

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 12 July 2021

Report of: Deputy Chief Executive Officer

Subject: HEAD OF AUDITS ANNUAL OPINION 2020/21

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2020/21 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 2020/21 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 2020/21 included 20 audit assignments of different types. One of the audits in the plan was cancelled (Disabled Facilities Grant – grant certification) as no additional grants have been received this year, therefore there was no need for certification. One of the audits in the plan (Contract Management) has needed to be postponed until next year and there has been no coverage of the audits on the reserve list. One additional audit was instead added to look at the transactions occurring on the Councils Procurement cards, given their increased usage during the Coid-19 pandemic.
4. The revised plan of 19 audits (22 last year) therefore gave a good representation of the audit universe (which contains 171 audit titles). 16 of these assignments were to produce an audit opinion and 171 days, plus 15 days in-house support, were assigned to this type of work.
5. At the time of giving this annual opinion, all 19 planned assignments for 2020/21 have been undertaken with sufficient coverage for conclusions to have been drawn and to be useable as a source of assurance. 17 (20 last year as at October) have been fully completed and actions agreed with the Audit Sponsor. 2 pieces of work from previous plans have also now been fully completed so can also be used in 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.
8. 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
2020/21	10 (63%)	5	1	0	16
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

No opinions of ‘Minimal Assurance’ were issued again in the year. There was one ‘Limited Assurance opinion’ awarded. This was for the Safeguarding Follow Up Audit where the implementation of previous recommendations was found to be outstanding. Weaknesses were found in managing contractor compliance with requirements and delivering regular refresher training. This continues to be reviewed at a corporate level to agree expectations in relation to contractor compliance.

Income or Expenditure Errors found

9. Errors are defined as spending we incurred when we shouldn’t have, or income due which was not requested. Duplicate payments totalling £204 were identified in the testing of procurement card transactions. Minor calculation errors were also found in the Solent Airport Operating Audit.

Implementation of Recommendations

10. During 2020/21, 11 of the audits included a review of the progress made with implementing previous recommendations. These covered 67 essential or important actions. Testing confirmed that 48% of the recommendations have been implemented and a further 28% were in progress.
11. Of the recommendations followed up 17 were essential recommendations. Of these, 6 (35%) were closed as complete or no longer needed, and another 7 (41%) were in progress. Those outstanding related to the IT Cloud, Safeguarding and Housing Rents audits.
12. 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
2020/21	11	67	48% + 41% in progress
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%

Other Sources of Assurance in the Year

13. [Appendix C](#) lists other sources of assurance that have been available this year to support the Annual Audit Opinion.
14. In particular it lists the work the team have carried out to provide assurance that controls were continuing to be maintained during the Council's response to the pandemic. These have included leading on the design of emergency processes such as electronic invoice flow and authorisation, post opening scanning and banking, cash office transfer to the bank, collection of payments over the phone when home working and strengthening the monitoring of property debt collection rates.

Governance, Ethics and IT

Covid-19 Pandemic

15. The main governance theme for 2020/21 has been how the Council has responded to the national Covid-19 pandemic emergency, continued to deliver its critical services and maintain appropriate systems of control.
16. The following specific audit assurances around the Covid emergency were delivered:
 - Full involvement with the systems of controls and anti-fraud procedures used to deliver the £50million programme of business grants and reliefs.
 - Testing carried out of the Emergency decision making processes used (as part of the Democratic Representation audit)
 - Testing carried out of the security of Internet and email platforms used for employees working from home (as part of the internet and emails audit)
 - Sample testing of purchases being made on council procurement cards during the pandemic.

No significant issues were found in the systems of control being utilised. Further areas of testing have also been included in the 2021/22 audit plan.

Governance

17. There were no other specific pieces of governance work carried out as part of the 2020/21 audit plan.

Ethics

18. 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.

19. There has been little work completed this year for this work stream; actions arising previous which are 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

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 2020/21 is that the information technology governance of the Council is adequate to support the organisation's strategies and objectives. This is based on previous risk discussions with the Head of Service, the assurance provided in the second annual cyber security assurance presentation and knowledge of the findings from the following computer audits:
 - (a) Benefits and local Tax computer systems (strong)
 - (b) Internet and Email access (reasonable)
 - (c) Cloud audit follow up (improved assurance to reasonable)
22. 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 and the impact of the UK leaving the European Union. Innovative methodologies have also been used during the year to spread user awareness on ICT security threats and their responsibilities.
23. However, there is still some work needed to expand the ICT strategy for the Cloud migration of the service systems, and strengthen the visibility of the costs and savings planned from the wider ICT strategy; including new ways of working.

