

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **23 June 2014**

Report of: **Director of Finance and Resources**

Subject: **HEAD OF AUDIT'S ANNUAL OPINION 2013/14**

SUMMARY

This report sets out the Internal Audit coverage, findings and performance for 2013/14 and gives an overall assurance opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.

All audits from the revised internal audit plans have been delivered to at least the draft report stage and so can be used to support this year's opinion. Generally the Council is considered to have had a good framework of governance, risk management and control for the year 2013/14 which was generally working effectively. No minimal assurance opinions were given in the year and the spread of opinions being awarded across the Strategic Audit Plan is showing an upward trend. No errors in income collection or payments out were again recorded.

The results of the Quality Assurance and Improvement plan covering the work of the internal audit service have been included. There are no significant issues that it is considered need to be included in the annual Governance Statement.

RECOMMENDATION

That the contents of the report are noted as a source of evidence for the 2013/14 Annual Governance Statement.

INTRODUCTION

1. The Council is legally required to publish an Annual Governance Statement. Its purpose is to give assurance or produce a management action plan to address weaknesses in the effectiveness of the Council's governance, internal control and risk management arrangements.
2. This report covers the assurances that are available through the work of the Internal Audit service and is one of the key documents which will inform the production of this year's Annual Governance Statement. Its purpose is to provide an opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control.
3. This is the first year that the service has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAs) and some of the content of this report has been expanded to meet the requirements of those standards.

WORK CARRIED OUT TO SUPPORT THE OPINION

4. A plan of 30 audit assignments for 2013/14 was approved by the Audit and Governance Committee in March 2013. This plan was delivered by Deloitte & Touche up to January 2014 when the Public Sector Internal Audit subsidiary was sold to Mazars LLP who then took over delivery of the remaining work. Any changes to the plan were approved by the Committee in the quarterly progress reports.
5. A summary of the nature of the audits making up the original and revised plans is attached as [Appendix A](#). A total of 30 pieces of audit work were included in the revised audit plans for 2013/14, all of which have been carried out. However, at the time of this report 11 audits are still at the draft report written or draft report issued stages.
6. This shows that there has been good coverage of the different levels of system which make up the Council's control environment, providing a sound basis for this year's opinion. In addition there were 3 reports from the 2012/13 plan where the conclusion was reached after the 2012/13 opinion was given. These have therefore been included as additional evidence for this year's opinion.

FINDINGS AND ASSURANCE AVAILABLE FROM INTERNAL AUDIT WORK

7. The findings from audit work consist of the following four key pieces of information which are used to assess the overall level of control in that service or system:
 - The assurance opinion awarded for the adequacy of controls found (judged against the risks and control areas covered in that audit).
 - The number of essential recommendations made or outstanding.
 - The level of excess expenditure or under achieved income discovered as a result of the audit, referred to as "errors".
 - The level of recommendation implementation that occurred since the previous audit as a remedy to address weaknesses found.

8. A summary of these key pieces of information arising from each completed audit (where it is applicable) is given in [Appendix B](#), and discussed below.

Assurance Opinions

9. At the end of a risk based audit, an opinion is usually given. The scale of opinions used in 2013/14 was: Strong, Reasonable, Limited, and Minimal. Definitions for these are given in [Appendix B](#). The opinion reflects the level of internal control found within the system for those areas tested and is mainly determined by the nature of recommendations that have been made. These are classified on the scale: Essential, Important and Advisory.
10. [Appendix B](#) shows the opinions that were given for the 33 audits where it was applicable to do so. No opinions of 'Minimal Assurance' were issued in the year. There is 1 'Limited Assurance opinion' likely to be awarded in the year, compared to 3 last year. This relates to the Data Protection follow up where although some work has been carried out in this area the impact has not been enough to close many of the recommendations made last year. However, it should be noted that this review is still at the draft report stage.
11. The overall spread of opinions compared to the previous 5 years is summarised below. This shows an increase in Strong opinions compared to last year.

