FAREHAM
BOROUGH COUNCIL

Report to
Audit and Governance Committee

Date **23 July 2018**

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

Subject: **HEAD OF AUDITS ANNUAL OPINION 2017/18**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2017/18 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 2017/18 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 revised audit plan for 2017/18 included 27 (21 last year) audit assignments of different types to give a good representation of the audit universe (which contains 162 audit titles). 17 of these assignments were designed to produce an audit opinion and 210 days, plus 30 days in-house support, have been used in this type of work.

4. At the time of giving this annual opinion, all but 2 of the 2017/18 assignments have been undertaken with sufficient coverage for conclusions to have been drawn and to be useable as a source of assurance. 19 (15 last year) have been fully completed and actions agreed with the Audit Sponsor.

5. Two pieces of work outstanding from previous plans have also now been fully completed, 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. 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. 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
2017/18	5 (36%)	7	2	0	14
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

8. No opinions of 'Minimal Assurance' were issued again in the year. There were two 'Limited Assurance opinions' awarded. The first was for the Ferneham Hall audit. A number of weaknesses were found particularly in relation to the accounting for stock and equipment. Managers have been working with the audit team to implement a series of agreed actions.

9. The second was for the Dog Control audit where we were unable to give assurance that

all income due to the Council was collected, or that the correct amounts had been paid for kennelling. Managers have been reviewing responsibilities in the team to improve oversight of these processes.

10. The audit of the service (Homelessness) in the year which had undergone a "Systems Thinking" intervention was given a *Strong* assurance opinion.

Income or Expenditure Errors found

11. Errors are defined as spending we incurred when we shouldn't have, or uncollected income. More errors were found this year being recorded in 5 audits (1 last year). Where they could be quantified, income errors totalled £860 and expenditure errors totalled £866 were noted.

Implementation of Recommendations

12. During 2017/18, 6 of the audits included a review of the progress made with implementing previous recommendations. These covered 20 essential or important actions. Testing confirmed that **35%** 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
2017/18	6	20	35% + 24% in progress
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%

13. No other follow up work has been completed in 2017/18. The new action database is now used daily by the team and is being kept up to date. However, we have yet to roll the system out to services and update the assurance available on recommendation implementation. This has now been added as a piece of work in its own right in the 2018/19 plan.

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. Any major unplanned pieces of work were added to the revised audit plan in March 2018.

Governance, Ethics and IT

Governance

15. A specific piece of governance work was carried out jointly with Human Resources as part of the 2017/18 audit plan. This covered Employee Performance Management and consisted of a series of structured interviews with managers and staff.

16. A number of actions have arisen as a result of this work including:

a) Clarifying the minimum standards expected in relation to reviewing employee performance.

b) Providing targeted training for middle managers.

Ethics

17. 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.

18. This year's work involved carrying out Focus Group to review the Council's Whistleblowing arrangements, and to carry out a second employee survey concentrating on the values of 'Financial Stewardship and accountability, Honesty, Transparency and Openness.

19. A number of actions have arisen as a result of this work including:

a) Rebranding the Whistleblowing Policy as the 'Raise a Concern' Policy to remove the negative connotations of "snitching".

b) Provide refresher training of managers on how to manage concerns brought to their attention and provide appropriate feedback.

c) Finalise and roll out briefings on the revised Employee Interests, Gifts and Hospitality Policy, and the new ways of registering these.

Information Technology Governance

20. 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'.*

21. The conclusion arising from this work for 2017/18 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 Chipside audit (Parking IT system), IT procurement audit and the wider work analysing the ICT costs and budgets in line with the current IT strategy and the work the organisation has carried out to continue to meet the Public Services Network (PSN) requirements. The work being carried out by the ICT Security Officer, who was made permanent 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

22. The new risk management process was implemented in the year. A work shop was held with all Heads of Services, and briefings were held with all Finance Business Partners and the lead risk co-ordinators. All services were examined in the year and evidence of effective risk management compiled into 2x 6 monthly reports to the

Committee.

23. There is still some work to do finalising the project in the audit plan looking specifically at the strength of the Council's inspection regimes to identify risks and hazards on council land and property.

