

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 19 October 2020

Report of: Head of Finance and Audit

Subject: HEAD OF AUDIT'S ANNUAL OPINION 2019/20

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2019/20 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.

The Audit and Governance Committee's areas of responsibility for Internal Audit include: -

- a) to consider the head of internal audit's annual report and opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion.*
- b) to consider reports from the head of internal audit on internal audit's performance, including conformance to the Public Sector Internal Audit Standards, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.*

RECOMMENDATION

It is recommended that the contents of the report are noted as a source of evidence for the 2019/20 Annual Governance Statement.

INTRODUCTION

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

ASSURANCES AVAILABLE TO SUPPORT THE OPINION

Completion of Planned Assignments

3. The original audit plan for 2019/20 included 23 audit assignments of different types. Two of the audits in the plan (Contract Management and Anti-Bribery Policy) have been postponed to future years, and an additional audit (Recommendation Follow up) was added to the plan. This revised plan of 22 audits (23 last year) therefore gave a good representation of the audit universe (which contains 167 audit titles). 17 of these assignments were to produce an audit opinion and 183 days, plus 32 days in-house support, were assigned to this type of work.
4. At the time of giving this annual opinion, all the 22 revised plan assignments for 2019/20 have been undertaken with sufficient coverage for conclusions to have been drawn and to be useable as a source of assurance. 20 (18 last year) have been fully completed and actions agreed with the Audit Sponsor. Two pieces of work from previous plans have also now been fully completed so can also be used in this report.
5. 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

6. 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
2019/20	7 (44%)	5	4	0	16
2018/19	6 (30%)	11	3	0	20
2017/18	5 (36%)	7	2	0	14
2016/17	8 (47%)	8	1	0	17
2015/16	4 (27%)	11	1	0	16

7. No opinions of 'Minimal Assurance' were issued again in the year. There were four 'Limited Assurance opinions' awarded. The first was for the Housing Rents audit, where a few weaknesses were found in relation to monitoring of debts and in particular responsibility for chasing former tenant arrears. Action has been taken to address the issues raised and a new housing system is currently being implemented which will help make the processes easier to manage.
8. The second was the Tenancy Management audit where although there were a few control processes which were strong in design, there was not always evidence available that these were being adhered to (e.g. management sign off of tenancy transfers). Housing managers have taken action to review these processes and identify the essential controls that need to be reiterated in instructions to the team.
9. The third audit covered the maintenance of void housing properties and in particularly arrangements with the new repairs and refurbishment contractor. Problems were found with the job valuation and invoicing process being used by the contractor and a number of meetings have been held to improve these arrangements. Managers are also implementing changes to processes to address issues found in relation to gaining access to properties, and the need to check gas isolation valves.
10. The last audit covered Safeguarding responsibilities and weaknesses were found in managing contractor compliance with requirements. This is being reviewed at a corporate level to agree expectations in relation to contractor compliance.

Income or Expenditure Errors found

11. Errors are defined as spending we incurred when we shouldn't have, or income due which was not requested. Errors were found in only 1 audit this year (3 last year) and related to duplicate processing of a set of write-offs on the Housing system, which have now been reversed.

Implementation of Recommendations

12. During 2019/20, 12 of the audits included a review of the progress made with implementing previous recommendations. These covered 79 essential or important actions. Testing confirmed that **66%** of the recommendations have been implemented.
13. Of the recommendations followed up **25** were essential recommendations. Of these, 17 (68%) were closed as complete or no longer needed, and another 4 (16%) were in progress.
14. 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
2019/20	12	79	66% + 16% in progress
2018/19	15	190	69% + 18% in progress
2017/18	6	20	35% + 24% in progress
2016/17	4	8	50%
2015/16	8	23	57% + 17% in progress

15. The rest of the follow up work has not been completed in 2019/20. The communications team have drawn up a user guide to help with the roll out of the new management system to services and to obtain an updated implementation status for the 389 actions outstanding on the database (390 last year). This will be progressed as part of the 2020/21 plan.

Other Sources of Assurance in the Year

16. [Appendix C](#) lists other sources of assurance that have been available this year to support the Annual Audit Opinion.
17. One significant work stream to highlight, which started at the end of 2019/20 and continues into 2020/21, is the identification and justification of changes to financial controls implemented in response to the Covid-19 pandemic, which on the whole gives strong assurances that controls were managing to be adhered to whilst working remotely.