Table 1 – Spread of Opinions issued for Audits in last 5 years

	Strong	Reasonable	Limited	Minimal	Total
2013/14	13	18	1	0	32
2012/13	8	16	3	0	27
2011/12	13	14	1	0	28
	Very Good / Good	Satisfactory	Fair	Poor	Total
2010/11	22	6	0	0	28
2009/10	13	12	2	0	27

12. The table below shows the movements in opinions issued for specific audits this year, with more increasing in opinion than decreasing:

Table 2 – Audits Changing Opinion

Audit	Previous Opinion	Current Opinion
Audits Increasing in Opinion (8)		
Payroll	Reasonable	Strong
Council Tax & NNDR	Reasonable	Strong
Housing Rents	Reasonable	Strong
Cash Collection and Banking	Reasonable	Strong
Leisure Centre Trust	Satisfactory	Strong
Licensing of Taxis and Alcohol	Satisfactory	Strong
Ferneham Hall	Limited	Reasonable
<i>Off Street Car Parking</i>	Limited	Reasonable
Audits Decreasing in Opinion (3)		
Public Conveniences	Very Good	Reasonable
<i>Ordering and Payment of Invoices [Creditors]</i>	Strong	Reasonable
Insurance	Good	Reasonable

13. Three subjects in the year (Coastal Protection and Land drainage, Miscellaneous

Democratic and Training Development) had been audited for the first time. These resulted in two opinions of Strong and 1 of reasonable. The spread of opinions across the whole strategic audit plan is shown graphically in [Appendix C](#), which shows that as new audits are carried out and others are revisited there is a general trend towards the left (higher opinions being given).

Essential Recommendations

14. No new essential recommendations have been raised from the 2013/14 audits.
15. As at the end of last year there were 4 essential recommendations awaiting implementation. All of these have now been implemented and confirmed as such by internal audit.
16. However, there were 2 additional essential recommendations arising from the 2012/13 work and 1 reinstated from follow up work. Work is currently in progress to ascertain the latest status of these recommendations.

Errors on Income or Expenditure

17. No uncorrected errors in income collection or expenditure were again found during testing in audits this year. The car parking audit did again highlight a number of variances for income collected but these related more to over collection due to missing machine readings. As of April 2014 an alternative system has been put in place to produce machine readings. This will allow more accurate monitoring of income due.

Implementation of Recommendations

18. During 2013/14, 17 of the audits included a review of progress made with implementing previous recommendations, covering a total of 68 individual actions [excluding Advisory Actions], of which 53 were deemed still valid. These resulted in an overall implementation rate of 66%. This represents 18 recommendations being found unimplemented in this year compared to 25 last year.

Table 3 – Trend in Results of Audit Testing of Implementation of Recommendations

	No of audits with recommendation reviews	No. of recs tested	% of recommendations tested signed off by audit as implemented
2013/14	17	68	66%
2012/13	16	77	61%
2011/12	23	147	68%
2010/11	25	262	79%
2009/10	23	185	63%

19. Work is currently in progress to provide an updated status for all outstanding actions. Similar work carried out last year concluded that the Council had implemented 71% (102/143) of all its outstanding audit recommendations during 2012/13 and progress had been made on a further 10% (14).
20. Additional work has been carried out to sign off recommendation which services had

previously reported as implemented. In total 97 recommendations have been followed up. 10 of these (10%) were subsequently reinstated.

GOVERNANCE

21. The external auditors concluded that the Councils Annual Governance Statement for 2012/13 complied with the requirements of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework, and was consistent with the information they were aware of from their audit of the financial statements.
22. The Council is nearing the end of a project to streamline the rules laid out in its Contract and Financial Procedure Rules and will then continue to challenge the suitability of policies set in relation to the objectives for the organisation.
23. One governance audit was carried out this year to test compliance with two of the updated Financial Regulations. The draft results are summarised in the table below.

