

# Annual Internal Audit Report & Opinion

2017 - 18

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 [the Standards – updated 2017].



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 organisation's 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 organisation’s 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.

#### *Annual Internal Audit Opinion 2017-18*

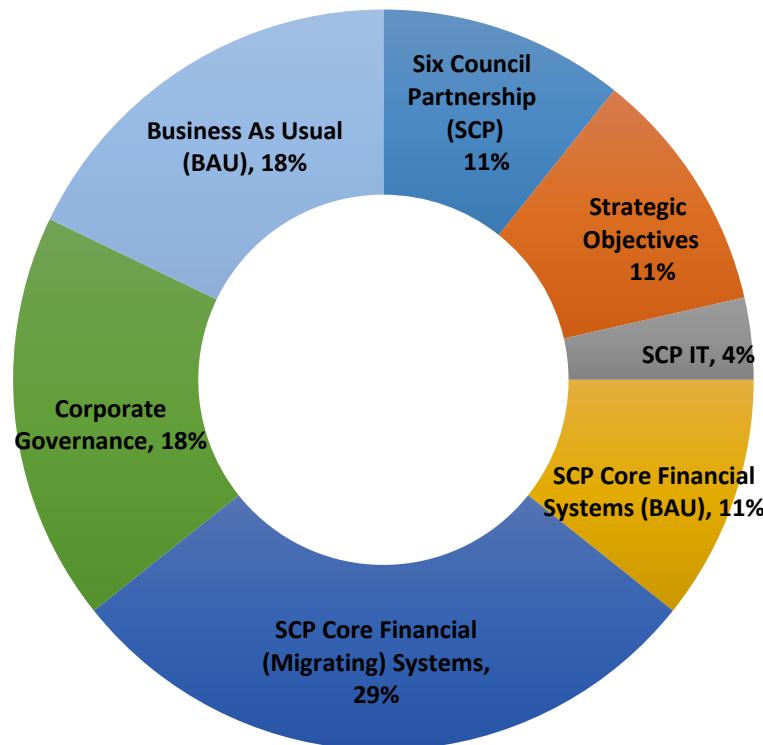
*"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Havant Borough Council's internal control environment.*

*In my opinion, Havant Borough Council's framework of governance, risk management and 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 so as 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 2017-18 Internal audit plan, approved by the Governance and Audit Committee in March 2017, 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.

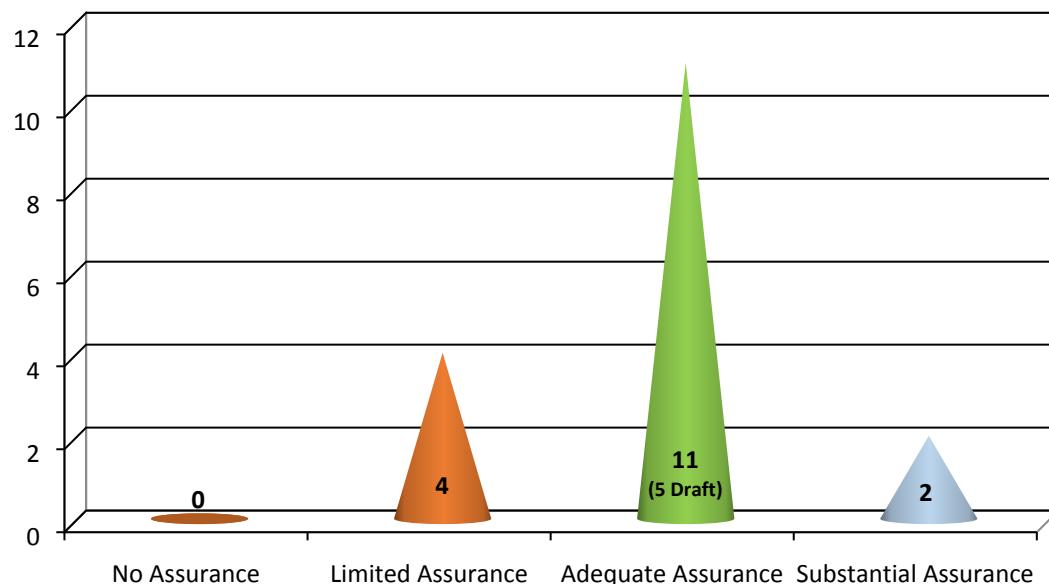
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken 28 reviews during the year ending 31 March 2018.