Governance, Ethics and IT

Governance

18. A specific piece of governance work was carried out as part of the 2019/20 audit plan. This covered reviewing what partnership governance assurances are in place and how they flow to the Audit and Governance Committee.
19. Action was taken as a result to design a specific report for the Audit and Governance Committee with the recommendation that it is presented at a future meeting of the Committee.
20. In addition, the first annual procurement audit and report provided strong assurance on adherence to a key governance policy (the Procurement and Contract Procedure Rules).

Ethics

21. 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.

22. However, there has been little work completed this year for this work stream; actions not yet fully complete include:
 - (a) Provide refresher training of managers on how to manage "concerns" brought to their attention and provide appropriate feedback.
 - (b) Finalise and roll out briefings on the revised Employee Interests, Gifts and Hospitality Policy, and the new ways of registering these.

Information Technology Governance

23. 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*'.
24. The conclusion arising from this work for 2019/20 is that the information technology governance of the Council is adequate to support the organisation's strategies and objectives. This is based on the risk discussions with the Head of Service, the assurance provided in the first annual cyber security assurance presentation and knowledge of the findings from the following computer audits:
 - (a) BACS processing through Bottomline
 - (b) Fuel System
 - (c) CCTV control centre
 - (d) Cloud audit (final report)
 - (e) Follow up of 22 recommendations made in relation to IT systems; especially the progress made in relation to improving the monitoring of IT costs.
25. The work the organisation has carried out to continue to meet the Public Services Network (PSN) requirements was also noted as was the work being carried out by the ICT Security Officer, particularly in relation to Data Protection Impact Assessments.
26. However, there is still some work needed to clarify the ICT security policies and improve their dissemination, and to expand the ICT strategy for the Cloud migration of the service systems.

Risk Management

27. In accordance with the latest risk management policy, all services were examined in the year and evidence of effective risk management compiled into two 6-monthly reports to the Committee. It should be noted, however, that the second of these did not actually get debated due to the cancellation of the March 2020 committee as a result of lock-down.
28. A considerable amount of work was also carried out to finalise 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. This work is still at the exit meeting stage but has identified some areas where action is recommended.

29. As the pandemic started to impact at the end of 2019/20 effective risk management processes were also being used in the response and recovery phases, and to reassess the risks and benefits of significant council projects in the new economic environment.

HEAD OF AUDIT OPINION

30. 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.
31. 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 2019/20 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.
32. The opinion is based on the following evidence:
- no "minimal" audit assurance opinions were again given this year, and the response by managers receiving the four "limited" audit assurance opinions was strong with action already taken to address many of the weaknesses highlighted;
 - income or expenditure errors were only recorded in one audit in the year;
 - 21/25 previous essential recommendations followed up were signed off as now implemented or in progress.
 - collaborative working with managers on 3 wider work areas in the year is leading to improved control and efficiency.
 - Significant progress has been made on an issue highlighted last year (Reviewing what partnership governance assurances are in place and how they flow to the Audit and Governance Committee).
33. Other issues highlighted last year where progress has been made but work is still needed are:
- (a) Rolling out training and support for contract management, including where IT systems are provided by a third party in the Cloud.
 - (b) Strengthening debt collection and write off processes in a number of services.
 - (c) Carrying out stock condition surveys and implementing asset

management plans.

- (d) Fully embedding the new system for managing costs associated with housing repairs or moving to an alternative system.
 - (e) Rolling out the new action management system to services to improve the management of recommendations arising from audit reports and updating the data available on the level of implementation *.
 - (f) Clarifying the ICT security policies for the Council and reviewing methodologies available to continuously disseminate messages to employees*.
34. Additional areas noted this year where further action will enhance the adequacy and effectiveness of governance, risk management and control include:
- (g) Strengthening budgetary control arrangements in a few teams to assist the Living within our Means agenda;
 - (h) Replacing the system to host the employee gifts and hospitality register, supported by the launch of the revised policy*.
- These issues had already been recognised by managers and they are working to address them.
35. The issues above marked with an asterisk have been included in this year's Annual Governance Statement.