Table 4 – Draft Results from Testing of Compliance with Financial Regulations

Rule Tested	Number of Transactions Analysed	Initial Level of Compliance Found	Notes
<p>Prompt Payment of Invoices</p> <p>Reg 16.1.4 – Valid supplier invoices should be paid 30 days following the latter of a) receipt of a valid invoice by FBC Accounts Payable OR b) works, goods/services provided).</p>	8,147	87%	<p>3 days was allowed for the invoice to reach the council in this analysis.</p> <p>Further testing of a sample of 15 'late' payments found that 9 (60%) were for appropriate reasons and the policy had not been breached. Extrapolated that would give 95% compliance.</p> <p>The Council is currently reviewing our purchasing systems which may identify ways to make it easier to achieve full compliance with this rule.</p>
<p>Prompt Raising of Debtor Invoices</p> <p>Reg 19.2.5 – Invoices which cannot be raised in advance should be raised at an earlier opportunity after supply and within 30 days of the value of the charge being known.</p>	2,056	95%	<p>Some problems were found with the data available to allow this analysis to be completed. So these results need to be put in this context</p>

RISK MANAGEMENT

24. During 2013/14 the Committee received six monthly updates on the Corporate Risk Register in accordance with the revised Risk Management Policy adopted in 2012/13.
25. The Policy also requires that there is an independent assessment of our Risk Management process every 3 years. Mazars PSA conducted this audit in 2013/14 and

no significant issues arose from the review.

HEAD OF AUDIT OPINION

26. Using the information outlined above, in the opinion of the Head of Audit and Assurance, the Council had a good framework of governance, risk management and control for the year 2013/14 which was generally working effectively. There is awareness amongst managers about their top risks and the importance of control mechanisms, and action plans are agreed to address any major weaknesses found.
27. There is still work to be done to improve the speed in which recommendations are implemented. In particular we are will be holding more detailed discussions into the context of findings from audits to try and ensure that any new recommendations are seen as relevant by managers. We are also developing an online action management system to improve the management information available on outstanding recommendations.
28. This opinion is given based on the audits that have finished, and will be updated if the audits currently in progress gives rise to the need to change the opinion. It is also given against a back drop of fundamental reviews of key front line services from the customer's point of view. Audit coverage is therefore planned to ensure that these do not significantly weaken the Council's control framework in place to address any material risks it faces.
29. In forming this opinion I have not placed any direct reliance on related projects or other assurance providers other than External Audit in relation to the governance framework. However, sources of external assurance will be reviewed as part of the evidence supporting the Annual Governance Statement.

RESULTS OF QUALITY ASSURANCE IMPROVEMENT PLAN

30. As required by the Public Sector Internal Audit Standards the service is developing a Quality Assurance and Improvement Plan [QAIP] which consists of a self- assessment against the standards and on-going monitoring arrangements and local performance indicators.
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 the PSIAS 1110, it is confirmed that that the internal audit activity was organisationally independent.
34. This is assessed on the basis that the Head of Audit and Assurance 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. Functional reporting to the Audit and Governance Committee included:

- approving the internal audit charter;
- approving the risk-based audit plan including the resource details;
- receiving communications on the audit activity's performance in relation to the plan;
- receiving communications on any inappropriate scope or resource limitations.

Self-Assessment against the Standards

36. In conformance with PSIAS 1320 our self-assessment concludes that during 2013/14 we have fully conformed with 44 of the 52 applicable standards with partial conformance with another 5. PSIAS 1322, requires instances of none or part conformance to be disclosed. These are given in [Appendix D](#). It should be noted that in total there are 128 parts making up the 52 standards.

None of the areas of non-conformance are considered significant enough for reporting in the Annual Governance Statement particularly as the external assessment requirement is not due for another 4 years. An action plan is being progressed to address the areas of non or part conformance indicated, where it is considered to be of benefit to the Council.

Local Performance Indicators

37. The performance of the audit function based on other local indicators is summarised in [Appendix E](#). Key measures, such as the completion of the audit plan and providing work that the external auditors can place reliance on, have been met this year. However, fewer audits have been finalised by the time of this report. This is mainly due to the turnover of staff this year and also due to work that has started to refocus the final reports to reflect the culture and direction of the organisation.

RISK ASSESSMENT

38. There are no significant risk considerations in relation to this report

CONCLUSION

39. This annual audit report contains the information required by the Public Sector Internal Audit Standard. The opinion offered within it, is that the Council continues to have a good framework of governance, risk management and control.