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 Finance and Audit, the Council had a framework of governance, risk management and control for the year 2017/18 which was generally working effectively, although some opportunities to strengthen arrangements were found in the year. 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.

26. The opinion is based on the following evidence:

- no "minimal" audit assurance opinions were again given this year;
- income or expenditure errors were recorded in three audits in the year, totalling over £1,700;
- the service audited which have undergone a Systems Thinking intervention (Homelessness) this year have been given a 'strong' audit assurance opinion;
- new essential recommendations (20) were found in five areas of audit but managers have taken prompt action to address the issues found;
- collaborative working on 6 system areas in the year have led to improved control and efficiency.

27. Significant areas noted where further action will enhance the adequacy and effectiveness of governance, risk management and control include:

a) Carrying out manager briefings on the rules in the new Procurement and Contract Rules, and carrying out collaborative work on effective contract management*.

b) Implementing service action plans arising from the reviews of compliance with the General Data Protection Regulation.

c) Improving management control and the equipment and stock controls in Ferneham Hall.

d) Carrying out proactive counter fraud campaigns.

e) Carrying out stock condition surveys and implementing asset management plans.

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

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

f) finalise the framework agreements for spend with contractors and suppliers used by Housing, Property and Building Services, which is in breach of FBC Contract Procedure Rules;

g) fully embed the new system for managing costs associated with housing repairs;

h) 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 *;

i) clarify the ICT security policies for the Council.

29. The 2 issues above marked with an asterisk have been included in this year's Annual Governance Statement.

AUDIT SERVICE QUALITY ASSURANCE

30. 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.

31. 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*.

32. 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

33. In conformance with PSIAs 1110, it is confirmed that that the internal audit activity was organisationally independent.

34. 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.

35. 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;
- the Head of Finance and Audit assumes the auditee role in audits of specific finance and local taxation systems;
- as the teams do liaise on the scope of the audit and the content of the final audit report, we send the partner 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 partner authority.

Self-Assessment against the Standards

36. A revised set of standards came into practice this year and our self-assessment this year concentrated on reviewing conformance with the changes.

37. Our self-assessment for 2017/18 concluded 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.

38. Improvements made since the last report involved:

- ✓ The audit partners carried out the required 5-yearly external assessment of their compliance with the standards.
- ✓ We finalised the agreement with the audit partners including the required standards to be adhered to.

39. 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.

Local Performance Measures

40. Three local performance measures were used for the service in 2017/18, as discussed below.

Completion of Plan

41. 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 again this year, as summarised in the table below.

Table 3 – Completion of Plan	2017/18	2016/17	2015/16	2014/15	2013/14
% of reports finalised by time of Head of Audits Report	70% (19/27)	68% (15/21)	59% (13/22)	29% (6/21)	67% (22/33)

Time Taken to Deliver Assignments

42. 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	2017/18	2016/17	2015/16
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure)	6.3 (14)	6.7 (21)	7.2 (11)

Customer Feedback

43. 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. 13 interviews have been completed since the last report (9 relating to the 2017/18 plan) and a score applied as shown in the table below.

Level of Customer Satisfaction	2017/18	2016/17	2015/16
Audit was above expectations	8 % (1)		22% (2)
Happy with the audit	76% (10)	66% (10)	33% (3)
Minor problems with the audit	8 % (1)	27% (4)	45% (4)
Significant problems with the audit	8 % (1)	7% (1)	0

44. Generally, feedback has been positive in relation to the revised audit approach to assignments and there was one expression of gratitude for the help given by the service in addressing weaknesses found. The main themes with services expressing problems with the audit was a) disputed findings could have been resolved earlier and b) report did not adequately reflect the current position of actions being taken by the service to improve controls. This feedback is discussed with the provider for each audit so that any lessons can be learnt.

RISK ASSESSMENT

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

CONCLUSION

46. 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 2017/18
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 16/03/16 on the Internal Audit Strategy

Report to Audit and Governance Committee on 17/07/17 on Head of Audit's Annual Opinion 2016/17

Quarterly audit reports to the Audit and Governance Committee during 2017/18

Public Sector Internal Audit Standards 2017 [PSIAS] and Local Government Application Note Guidance [LGAN].

