

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 26 September 2022

Report of: Head of Finance and Audit

Subject: HEAD OF AUDITS ANNUAL OPINION

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2021/22 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 2021/22 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 2021/22 included 24 audit assignments of different types. Five of the audits in the plan were postponed due to service availability, system slippage or audit resource availability. There has instead been coverage of one of the audits on the reserve list.
4. The revised plan of 20 audits (19 last year) therefore still gave a good representation of the audit universe (which contains 171 audit titles). 11 of these assignments were to produce an audit opinion and 131 days, plus 10 days in-house support, were assigned to this type of work. In addition 6 days were used to complete the audit opinion of an audit from a previous years' plan (Commercial Estates 2017-18). This is slightly below the target amount of 180 days set out in the Audit Strategy but this is compensated by the amount of follow up work completed in the year.
5. At the time of giving this annual opinion, all 20 planned assignments for 2021/22 have been undertaken with sufficient coverage for conclusions to have been drawn and to be useable as a source of assurance. 17 (17 last year as at October) have been fully completed and actions agreed with the Audit Sponsor. 3 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 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
2021/22	8 (66%)	4	0	0	12
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

9. No opinions of 'Minimal' or 'Limited Assurance' were issued in the year, and the following of a previous audit which received limited assurance (Housing Voids) is to be given a higher assurance opinion this time.

Income or Expenditure Errors found

10. Errors are defined as spending we incurred when we shouldn't have, or income due which was not requested. Duplicate payments totalling £433 were identified in the testing of the Accounts payable invoices. One receipt for £22 could not be traced to the bank statement in respect of the transactions tested in the Sheltered Housing Audit.

Implementation of Recommendations

11. During 2021/22, 7 of the audits included a review of the progress made with implementing previous recommendations. These covered 122 essential or important actions. Testing confirmed that 59% of the recommendations have been implemented and a further 36% were in progress.
12. Of the recommendations followed up 13 were essential recommendations. Of these, 5 (38%) were closed as complete or no longer needed, and all the rest were in progress. Those outstanding related to the Leisure centres contract (1) and IT Cost Monitoring (7).
13. 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
2021/22	7	122	59% + 36% in progress
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

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. Particular areas of in-depth work which provide assurance on the Councils systems of control and management of risk relate to:
 - (a) Implementation of the new finance system (phase 1)
 - (b) Assurance and reconciliation returns for business grants
15. In addition the Policy, Research and Engagement team have completed their annual review of partnerships as a further source of assurance. The highlights from the annual report are provided in Appendix E.

Specific Assurance Responsibilities

16. The following table summarises the key sources of assurance in the year into specific risks and systems of control identified in the Internal Audit Standards for internal audit coverage.

Governance	Planned Audit of Security and Use of DWP Data Services Tell us Once Process Project Finalised planned audit of Social Media Monitoring by Services
Ethics	Planned Audit of Prevention of the Facilitation of Tax Evasion Sheltered Housing safe spot checks
IT	Planned Audit of Security and Use of DWP Data Services Planned Audit of Cyber Security During Lockdown Planned Audit of Revenues System Migration to the Cloud
Risk Management	Leading on compilation of the 6 monthly risk management reports including actions escalated to senior managers

No significant issues were found in the systems of control being utilised that require highlighting.

HEAD OF AUDIT OPINION

17. 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.
18. 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 2021/22 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.

19. The opinion is based on the following evidence:

- no “minimal” or limited audit assurance opinions were given this year;
- income or expenditure errors were only recorded in two audits and were very low in value;
- 59% of recommendations followed up were signed off by the audit team and a further 36% were being progressed;
- collaborative working with services on 1 wider work area in the year (prevention of the facilitation of tax evasion) is leading to improved control and efficiency;
- progress has been made on 1 issue highlighted last year:

✓ Reconvening the annual risk management meetings with Heads of Service and piloting the production of a streamlined monitoring report.

20. 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.
- (e) Fully updating the status of previous internal audit recommendations made.
- (f) 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.

21. No additional areas were noted this year where further action will enhance the adequacy and effectiveness of governance, risk management and control include:

22. The issues above marked with an asterisk have been included in this year’s Annual Governance Statement.

AUDIT SERVICE QUALITY ASSURANCE

23. As required by the Public Sector Internal Audit Standards (PSIAs), the service has developed a documented Quality Assurance and Improvement Plan (QAIP) which consists of a self-assessment against the standards, on-going monitoring arrangements and local performance measures.
24. The QAIP is designed to provide reasonable assurance to its key stakeholders that the service: performs its work in accordance with its Charter; operates in an effective and efficient manner; is perceived by its key stakeholders as adding value and improving the service that it provides.
25. The PSIAs require the Head of Internal Audit to report on the outcomes of the QAIP each year which is covered by the following sections.