Appendices:

- A. Summary of the Completion of the Original 2013/14 Audit Plans
- B. Findings from Audits Completed in 2013/14

- C. Current Spread of Opinions in Strategic Audit Plan
- D. Areas of Non Conformance with the Public Sector Internal Audit Standards
- E. Comparison of Local Performance Indicators

Background Papers: None

Reference Papers:

Report to Audit and Governance Committee on 27/06/13 on Head of Audit's Annual Report 2012/13

Quarterly audit reports to the Audit and Governance Committee during 2013/14

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

Enquiries:

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

SUMMARY OF THE COMPLETION OF THE ORIGINAL & REVISED 2013/14 ANNUAL AUDIT PLANS

Audit Type	No of Audits Originally Planned	No. of Audits Added	No. of Audits Removed	Revised No. of Audits	No. of Audits Carried Out	% Delivery	Notes
Fundamental Systems	10			10	10	100%	Debtors and Creditors at draft report issued stage.
Corporate and Partnership	2		1	1	1	100%	Performance Management audit postponed at manager's request to allow the new management system to embed. Other audit at draft report issued stage
Governance and Risk Management	2			2	2	100%	One report at draft report issued stage and one at draft report written stage.
Contract and Specialist	0			0	0		
Public Services	10	1	1	10	10	100%	Leisure Centre Trust audit carried out in place of Leisure Partnership audit at managers request. 2 audits at draft report issued stage and 2 at draft report written stage.
Internal Process	3			3	3	100%	
Computer and Information Governance	3			3	3	100%	
Specific Follow Ups	0	1		1	1	100%	Follow up of Data Protection Limited Assurance report. At draft report written stage.
TOTALS	30	2	2	30	30	100%	

Additional Assurances arising from the 2012/13 Plan where opinion produced after the 2012/13 Head of Audit Opinion:

Contract and Partnership - Legal Service Contract

Internal Services - Miscellaneous Democratic

Internal Services – Customer Service Centre Process (Disabled Parking)

Findings from Completed Audits in Support of the 2013/14 Audit Opinion

The reports for those audits in italics are still being finalised.

Audit Title	Errors Found	New Recommendations			Previous Recs. (E and I only)			Assurance Opinion	Direction of Travel
		Essential	Important	Advisory	Implemented	Cancelled	Not Implemented		
Fundamental Systems									
Treasury Management	None	-	-	-	-	-	-	Strong 😊😊	↔
Main Accounting, System & Budgetary Control	None	-	-	2	-	-	-	Strong 😊😊	↔
Housing Benefits and Council Tax Support	None	-	-	-	-	-	-	Strong 😊😊	↔
Fixed Assets	None	-	1	-	-	-	-	Strong 😊😊	↔
Payroll	None	-	-	-	1	-	1	Strong 😊😊	↑
Council Tax & NNDR	None	-	1	1	-	-	1	Strong 😊😊	↑
Housing Rents	None	-	1	-	4	-	1	Strong 😊😊	↑
Cash Collection and Banking	None	-	-	4	-	-	1	Strong 😊😊	↑
<i>Invoicing and Collection of Income Receivable [Debtors]</i>	None	-	2	1	2	-	2	Reasonable 😊	↔
<i>Ordering and Payment of Invoices [Creditors]</i>	None	-	3	-	1	-	1	Reasonable 😊	↓
Corporate & Partnership Audits									
<i>Training and Development</i>	None	-	1	4	-	-	-	Reasonable 😊	New
Governance & Risk Management Audits									
<i>Financial Regulations Compliance Testing</i>	None	-	-	-	-	-	-	Not applicable	N/A
<i>Risk Management</i>	None	-	2	-	-	-	-	Reasonable 😊	N/A