Risk Management

24. During 2020/21 the usual discussions and reports were suspended to divert resources to other activities. However, risk management processes were utilised corporately throughout the pandemic response and recovery phases, including the production of a set of themed recovery plans. Other examples of corporate risk management observed were the discussions concerning the Welborne viability assessment, and the risk assessments carried out of the impact of the pandemic on the Council's capital programme.
25. Collaborative working was used to refresh the audit looking at the effectiveness of the Council's inspection regimes to identify risks and hazards on council land and property. This work has now been finalised and presented to managers.

26. This provided positive assurance and an action plan to address some issues arising was agreed which will be monitored as part of the usual recommendation monitoring processes.

HEAD OF AUDIT OPINION

27. 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. In 2020-21 this has included some assurance work relating to the Council's systems of controls during its response to the Covid-19 pandemic. However, it should be noted that, as audit cannot review every decision and transaction of the council, the opinion cannot provide absolute assurance.
28. 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 2020/21 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. Effective approaches to identify and manage risks were instigated as part of the pandemic response and there was no major weakening in systems of control identified.
29. The opinion is based on the following evidence:
- no “minimal” audit assurance opinions were again given this year, and only one “limited” audit assurance;
 - income or expenditure errors were only recorded in two audit and were very low in value;
 - 48% of recommendations followed up were signed off by the audit team and a further 41% were being progressed;
 - no significant issues were arising from the pandemic specific testing carried out;
 - collaborative working with managers on 3 wider work areas in the year is leading to improved control and efficiency;
 - progress has been made on 2 issues highlighted last year:
 - ✓ clarifying the ICT security policies for the Council and reviewing methodologies available to continuously disseminate messages to employees;
 - ✓ carrying out stock condition surveys and implementing asset management plans.
 - ✓ strengthening budgetary control arrangements in a few teams to assist the Living within our Means agenda;
30. 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) Replacing the system to host the employee gifts and hospitality register, supported by the launch of the revised policy.*
31. Additional areas noted this year where further action will enhance the adequacy and effectiveness of governance, risk management and control include:
- (a) Reconvene the annual risk management meetings with Heads of Service, and pilot the production of a streamlined monitoring report.*
These issues had already been recognised by managers and they are working to address them.
32. The issues above marked with an asterisk have been included in this year's Annual Governance Statement.

AUDIT SERVICE QUALITY ASSURANCE

- 33. 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.
- 34. 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.
- 35. 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

- 36. In conformance with PSIAs 1110, it is confirmed 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.

37. 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.

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

Self-Assessment against the Standards

39. Our self-assessment against the Public Sector Internal Audit Standards this year continued with our rolling review of conformance with 5 standards (16 parts) selected by the reviewing officer. It should be noted that there are 106 parts making up the 52 standards.
40. The review this year covered the following standards:

1220	Due Professional Care
1322	Disclosure of Non-Performance
2120	Risk Management
2330	Documenting Information
2500	Monitoring Progress

41. No areas of non-conformance were found.
42. Our self-assessment for 2020/21 therefore concluded that we have fully conformed to 49 [49 last year] of the 52 applicable standards with partial conformance with the other 3.
43. 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

44. 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).

45. 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 were identified and added to the QAIP action plan.
46. This was followed up in 2020/21 and progress with the action plan is continuing to be made. In particular, the audit plan for 2021/22 now clearly includes reviews on some major projects; programmes; and policy initiatives, and new and developing systems.

Local Performance Measures

47. Three local performance measures were used for the service in 2020/21, as discussed below.

Completion of Plan

48. The first measure covers the amount of planned work that is finalised by the time of the Annual Report. The level of completed work is high, which given the effect of the pandemic on audit and auditee resources is a significant achievement.

Completion of Plan	2020/21	2019/20	2018/19	2017/18
% of reports finalised by time of Head of Audits Report	89% (17/19)	95% (21/22)	78% (18/23)	70% (19/27)

Time Taken to Deliver Assignments

49. 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	2020/21	2019/20	2018/19	2017/18
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits in the measure)	6 (19)	5.1 (23)	3.4 (20)	6.3 (14)

Customer Feedback

50. 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

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

CONCLUSION

52. 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 which has been maintained appropriately during the Pandemic response and recovery phases.