AUDIT SERVICE QUALITY ASSURANCE

36. 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.
37. 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.*
38. 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

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

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

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

Self-Assessment against the Standards

42. Our self-assessment against the Public Sector Internal Audit Standards this year continued with our rolling review of conformance with 14 standards selected by the reviewing officer. It should be noted that there are 106 parts making up the 52 standards.
43. The review this year covered the following standards:

1000	Purpose and Authority
1111	Direct Interaction with the Board
1120	Individual Objectivity
1130	Impairment to Independence or Objectivity
1230	Continuing Professional Development
1311	Internal Assessments
2010	Planning
2020	Communications and Approval
2130	Control
2201	Planning Considerations
2210	Engagement Objectives
2220	Engagement Scope
2230	Engagement Resource Allocation
2240	Engagement Work Programme

44. No areas of non-conformance were found. One improvement has been made to processes since the last report as follows:
- ✓ The International Professional Practices Framework was discussed by the Head of Finance and Audit at the Chief Executive’s Assurance Group in 2019.
45. Our self-assessment for 2019/20 therefore concluded that we have fully conformed to 49 [49 last year] of the 52 applicable standards with partial

conformance with the other 3.

46. 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.

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

47. During 2019/20 FBC performed a self-assessment of its compliance with the requirements listed within the latest CIPFA Statement on the Role of the Head of Internal Audit, as part of the annual Quality Assurance Improvement Programme (QAIP).
48. Overall it was found that FBC complied fully with 47 out of 51 requirements (92%) and partially complied with 3 requirements (6%); the area of non-compliance related to the 5-yearly external review of audit quality, as already highlighted in [Appendix D](#). A few areas of action have been identified which have been added to the QAIP action plan.

Local Performance Measures

49. Three local performance measures were used for the service in 2019/20, as discussed below.

Completion of Plan

50. 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. However, this is partly due to the delay in producing the Head of Audit's Opinion report.

Completion of Plan	2019/20	2018/19	2017/18	2016/17
% of reports finalised by time of Head of Audits Report	95% (21/22)	78% (18/23)	70% (19/27)	68% (15/21)

Time Taken to Deliver Assignments

51. 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 drop in performance this year, mainly due to the impact of the pandemic.

Time Taken	2019/20	2018/19	2017/18	2016/17
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure)	5.1 (23)	3.4 (20)	6.3 (14)	6.7 (21)

Customer Feedback

52. 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 and a score applied as shown in the table below.

Level of Customer Satisfaction	2019/20	2018/19	2017/18	2016/17
Audit was above expectations	15% (2)	14% (2)	7% (1)	-
Happy with the audit	77% (10)	86% (12)	79% (11)	66% (10)
Minor problems with the audit	8% (1)	-	7% (1)	27% (4)
Significant problems with the audit	-	-	7% (1)	7% (1)

No trends in areas for improvement were identified this year.

RISK ASSESSMENT

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

CONCLUSION

54. 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 2019/20
- 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 11/03/19 on the Internal Audit Strategy

Report to Audit and Governance Committee on 22/07/19 on Head of Audit's Annual Opinion 2018/19

Quarterly audit reports to the Audit and Governance Committee during 2019/20

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

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

Enquiries:

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

APPENDIX A

RESULTS OF PLANNED ASSIGNMENTS 2019/20

Audit Title	Errors found? Y/N	Current Stage of Audit (out of 10)	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)				Advisory
						Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implemented	
FUNDAMENTAL SYSTEM AUDITS													
Payroll and Employee Expenses (1170)	N	10	15	Strong	↔ 2016/17	-	-	2	6	-	-	1	-
Housing Rents (1171)	Y	10	15	Limited	↓ 2016/17	2	-	1	4	-	2	2	-
Banking (1172)	N	10	5	Reasonable	↔ 2016/17	-	2	-	1	-	-	1	-
Treasury Management (1173)	N	10	10	Strong	↔ 2016/17	-	-	-	2	-	-	1	-
CORPORATE, SPECIALIST, GOVERNANCE, RISK AUDITS													
Recording of Sickness through HR 21 (1181)	N	5 – first draft of report	10	Strong	↑ 2007/08	-	-	1	-	-	-	-	-
SERVICES & SYSTEMS – HIGH RISK													
Tenancy	N	10	15	Limited	↓ 2014/15	-	4	-	4	1	2	1	-

Audit Title	Errors found? Y/N	Current Stage of Audit (out of 10)	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)				Advisory	
						Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implemented		
Centre (1186)														
COMPUTER AUDITS														
Fuel System (1179)	N	10	10	Strong	↑ 2011/12	-	-	2	3	-	-	-	-	-
BACS processing through Bottom-line (1180)	N	10	10	Reasonable	No previous audit	-	3	-	-	-	-	-	-	-
WIDER WORK														
Annual Testing of Procurement Decisions (1187)	N	10	10	N/A	N/A	-	11	-	-	-	-	-	-	-
Contract Management	Audit Postponed													
Disabled Facilities Grants – grant certification 2018/19 (1189)	N	10	-	N/A	N/A	2	1	-	-	-	-	-	2	-
Deceased persons list (1190)	N	10	-	N/A	N/A	-	5	-	-	-	-	-	-	-

