

# Annual Internal Audit Report & Opinion

2019 - 20

Havant Borough Council



## Southern Internal Audit Partnership

Assurance through excellence  
and innovation

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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

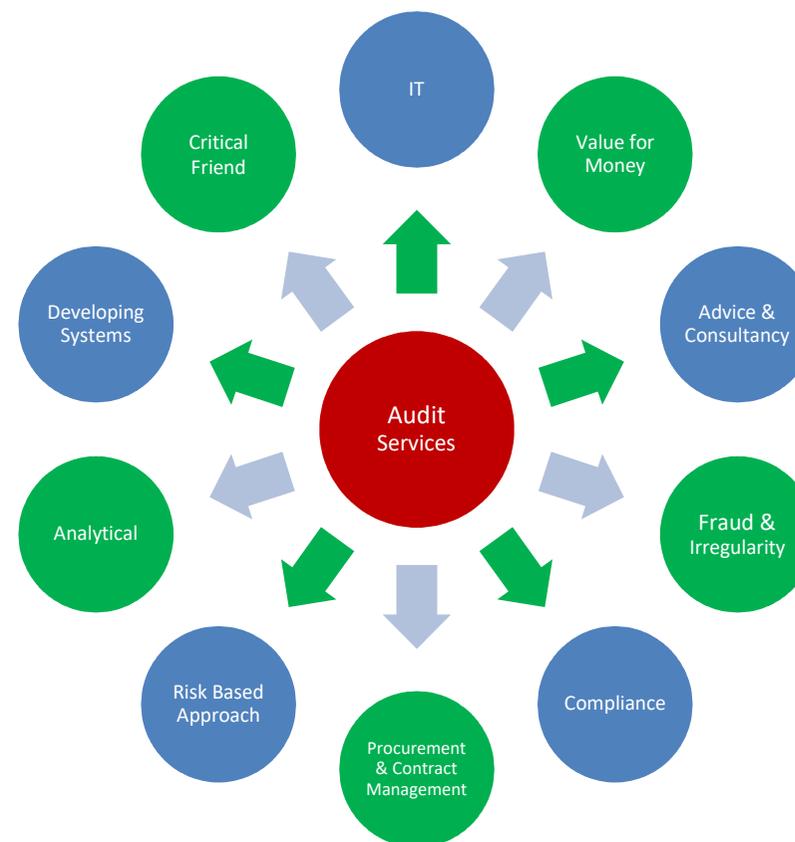
To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

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

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

- level of assurance required;
- significance of the objectives under review to the organisation's 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 Deputy 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 the Council's audit need that has been covered within the period.

#### *Annual Internal Audit Opinion 2019-20*

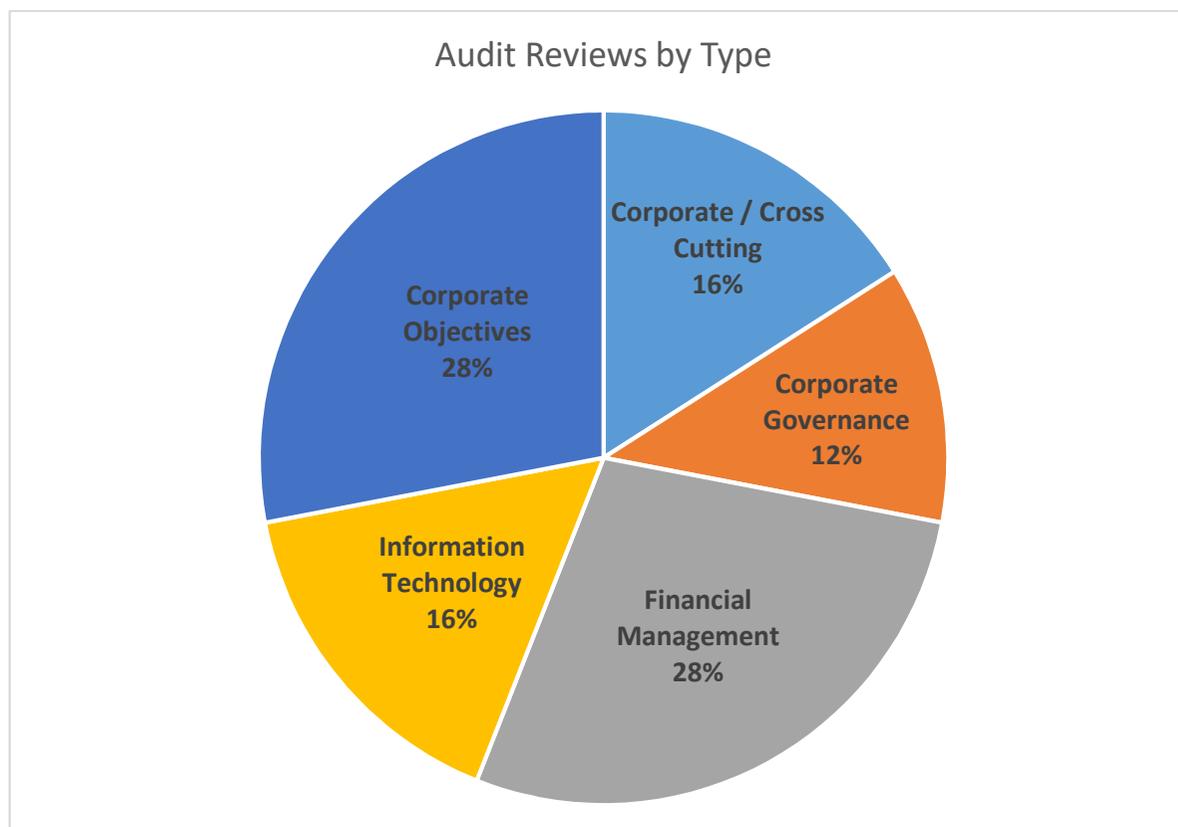
*"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Havant Borough Council's internal control environment.*

