

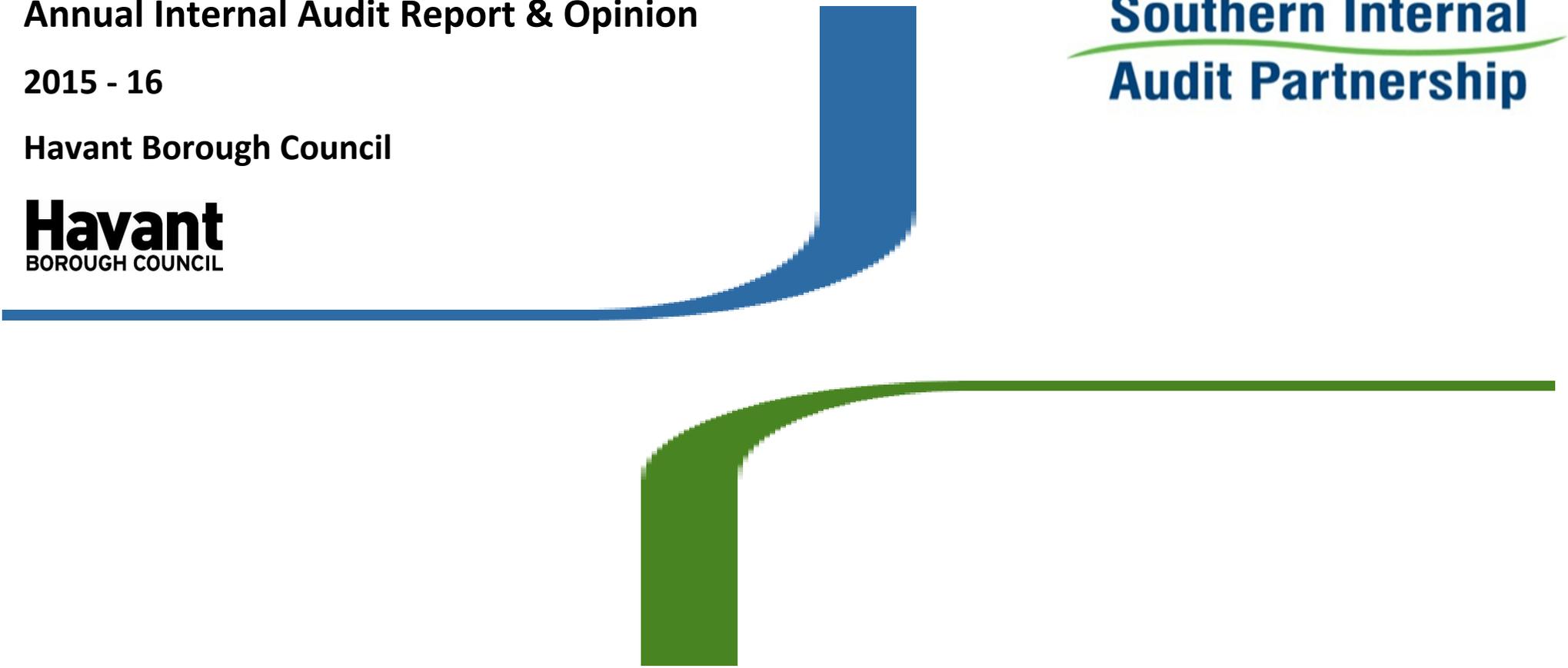
Annual Internal Audit Report & Opinion

2015 - 16

Havant Borough Council

Havant
BOROUGH COUNCIL

**Southern Internal
Audit Partnership**

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Havant Borough Council's audit need that has been covered within the period.

Audit Opinion

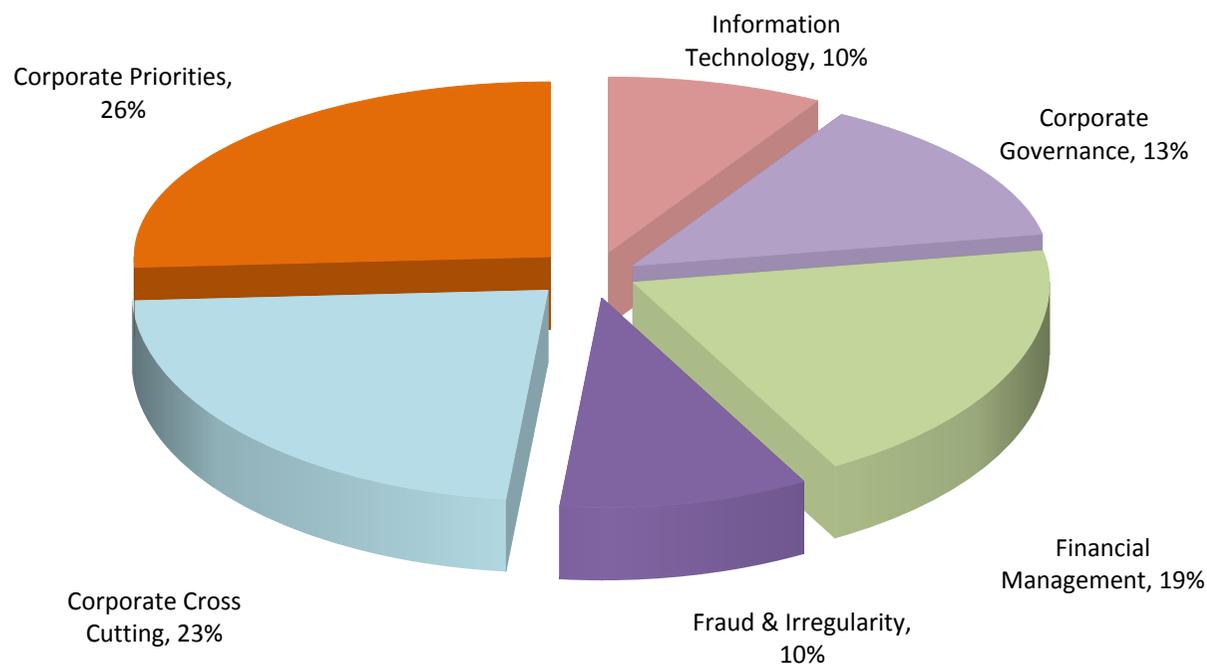
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Havant Borough Council's internal control environment.