Audit Independence

26. In conformance with 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.
27. 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.

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

Self-Assessment against the Standards

29. Our self-assessment against the Public Sector Internal Audit Standards this year continued with our rolling review of conformance with 10 standards (13 parts) selected by the reviewing officer. It should be noted that there are 106 parts making up the 52 standards.
30. The review this year covered the following standards:

1010	Recognising Mandatory Guidance in the Internal Audit Charter
1110	Organisational Independence
1112	Chief Audit Executive Roles Beyond Internal Auditing
1210	Proficiency
1312	External Assessments
1320	Reporting on the Quality Assurance and Improvement Programme
2000	Managing the Audit Activity
2010	Planning
2030	Resource Management
2040	Policies and Procedures

31. No areas of non-conformance were found.
32. Our self-assessment for 2021/22 therefore concluded that we have fully conformed to 49 [49 last year] of the 52 applicable standards with partial conformance with the other 3.
33. 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

34. 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).
35. 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.
36. This was followed up in 2021/22 and progress with the action plan is continuing to be made. Audits are being included in the plan which are providing advice and consultancy to the Organisation, and changes have been proposed for the Internal Audit Charter to include additional responsibilities required by the CIPFA statement.

Local Performance Measures

37. Three local performance measures were used for the service in 2021/22, as discussed below.

Completion of Plan

38. 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 impacts on audit resources in the year is a significant achievement.

Completion of Plan	2021/22	2020/21	2019/20	2018/19
% of reports finalised by time of Head of Audits Report	85% 17/20	89% (17/19)	95% (21/22)	78% (18/23)

Time Taken to Deliver Assignments

39. The second measure covers the length of time between the initial scoping meeting with the customer and the provision of a final report. This is a known area of weakness and there has been an improvement in performance this year, albeit the data has not been compiled across the whole plan.

Time Taken	2021/22	2020/21	2019/20	2018/19
Average number of calendar months between start and finish of audits finalised since the last annual report. (Number of audits)	4 (9)	6 (19)	5.1 (23)	3.4 (20)

Customer Feedback

40. 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. 9 interviews have been completed since the last report and a score applied as shown in the table below.

Level of Customer Satisfaction	2021/22	2020/21	2019/20	2018/19
Audit was above expectations	33% (3)	17% (2)	15% (2)	14% (2)
Happy with the audit	67% (6)	75% (9)	77% (10)	86% (12)
Minor problems with the audit	-	8% (1)	8% (1)	-
Significant problems with the audit	-	-	-	-

No trends in areas for improvement were identified this year.

RISK ASSESSMENT

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

CONCLUSION

42. 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 recent pressures faced by the Council.

Appendices:

- A. Results of Planned Assignments 2021/22
- 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
- E. Partnership Governance Assurance 2021/22

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 12/07/21 on Head of Audit's Annual Opinion 2020/21

Quarterly audit reports to the Audit and Governance Committee during 2021/22

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 2021/22

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												
Local Tax Collection (1221)	10	15	Strong	↔ 18/19	March 2022	N	-	1	-	-	1	-
Accounts Payable (1222)	10	15	Strong	↔ 18/19	November 2021	Y	-	1	-	-	-	-
Fixed Assets (1223)	10	10	Strong	↔ 18/19	March 2022	N	-	-	-	-	-	1
Vehicle Maintenance	Postponed											
SERVICES & SYSTEMS – HIGH RISK												
Sheltered Housing (1225)	10	11	Reasonable	↔ 16/17	March 2022	Y	-	7	2	-	1	-
Parking Charges (1226)	10	15	Reasonable	↔ 18/19	March 2022	N	-	1	1	-	-	-
Trade Waste and Recycling (1227)	10	12	Strong	↔ 16/17	November 2021	N	-	3	-	-	-	-
Planning Applications – Nitrate Offsetting (1228)	10	10	Strong	↔ 18/19	July 2022	N	-	1	-	-	-	-
SERVICES AND SYSTEMS - OTHER												
Car loans (1233)	10	10	Strong	↑ 02/03	September 2022	N	-	2	-	-	-	-
Service Charges and Recharges – Leaseholders	Postponed											
COMPUTER AUDITS												
Security and Use of DWP Data Services (1229)	10	8	Strong	No previous audit	July 2022	N	-	2	-	-	-	-
Cyber Security During Lockdown (1231)	10	10	Strong	No previous audit	November 2021	N	-	-	-	-	-	-
Housing System – Post Implementation Review	Postponed											