Audit Title	Errors found? Y/N	Current Stage of Audit (out of 10)	Days in Plan	Assurance Opinion	Direction of Travel	New Recommendations			Previous Recs. (E and I only)				Advisory
						Essential	Important	Advisory	Implemented	Cancelled	In Progress	Not Implemented	
Assurance on Partnership Governance (1191)	N	10	15	N/A	N/A	-	3	-	-	-	-	-	-
Anti-Bribery Policy	Audit Postponed												
FOLLOW UP													
Dog Control Follow Up (1185)	N	10	8	Reasonable	↑ 2018/19	-	1	-	4	1	1	1	-
Recommendation Follow Up (PCC) (1198)	N	10	15	N/A	N/A	-	-	-	20	-	7	4	-
Totals						9	44	13	48	6	12	13	0

APPENDIX B

RESULTS OF PLANNED ASSIGNMENTS FROM PREVIOUS YEARS NOT FULLY 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											
Out of Hours Service 2018/19	10	12	Reasonable	No Previous Opinion	-	3	-	-	-	-	-
Computer Audits											
Review of outstanding IT audit recommendations 2018/19	10	10	N/A	N/A	2	2	-	12	16	1	3

APPENDIX C

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

<p>Reactive work undertaken by the Team</p>	<p>Fraud investigations including misuse of a parking swipe card and housing options cases</p> <p>System reviews including management of current tenant arrears and accounts in credit.</p>
<p>Other work undertaken by the team</p>	<p>Identification and documenting the justification of changes in financial controls arising from responding to the Covid-19 pandemic.</p> <p>Review of Compliance with the 2016 CIPFA Statement “The Role of the Chief Financial Officer”</p> <p>Review of Compliance with the 2019 CIPFA Statement “The Role of the Head of Internal Audit”</p> <p>Monthly stock checks (April 2019-January 2020) and assistance with reconciliation at Ferneham Hall</p> <p>Review of clearance of matches received for the National Fraud Initiative</p> <p>System analyses carried out to progress the corporate review of Risk Inspection regimes.</p> <p>Design of processes to deal with the disposal of assets.</p>
<p>Other sources</p>	<p>Compilation of evidence for the Annual Governance Statement</p> <p>Project Integra audit by Hampshire CC – March 2020</p> <p>6 monthly risk management reports</p> <p>Attendance at Corporate Financial Forecasting and Medium -Term Finance Strategy meetings</p> <p>Lead or attendance on project team meetings concerning Welborne, Printing, Procurement, Debt Collection, emergency planning and the Collection Fund.</p>

APPENDIX D

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

<i>Standard</i>	<i>Area of Non-Conformance</i>	<i>Comments</i>
1100 Independence and Objectivity (part)	The Chief Executive Officer and Chair of the Audit and Governance Committee do not formally feed into the performance appraisal of the Chief Audit Executive.	<p>No further action proposed</p> <p>Informal mechanisms are in place for concerns about independence and performance to be raised. Regular meetings occur between the Section 151 Officer and the Head of Finance and Audit [HFA]. There are also regular one to ones between the Chief Executive Officer and Section 151 Officer and an annual one to one between the Chief Executive Officer and the HFA.</p> <p>The HFA has access to the Chair and Vice chairs of the Audit and Governance Committee during the quarterly chairman briefings and can approach them directly should she have any concerns. They can also raise any concerns they have with the performance of the internal audit service.</p>
1312 External Assessments	No external assessments are currently included in the Quality Assurance and Improvement Plan.	<p>No further action proposed</p> <p>Given the current financial climate it is unlikely that we would want to incur additional costs to pay for an independent external verification of our self-assessment. However, our audit partners completed an external assessment in 2017/18 which provides us with assurance on their processes.</p> <p>The in-house team do monitor any feedback on conformance to the standards received from the external auditors, and the internal audit partners.</p> <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 Deputy Chief Executive Officer as the Section 151 Officer has previously reviewed. Other Directors are consulted on coverage in the plan for their department and receive information on the proposed Annual Plans and any changes to these before approval and are invited to provide feedback.</p>