In my opinion, Havant Borough Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed to obtain sufficient information and explanation considered necessary, in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2015-16 Internal audit plan, approved by the Governance and Audit Committee 03 March 2015, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

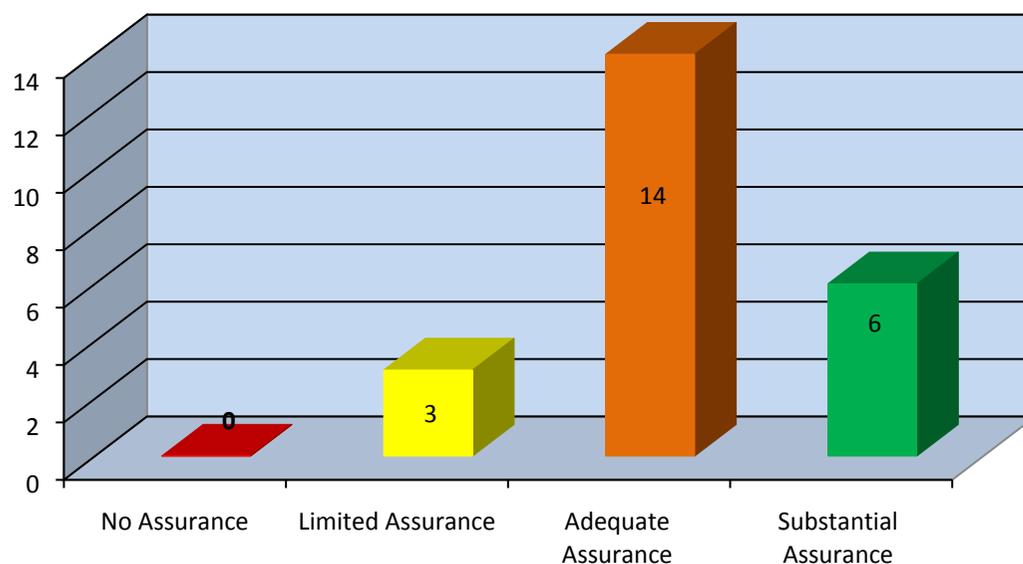
The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership delivered 31 review areas over the course of the year ending 31 March 2016 including the completion of carry forward reviews.

The 2015-16 internal audit plan has been delivered with the following exceptions:

- Work is complete and an opinion has been formed for three reviews included in the chart below, however, final reports have not yet been agreed with management (Contract Management, Accounts Receivable/Debt Management, Asset Management);
- Fieldwork is currently in progress for one review (Procurement) and this has therefore not been included within this assurance opinion.

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.

*7 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, assurance mapping or fraud & irregularity investigations/pro-active fraud work

5. Significant Issues Arising

Human Resources

The audit focussed on starter and leaver processes, the production of management information and record retention /compliance with the Data Protection Act.

Starter and leaver processes are effective and timely however testing confirmed that key documentation was not always being obtained or retained on the personnel files. In particular, the legislative duty to verify entitlement to work in the UK was either not evidenced or correctly documented in 33% of cases tested.

The HR performance information, being reported to senior management and Members quarterly, is linked to the relevant Marketing and Development Business Plan targets and supplied on a timely basis. However, there were inaccuracies and inconsistencies in the figures being reported.

Following the conclusion of the audit, we are pleased to note that 15 of the 16 actions (including all 8 high priority actions), agreed to address the issues identified during this review, have been implemented. In particular, action has been taken to address the retention of records, including the verification of entitlement to work in the UK and the consistency and accuracy of the management information produced for senior managers & Members. The outstanding action relates to reviewing and updating the current recruitment policy. A follow up review is planned for 16/17.