Appendices:

- A. Results of Planned Assignments 2020/21
- 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 19/10/20 on Head of Audit's Annual Opinion 2019/20

Quarterly audit reports to the Audit and Governance Committee during 2020/21

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 2020/21

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	Errors Found? Y/N	New Recommendations	Previous Recs. (E and I only)				
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
FUNDAMENTAL SYSTEM AUDITS												
Benefits (1204)	4	15	Strong	↔ 17/18	Still at draft stage	N	-	-				
Income Management (1205)	10	15	Reasonable	↔ 17/18	07/21	N	-	2	1	-	1	2
Accounts Receivable (1206)	10	15	Strong	↔ 17/18	07/21	N	-	1	6	-	-	-
SERVICES & SYSTEMS – HIGH RISK												
Democratic Representation and Management (including members allowances and expenses) (1207)	10	12	Strong	↔ 13/14	07/21	-	-	-	2	-	-	-
Household Waste Collection (1200)	10	10	Strong	↔ 15/16	03/21	N	-	3	-	-	-	3
Recycling (1199)	10	8	Strong	↔ 15/16	03/21	N	-	2	-	-	-	-
Parking Enforcement (1208)	10	10	Strong	↑ 15/16	07/21	N	-	1	-	-	-	-
Solent Airport Operating Contracts (1201)	7	15	Reasonable	No previous opinion	07/21	Y	-	3	-	-	-	-
SERVICES & SYSTEMS – Other												
Service Charges and Recharges - Council Tenants (1203)	10	15	Strong	↑ 18/19	07/21	N	-	-	2	-	-	-
CORPORATE, SPECIALIST GOVERNANCE & RISK												
Construction Industry Tax Scheme (CIS) (1211)	10	5	Strong	↔ 08/09	03/21	N	-	-	-	-	-	-
COMPUTER AUDITS												
Benefits and Local Tax Computer Systems (1209)	10	15	Strong	↔ 06/07	07/21	N	-	1	-	-	-	-

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	Errors Found? Y/N	New Recommendations		Previous Recs. (E and I only)			
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
Internet and Email access (1210)	10	12	Reasonable	↔ 08/09	07/21	N	-	4	-	-	-	-
FOLLOW UP												
Cloud (1212)	10	8	Reasonable	↑ 18/19	07/21	N	-	-	4	-	11	3
Tenancy Management (1213)	10	5	Strong	↑ 19/20	03/21	N	-	-	4	-	-	1
Safeguarding (1202)	10	5	Limited	↔ 19/20	07/21	N	-	-	-	-	2	4
Housing Rents (1214)	10	6	Reasonable	↑ 19/20	03/21	N	-	-	4	-	1	1
WIDER WORK												
Targeted Assistance with Recommendation Implementation – Contract Deeds	10	-	N/A		03/21	N/A	-	-	7	1	2	1
Contract Management	Audit Postponed											
Disabled Facilities Grants - grant certification 2019/20	Audit Cancelled											
Social Media Monitoring by services	8	-	N/A		Still at draft stage	N/A	-	2	-	-	-	-
Procurement Card Testing (Added)	8	-	N/A		07/21	Y	-	5	-	-	-	-

APPENDIX B

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

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report where included	New Recommendations		Previous Recs. (E and I only)			
						Errors Found? Y/N	Essential	Important	Implemented	Cancelled	In Progress
Computer Audits											
Recording of Sickness through the HR 21 system	10	10	Reasonable	No previous audit	03/21	N	-	1	-	-	-
Corporate Assurance Work (Wider Work)											
Risk Inspection of Public Areas	10	-	N/A	No previous audit	03/21	N/A	1	4	-	-	-

APPENDIX C

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

Audit Team overview of systems of control during the Pandemic	<p>Continued identification and documenting the justification of changes in financial controls arising from responding to the Covid-19 pandemic.</p> <p>Leading on design of emergency processes including : Invoice flow, post opening, cash office banking, collection of payments over the phone from home, strengthened monitoring of property debt collection rates.</p> <p>Assisting with the Council's response to the Covid Procurement directives</p> <p>Advice and support given to the teams designing the business grant and test and trace grants processes – including fraud risk assessment and design of pre and post payment processes.</p> <p>Completion of counter fraud checks built into the business grants process and follow up of investigations arising.</p> <p>Advice and support given to the management of the council's financial sustainability monitoring, recovery plan and production of revised budgets.</p>
Reactive work undertaken by the Team	<p>Contribution to internal investigations</p>
Other work undertaken by the team	<p>Involvement in the new finance system tender evaluation, and part of the core implementation team.</p> <p>Review and response to fraud alerts issued by the National Anti-Fraud Network</p> <p>Monthly used of bank wizard tool to verify changes to bank account details on the Council's supplier database.</p> <p>Review of the IT leavers process</p> <p>Self- assessment of the control environment as part of the Crime Insurance policy renewal</p>
Other sources	<p>Compilation of evidence for the Annual Governance Statement</p> <p>Partnership for South Hampshire audit by Southampton CC (June 2021)</p> <p>6 monthly risk management reports (March 2020 report only)</p> <p>Attendance at Corporate Financial Forecasting and Medium -Term Finance Strategy meetings</p> <p>Lead or attendance on project team meetings concerning Welborne, Tree Management, Debt Collection, emergency planning and the Collection Fund.</p>

APPENDIX D

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

Standard	Area of Non-Conformance	Comments
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>