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*	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 SYSTEMS											
Benefits 2020/21	10	Strong	↔ 17/18	September 2021	N	-	-	-	-	-	-
Commercial Estates 2017/18	10	Reasonable	↓ (2012/13)	July 2022	N	-	6	-	-	-	-
WIDER											
Social Media Monitoring 2020/21	10	N/A	-	September 2021	-	-	3	-	-	-	-

APPENDIX C

ADDITIONAL SOURCES OF ASSURANCE THIS YEAR

<p>Audit Team overview of systems of control</p>	<p>Lead on the designing and implementing the systems of controls associated with the accounts receivable module on the new Finance system</p> <p>Part of the Core team designing and implementing the systems of controls associated with the rest of the new Finance system including a part year review of the approval process for Treasury Management transactions.</p> <p>Advice given to designing the energy rebates process ready for 2022/23</p> <p>Completion of counter fraud checks built into the business grants process and follow up of investigations arising.</p> <p>Completion of assurance returns and reconciliations for business grants</p>
<p>Reactive work undertaken by the Team</p>	<p>Leading on resolving problems identified by HCC and DWP in the integrated Tell Us Once Service</p> <p>Reviews and assistance with supplier invoice problems in the Housing repairs team</p> <p>Contribution to internal investigations</p>
<p>Other work undertaken by the team</p>	<p>Internal Audit onsite review of documentation supporting business grant spend by Fareham Shopping Centre</p> <p>Review and response to fraud alerts issued by the National Anti-Fraud Network</p> <p>Compilation of evidence for the Annual Governance Statement</p> <p>Driving project to strengthen documentation of contracts in place at a service level.</p> <p>Compiling evidence to support inspections by DVLA and Info Commissioners Office</p>
<p>Other sources</p>	<p>6 monthly risk management reports (Oct 2021 and March 2022)</p> <p>Attendance at Corporate Financial Forecasting and Finance Strategy meetings</p> <p>Lead or attendance on project team meetings including Breathing spaces, external printing, Welborne, Tree Management and cash office relocation</p> <p>Response to complaints made to Local Taxation team</p> <p><u>Assurances from other Audit Teams</u></p> <p>Project Integra Audit Report – Southern Internal Audit Partnership – June 2021</p> <p>Coastal Partnership Audit Report – Southern Internal Audit Partnership - Nov 2021</p> <p>Portchester Crematorium Audit Report – PCC – May 22</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>

Partnership Governance Assurance 2021/22

The Policy, Research and Engagement team have completed their annual review of partnerships and reported the findings to the Chief Executive's Management Team in July 2022. A fuller Partnership Governance report last went to the Audit and Governance Committee in September 2021. The committee concluded that there were no requests for further information or clarification on Significant Partnerships, as Members did not have any concerns over the arrangements in place.

The table below lists the significant and less significant partnerships identified in the review:

Significant Partnerships	Less Significant Partnerships
Southampton and Fareham Legal Services Partnership	Aspect
Project Integra	Hampshire and Isle of Wight Local Government Association
Portchester Crematorium Joint Committee	Hampshire Children's Trust
Partnership for South Hampshire (PFSH)	Fareham Local Children's Partnership
Internal Audit Services Partnership	Wayfarer Partnership
Fareham and Gosport Environmental Health Partnership	
Fareham, Gosport and Portsmouth Building Control Partnership (BCP)	
Fareham Community Safety Partnership (CSP)	
Coastal Partners	

The Council's definition of a significant partnership is a partnership that:

- is a legal requirement or based on statutory guidance; or
- it commissions or delivers activities at a borough wide or local level that contribute substantially towards the Corporate Strategy 2017-2023 outcomes; and
- there is a significant risk to the Council if there is under-performance in this area.

The annual review provided the following assurance:

- All 13 of the partnerships have agreements in place.
- Of the 13 partnerships listed, 12 are progressing well, and 1; Project Integra; needs to improve its performance. The Lead Officer for that partnership provided the following update:

Discussions have been taking place with all the PI partners to explore alternative partnership arrangements, in line with potential changes arising from the draft Environment Bill, and these are ongoing. This includes proposals from HCC to introduce new targets for reduction of residual waste which will have financial implications for waste collection authorities.

Previously HCC had said that new financial arrangements will need to be agreed in the Autumn of 2021 otherwise they will give 6 months' notice on the PI MOU so that the savings are made from April 2022. They have now revised the deadline for implementation to April 2024.