Audit Title	Errors Found	New Recommendations			Previous Recs. (E and I only)			Assurance Opinion	Direction of Travel
		Essential	Important	Advisory	Implemented	Cancelled	Not Implemented		
Contract and Specialist Audits									
Legal Services Contract (2012/13)	None	-	2	-	-	-	-	Reasonable 😊	N/A
Public Service Audits									
Town Centre Management	None	-	-	1	-	-	-	Strong 😊😊	↔
Leisure Centre Trust	None	-	-	3	-	-	-	Strong 😊😊	↑
Licensing of Taxis and Alcohol	None	-	1	2	7	5	-	Strong 😊😊	↑
Coastal Protection and Land Drainage	None	-	1	-	-	-	-	Strong 😊😊	New
<i>Planning Applications</i>	None	-	1	1	1	4	1	Reasonable 😊	↔
<i>Homelessness</i>	None							Reasonable 😊	↔
<i>Clean Borough Enforcement and Abandoned Vehicles</i>	None				-	-	-	Reasonable 😊	↔
Ferneham Hall	None	-	-	4	11	4	2	Reasonable 😊	↑
<i>Off Street Parking</i>	None	-	1	-	-	-	1	Reasonable 😊	↑
Public Conveniences	None	-	1	1	-	-	-	Reasonable 😊	↓
Internal Process Audits									
<i>Miscellaneous Democratic Services (2012/13)</i>	None	-	2	1	-	-	-	Strong 😊😊	New
Customer Service Centre Processes – Disabled Parking (2012/13)	None	-	5	-	1	-	-	Reasonable 😊	N/A
Management of Tradesmen	None	-	1	1	1	1	-	Reasonable 😊	N/A

Audit Title	Errors Found	New Recommendations			Previous Recs. (E and I only)			Assurance Opinion	Direction of Travel
		Essential	Important	Advisory	Implemented	Cancelled	Not Implemented		
Planning Contributions (including Community Infrastructure Levy)	None	-	1	1	-	-	1	Reasonable 😊	↔
Insurance	None	-	1	2	3	1	-	Reasonable 😊	↓
Computer & Information Governance Audits									
Website Content Management	None	-	1	1	-	-	1	Reasonable 😊	↔
Remote Access, Third Party Access and Mobile Working	None	-	5	1	1	-	-	Reasonable 😊	↔
Main Accounting System (E- Financials) Application Review	None	-	2	3	-	-	-	Reasonable 😊	↔
Specific Follow Ups									
<i>Data Protection</i>	None	-	-	-	1	1	5	Limited 😞	↔
TOTALS	0	0	36	34	34	16	18		

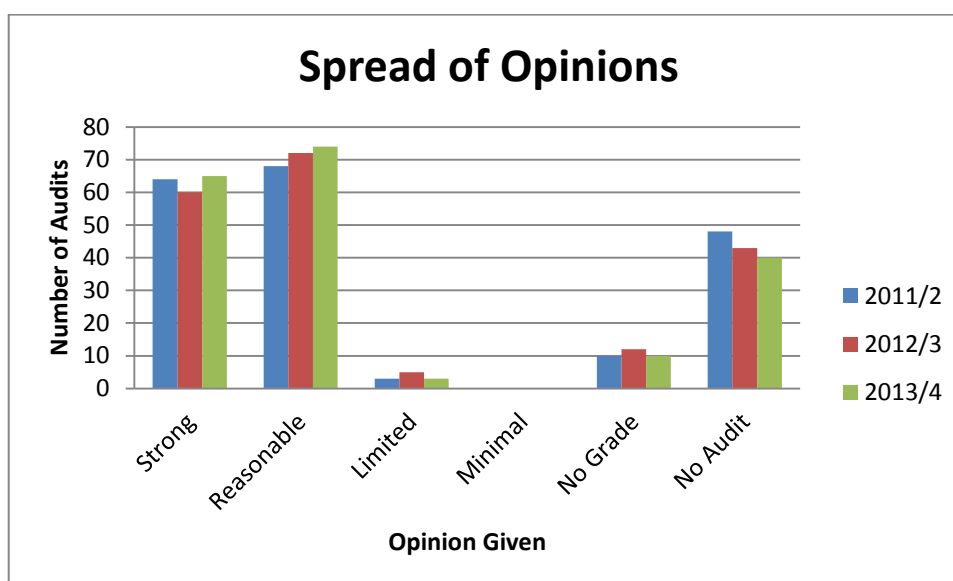
Summary of Assurance Opinions Used		
Assurance Level	Symbol	Description
Strong	😊😊	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	😊	There is basically a sound system of internal control but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	😞	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	😡	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