*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 2019-20 Internal audit plan, approved by the Governance, Audit and Finance Board in April 2019, 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.

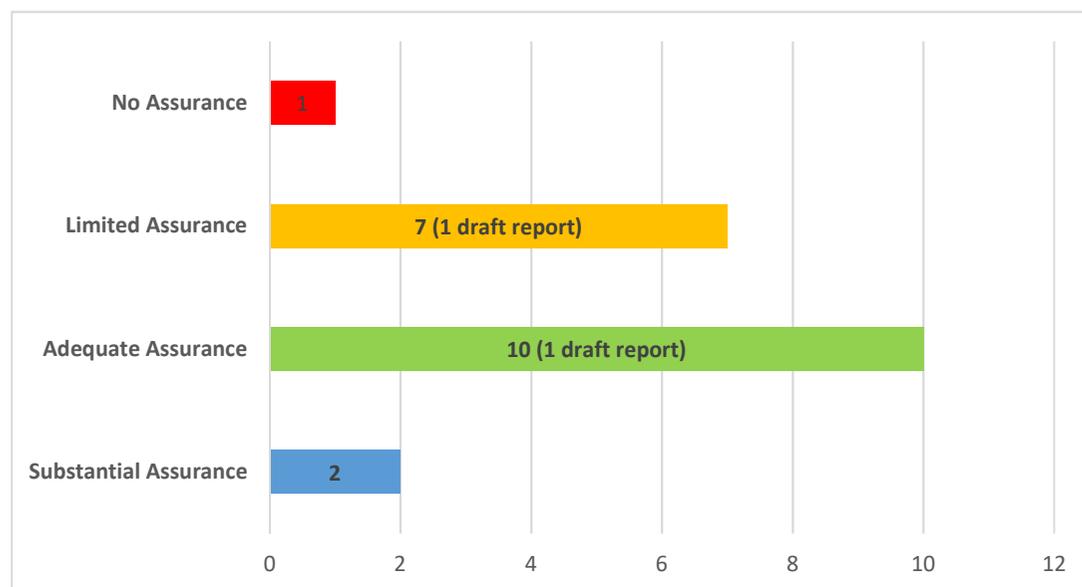
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 25\* reviews during the year ending 31 March 2020.

The revised 2019-20 internal audit plan has been delivered with the following exceptions:

- Work is in progress for three reviews however due to COVID-19, the reviews have not progressed to the stage where draft reports can be issued (Computer Implementations; IT Security Governance; and IT Risk Management). The audits were scheduled to Q4 and in the case of Computer Implementations, rescheduled into 2020-21 to incorporate a new ICT system implementation. This work is in progress and will contribute towards the 2020-21 audit opinion.
- The Council has not implemented a new Performance Management framework or revised governance arrangements for Regeneration/Economic Development within the originally intended timescales therefore these areas will be reviewed once the new framework/governance arrangements have been implemented.

The opinion assigned to each internal audit review (including draft reports) is summarised below:



**Substantial** – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

**Adequate** - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

**Limited** - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

**No** - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

\*2 reviews did not culminate in an audit opinion as they relate to work conducted in respect of the National Fraud Initiative and completion of the CIPFA Fraud Survey.

A list of the 2019-20 assurance reviews undertaken and their respective opinions is provided in Annex 1.

## 5. Key Observations

We are pleased to report that despite the significant impact and subsequent challenges posed by the coronavirus pandemic, both to the way we work and the delivery of Council services, this has not inhibited our ability to provide an opinion on the Council's framework of risk management, governance and control for 2019-20. Our coverage of Information Technology is the only area during the year that has been significantly impacted due to the requested scheduling of three reviews and subsequent impact of COVID-19 with officer availability.