Enquiries:

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

APPENDIX A

RESULTS OF PLANNED ASSIGNMENTS 2017/18

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 Implemented
FUNDAMENTAL SYSTEM AUDITS											
Main Accounting and Budgetary Control	10	11	Reasonable	⇩ 2013/14	0	1	2	-	-	-	-
Housing Benefits	10	10	Strong	⇔ 2014/15	-	-	-	-	-	-	-
Accounts Receivable	10	15	Strong	⇧ 2014/15	0	1	2	1	0	0	1
Income Management	10	15	Reasonable	⇔ 2014/15	0	2	3	0	1	1	0
CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS											
Leisure Centre Contracts	10	10	Reasonable	⇔ 2013/14	1	1	2	-	-	-	-
SERVICES & SYSTEMS – HIGH RISK											
Ferneham Hall inc. Databox	10	20	Limited	⇩ 2013/14	2	10	3	0	0	0	2
Commercial Estates	9	15	Reasonable	⇩ 2012/13	0	5	0	-	-	-	-
Homelessness (V)	10	15	Strong	⇧ 2013/14	0	1	0	0	0	0	1
Property Maintenance and Inspections-Council Buildings (non-housing)	1	15									
Developers Contributions	6	15									
SERVICES & SYSTEMS – Other											
Pensions	10	12	Strong	No Previous Audit	0	1	4	-	-	-	-
Street Furniture	10	5	Strong	No Previous Audit	0	1	0	-	-	-	-
Pest Control	10	6	Reasonable	⇔ 2012/13	0	3	2	1	1	0	3
Dog Control	10	6	Limited	No Previous	0	7	1	-	-	-	-

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 Implemented
				Opinion							
COMPUTER AUDITS											
Multiple Parking Permits at Single Person Discount Properties	10	3	N/A		0	0	1	-	-	-	-
Chipside	5	12									
WIDER WORK											
Tree work costs	10		N/A	N/A	0	10	0	-	-	-	-
Ferneham Hall (Drink and Food Wastage)	10		N/A	N/A	12	23	0	-	-	-	-
Mobile Phones	4				1						
Ethics	10		N/A	N/A	0	9	0	-	-	-	-
Employee Performance Management	10		N/A	N/A	0	5	0	-	-	-	-
Risk Inspection of Public Areas	4										
IT Procurement	9	11	*Reasonable*	No Previous Opinion	0	2	1	-	-	-	-
IT Costs and Budgets	5		N/A	N/A				-	-	-	-
Data Protection in Services	10		N/A	N/A	3	3	0	-	-	-	-
Contract Procedure Rules	10		N/A	N/A	-	-	-	-	-	-	-
FOLLOW UP											
Outdoor Recreation	10		Reasonable	⇧ 2016/17	0	3	2	4	1	3	0
Totals					19	93	23	6	3	4	7

APPENDIX B

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

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 Implemented
SERVICE AND SYSTEM AUDITS – High Risk											
Daedalus Operating Contracts 2016/17	8	12	*Reasonable*	No Previous Audit	0	2	1	-	-	-	-
WIDER WORK											
Contract Deeds Management 2015/16	10		N/A	N/A	1	4	0	-	-	-	-

APPENDIX C

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

Reactive work undertaken by the Team	Assistance with data review following elector fraud reports.
Other work undertaken by the team	Fraud risk assessment of National Non-Domestic Rates (part done) Leading on GDPR assessments for finance and audit teams Participation on working group applying system thinking to Street Scene financial processes
Other sources	IPCO Inspection of RIPA arrangements PUSH audit by Hampshire CC Project Integra audit by Hampshire CC Portchester Crematorium audit by Fareham BC 6 monthly risk management reports

APPENDIX D

Areas of Non Conformance with the Public Sector Internal Audit Standards

Standard	***Area of Non Conformance***	***Comments***
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 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.
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 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. 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** 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 have completed an external assessment this year which provides us with assurance on their processes. The in-house team do monitor any feedback on conformance to the standards received from the external auditors, and internal audit partners. 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.
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.