The revised 2017-18 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 5 reviews, however, final reports have yet to be agreed;
- Fieldwork remains in progress with the Norse South East assurance mapping exercise.

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

\*10 reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, grant certification or concluded with a position statement.

## 5. Key Observations

There were no ‘No Assurance’ opinions issued during the year. In general internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were issues arising with the governance arrangements for the Six Council Transition to Capita and with some of the Core Financial Systems migrating to Capita during the transition period:-

**Limited Opinion 1 - Six Council Transition - Governance Arrangements:** A revised governance framework to oversee the transition of services to Capita was agreed in May 2017 however, it had not had time to fully embed and was introduced late in the programme timeline. The new framework introduced oversight arrangements, outlined reporting lines and roles and responsibilities for the programme board however further enhancements were required, particularly in relation to the transparency of key decisions through the introduction of a decision log. Transformation Project Managers had been assigned to each project to assist with delivery, however, at the time of the review had been engaged in helping to identify gaps in the contract provision rather than planning for transition and managing projects.

We found some key opportunities for improvement with the governance framework. The format of the information that was gathered from projects and presented to Programme Board lacked the clarity and timeliness required to enable the Board to have a complete and accurate view of the status of all aspects of the programme and to make fully informed decisions. Delays were found in assessing emerging risks and deciding which need to be reviewed by the Programme Board - the timescales of the programme were such that near immediate actions to address concerns were required. A clear action plan was developed and implemented to address the issues identified.

**Limited Opinion 2 - Treasury Management:** The review found three cash investments pre-dating the current Chief Financial Officer (CFO) that were outside of the parameters defined in the approved Treasury Management Strategy and the interest payments for one of these investments between April to December 2017 were not in line with the documented rate. Following the transfer of staff to Capita, the audit identified 4/10 investments had been approved by Capita staff instead of the CFO. Additionally the CFO was not receiving reports on investments (e.g. total invested in each institution) to enable appropriate decision making and compliance with the Treasury Management Strategy.

**Limited Opinions 3 & 4 - Main Accounting and Management Reporting:** The review was undertaken during the a period of significant transition in which Council Employed staff had transferred to Capita; hosting of the legacy financial system moved from Hampshire County Council to Civica (the financial system provider); whilst Capita and Council retained staff were migrating the Council to the new Capita system for the start of 2018/19. As a result of the changes, there was a loss of knowledge and continuity of process. Additionally supporting information to evidence the control framework was not always available.

There was a lack of clarity over roles and responsibilities and the budget monitoring process and forecasting was not as robust as it had been in previous years. Following the transfer of staff, Monthly Service Packs continued to be produced but not to timescales and Capita staff lost the ability to hard close accounting periods once the system hosting moved to Civica. Additionally the controls surrounding system accesses were not as robust as the controls previously in operation.

## **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. An overview of Internal Audit activity is provided in the Annual Fraud Report 2017-18.

## **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 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.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

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 the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).**

**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.”**

In accordance with PSIAS, annual self assessment have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

## **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 2017-18 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;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

## 10. Internal Audit Performance

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

Annual performance indicators		
Aspect of service	Target	2017-18 Actual
Revised plan delivered (including 2016/17 c/f)	95%	 96 %
Positive customer responses to quality appraisal questionnaire *	95%	 96 %
Compliant with the Public Sector Internal Audit Standards	Yes	 Yes

\*Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including Members, senior officers, key contacts and SIAP staff. 17/18 actual are based on a February 2017 questionnaire

## 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 2018