Procurement – Operational Services

This review was requested by the management team following concerns with procurement practices within Operational Services. The review, covering both revenue and capital spend, focussed on the understanding and definition of procurement requirements; and compliance with EU, UK, internal contract procedure rules, existing corporate contracts and /or framework agreements.

We reviewed Contract Procedure Rules (CPR) during the audit and confirmed that most procurement complied with CPR. However, based upon the planned Capital Programme, we noted that aggregation rules had been breached and an EU tendering exercise should have been undertaken for the acquisition of plant and vehicles. At the time of the review, the capital programme (2014/15 £356k; 2015/16 £628k and 2016/17 £725k) indicated there was a defined anticipation of need, which should have been used to aggregate purchases, that exceeded the EU threshold for supplies and services (£172,514 from 1 January 2014). We also considered that aggregating purchases could potentially achieve better prices than the piecemeal approach to purchasing that had been adopted.

We carried out an analysis of revenue purchasing data over the past four years, and checked to existing contracts and framework agreements. We found that there are few formally documented contracts in place. The level of purchasing is such that more formal arrangements would be expected, especially with regard the use of employment agencies, where Operational Services are a major purchaser within the context of the Authority's overall spend. For the latest full year of expenditure (14/15), over £398k was spent by Operational Services with employment agencies, breaching the EU procurement threshold.

As part of our testing of capital purchases we were informed that there have been operational issues with the ten 3.5 Tonne cage tipper trucks which were added to the fleet over the period December 2008 to March 2014. However, there was insufficient evidence retained to demonstrate whether there was adequate specification to meet the requirements such as consultation with service users, whole life costings and market research. We are therefore unable to provide assurances that there is a robust process for developing such specifications.

We are pleased to note that all management actions resulting from this review have been implemented which should help prevent the risk of reoccurrence of procurement issues in the future, in particular in relation to compliance with internal, UK and EU procurement regulations.

Depot Services (Stock Control) 2014-15

A review of stock control at the depot concluded with a 'limited' assurance opinion however the issues raised, and responsibility for addressing the issues, have transferred to the new partnership arrangements with Norse South East.

6. Anti Fraud and Corruption

The Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the Council and damage both its reputation and image. Policies and strategies are in place setting out the Council's approach and commitment to the prevention and detection of fraud or corruption.

The Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signalling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

Dataset	Recommended matches	Matches investigated	Investigations in progress	Frauds / error identified	Fraud / error value £
Benefits	258	835	47	0	0
Payroll	1	12	0	0	0
Creditors	288	1,065	47	7	1,785.79
Single person discount (14/15)	964	0	0	0	0
Rising 18s (14/15)	172	172	0	29	6,785.39
Single person discount (15/16)	587	0	0	0	0
Rising 18s (15/16)	91	0	0	0	0
Council tax to other data	2,132	0	0	0	0

As part of the 2014/15 NFI exercise the Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015. Work was carried out during 2015/16 to review identified 'recommended matches' for fraudulent activity. The outcomes from review of the NFI matches is detailed in the table above.

In addition, we have assessed and where appropriate, advised, investigated or supported the investigation of any allegations of fraud, corruption or improper practice. In accordance with the Local Government Transparency Code 2015 the details of internal audits involvement in counter fraud work is summarised below:

Local Government Transparency Code 2015	01.04.15 – 31.03.16
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	4 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	5 days*
Total number of fraud cases investigated	0**

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and a external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

In September 2015 the Institute of Internal Auditors were commissioned to complete an external assessment of the Southern Internal Audit Partnership.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

The assessment included review of a wide range of documentary evidence and interviews and surveys with representative stakeholders (including Chief Executives, Audit Chairs and S151 Officers) across existing partnering organisations in addition to members of the Southern Internal Audit Partnership staff.

In considering all sources of evidence the external assessment team concluded:

It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. **This performance is within the top decile of EQA reviews we have performed.** This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.

There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.

Assessment against the Standards was assessed as:

Summary of Conformance	Standards	IPPF	PSIAS	LGAN	N/A	Total
		Generally Conforms	Generally Conforms	Generally Conforms		
Definition of IA and Code of Ethics	Rules of conduct	5	11	-		16
Purpose	1000 – 1130	7	30	18	2	57
People	1200 – 1230	4	13	4		21
Performance	1300 – 1322	7	11	9	2	29
Planning	2000 – 2130	12	55	11		78
Process	2200 – 2600	21	103	18		142
Total		56	223	60	4	343

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm endorsement from the Institute of Internal Auditors that

‘the Southern Internal Audit Partnership conforms to: the Definition of Internal Auditing; the Code of Ethics; and the Standards’

There are no disclosures of Non-Conformance to report.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2015-16 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2014-15 Actual (%)		2015-16 Actual (%)
Revised plan delivered (including carry forward)	93		97*
Positive responses to customer survey	-	-	97**
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

*attributable to one review where fieldwork remains in progress

**this is based on the feedback from the customer survey conducted as part of the external quality assessment and as such reflects the perceptions across the Partnership, rather than those expressed specifically by Havant Borough Council.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Havant Borough Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
 Head of Southern Internal Audit Partnership
 June 2016