorium audit by Fareham BC</p> <p>Property risk surveys undertaken by Allianz insurance</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.	<p>No further action proposed</p> <p>The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility It 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.</p>
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 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.</p>
1312 External Assessments	No external assessments are currently included in the Quality Assurance and Improvement Plan.	<p>No further action proposed</p> <p>This requirement is not yet due for another 2 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.</p> <p>We do, however, monitor any feedback on conformance to the standards received from the external auditors, and internal audit partners.</p> <p>We have also introduced peer discussions in the Hampshire Audit managers group in which one authority presents how they comply with a section of standards and leads a discussion on the strengths and weaknesses of their approach.</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 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.</p>