Current Spread of Opinions across the Whole Strategic Audit Plan as at June 2014

Category of Audit	Strong / Very Good / Good	Reasonable / Satisfactory	Limited / Fair	Minimal / Poor	No Opinion	No Audit	Total
Fundamental	10	2					12
Corporate & Partnership	3	5			0	8	16
Governance & Risk Management	2	1			4	1	8
Contract & Specialist	5	2	2		2	2	13
Public Service	28	30			3	20	81
Internal Process	6	10				6	22
Computer & Information Governance	11	24	1		1	3	40
Total 2013/14	65	74	3		10	40	192
Total 2012/13	60	72	5		12	43	192
Total 2011/12	64	68	3		10	48	193

Notes:

The “no opinion” column shows audits where a piece of work has been carried out in the past but the nature of the work was such that an opinion wasn’t appropriate. The “no audit” column shows audits that have not been carried out in the last 10 years or are new to the plan.



APPENDIX D

Areas of Non Conformance with the Public Sector Internal Audit Standards

Standard	Area of Non Conformance	Comments
1000 Purpose, Authority and Responsibility	The Internal Audit Charter is not presented to senior managers in addition to the board.	The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility which 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. However, the draft Audit Strategy will be presented to the full Chief Executive's Assurance Group.
1100 Independence and Objectivity	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.	Informal mechanisms are in place for concerns about independence to be raised. Regular one to ones occur between the Section 151 Officer and the Head of Audit and Assurance [HAA]. 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 HAA. The HAA also has access to the Chief Executive Officer as chair of the Chief Executive's Assurance Group. The HAA 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.
1310 Requirements of the Quality Assurance and Improvement Programme	No external assurances are currently included in the Quality Assurance and Improvement Plan.	This requirement is not yet due for another 5 years. However, given the current financial climate it is unlikely that we would want to incur additional costs to pay for an independent external verification of our self-assessment.
1312 External Assessments		We will, however, monitor any feedback on conformance to the standards received by the external auditors and internal audit contractor. We will also monitor discussions on the potential use of peer reviews to provide this assurance which can be met within budget, bearing in mind that the professional body has some reservations about using a near neighbour for peer reviews as they cannot be truly independent.
2010 Planning	We do not currently have a fully up to date risk assessment supporting the annual plan.	The Strategic Audit plan is in the process of being updated and will include a risk assessment for the audits in accordance with the model being piloted by the CIPFA Governance Forum and our new approach.
2020 Communication and Approval	The entire internal audit activity's plan and resource requirements, were not presented to senior managers in addition to the board for review.	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.
2030 Resource Management	The audit plan did not explain how the internal audit's resource requirements have been assessed.	The Audit Strategy is in the process of being updated with an assessment of resource requirements based on the updated Audit Universe. Reference to this will be made in each year's Annual Plans.
2110 Governance	No specific assurance has been given on Information Technology Governance and the effectiveness of ethics related objectives.	Assurances are currently provided each year from specific computer audit work and counter fraud initiatives. Discussions are being held with the internal audit contractors on how we can strengthen coverage in the plan to give further assurances on these specific aspects of the control framework.

Comparison of Local Performance Indicators for last 5 years

Indicator	Comments	Direction	Performance	2013/14	2012/13	2011/12	2010/11	2009/10
Extent to which External Audit place reliance on our work	No reports received from external audit which include an opinion on internal audit. Verbal feedback was given that reliance was placed on the work of the service.	↔	😊	Yes	Yes	Yes	Yes	Yes
% of Audit Plan Completed	All the audit work has been carried out and had reached the stage that a draft opinion was available.	↑	😊	100%	97%	97%	97%	93%
% of reports finalised by time of Head of Audits Report	The amount of non-finalised work being relied on in the Annual Opinion has decreased compared to last year.	↓	😐	67% (22/33)	84% (26/31)	80% (28/35)	87% (33/38)	65% (36/40)
% of Customer Satisfaction	This performance is similar to that of last year. We are looking to move away from questionnaires from 2014/15 and use phone surveys instead in order to capture wider feedback on the audit experience.	↑	😐	75% (9)	73% (5)	84% (10)	83% (14)	84% (14)