Internal Audit work found there to be a generally sound control environment in place across the majority of review areas during the year, which were found to be working effectively to support the delivery of corporate priorities. However, one review concluded with a 'No Assurance' and seven reviews concluded with 'Limited Assurance' Opinions as summarised for each audit below. A number of the key observations throughout the year relate to services that have a shared responsibility for delivery through arrangements set up as part of the Six Council Partnership. Recurring themes highlight a lack of clarity, accountability, available management information, and poor communication as key contributors to weakening the framework of governance, risk and control. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

**Treasury Management – No Assurance Opinion.** A Treasury Management Strategy was in place, in line with statutory requirements and was formally approved by Council on 21st February 2019. The Strategy was in line with corporate strategic aims and the medium-term financial plan; included a range of prudential indicators for Capital and Treasury Management and documented the Council's risk appetite including cash limits. However, the review found no investments had taken place, therefore interest rate opportunities were not being evaluated and utilised in line with the strategy. All cash, excess to the general account, was held within a single institution's call account thereby exposing the Council to additional risk should the institution fail. It was not evident whether ongoing due diligence of the approved counterparties had taken place. The strategy stated that advice on credit worthiness of counterparties would be obtained from Capita's advisors however they did not appear to be used. Management information was not being produced in line with the service delivery plan with Capita, including mid-year and end of year outturn reports, which are a statutory requirement.

**Human Resources – Limited Assurance Opinion.** The recruitment of new starters, including where a new post is required, were appropriately authorised and vacancies were advertised by Capita in a timely manner. Interview shortlisting and scoring was undertaken and documented in accordance with the Recruitment Procedure. Whilst recruiting managers confirmed that interview notes were completed for each candidate, these were not retained in line with retention requirements and interview notes for successful candidates were not sent to Capita for inclusion

on the personnel files. Notifications of Appointment and New Starter Request forms were completed by the recruiting manager and sent to Capita however two pre-employment references were not always obtained, and Right to Work forms and Occupational Health forms were not consistently completed for new starters. Errors in contracts were generally identified by the recruiting manager and amended by Capita prior to issue however in one case, a contract containing errors had been issued despite those errors being highlighted by the recruiting manager. Recruiting managers confirmed that induction activities were undertaken however this was not documented.

Monthly performance reports were produced which were RAG rated to highlight whether each Performance Indicator (PI) had been met. Where performance reports showed numerous failures against the HR PIs, Rectification Plans were requested and produced and when deemed inadequate, the plans were rejected by the Council for revision by Capita. It is noted that significant performance improvement had been shown in the period from October 2019 to December 2019. However, we could not assess if PIs had been met in some cases due to either the lack or reliability of evidence provided by Capita. At the time of review, there were no PIs in place in relation to the recruitment stages undertaken by the in-house HR team.

There was no specific guidance regarding how personnel files should be organised, how Capita would ensure compliance with the Council's Retention Schedule or evidence to demonstrate records had been managed in line with the schedule. Personnel data was held electronically in a variety of locations by Capita. Additionally, some personnel data was being held by the Corporate Support Team and in-house HR Team, potentially making it difficult to effectively organise and manage the information.

**Accounts Receivable / Debt Management (Sundry Debtors) – Limited Assurance Opinion (draft report).** The audit confirmed that VAT had been correctly calculated for all invoices raised and that debtor's income, where received, was accurately reflected on the debtor's account, however in some instances, the invoiced fees or charges did not clearly correspond with the chargeable source.

Although procedure notes were available for raising invoices, reminders and outbound calling, individual Recovery Policies had not been drafted and agreed for all relevant services to reflect current service delivery arrangements through the 6 Councils partnership. Whilst automated reminders had been issued from June 2019, the process was not consistently followed and there was no regular management reporting to monitor whether reminders had been issued in accordance with procedures. Suppressed debt reports were not being regularly produced and checked to ensure that there was a valid reason for suppression. To aid debt recovery, telephone chasing of debt had been introduced from November 2019. Although Accounts Receivable performance was reported in line with Capita's Exchequer Service Delivery Plan, none of the existing KPIs related to debt levels or recovery timeliness / success.

The Constitution included authorisation levels for write-offs and it had been confirmed that the Chief Finance Officer authorised write-offs on an ad hoc basis on request from a budget holder. However, due to the lack of defined recovery policies and procedures, there were inconsistent processes for writing off debts.

**Information Governance – Limited Assurance Opinion.** Policies and procedures were in place to ensure Council staff were aware of key aspects of data protection. A central log for Freedom of Information requests and Subject Access Requests was being maintained. The Council's website contained easy to follow instructions on how personal data would be used, supported by a dedicated form to request restrictions or information regarding any personal data held. The data retention policy highlighted the information stored and instructions regarding retention and disposal. Disposal of confidential waste in paper form was facilitated through shredding or collection by a specialist waste contractor.

Although there was an overall Council Privacy Policy in place, service specific Privacy Notices, which explain the legislative requirements for the collection of information, had not been completed for all services. The initial wave of mandatory GDPR training had not been completed by all staff and it was not possible to accurately establish the number of non-completions. Freedom of Information requests were not always issued within the 20 working days deadline or Subject Access Requests replied to within the 30 working days deadline. According to the Information Governance Policy, Strategy and Framework the Information Asset Register should include the following elements required by services such as: Information sources, Software requirements, Physical infrastructure & furniture requirements, Utility services required, Qualification and skills of employees and Protection of the Council's reputation. Although the Register of Processing Activities covered some aspects, there was no dedicated Information Asset Register in place.

**Lease Income – Limited Assurance Opinion.** Property Lease cases had an up to date file maintained by a relevant responsible officer, containing sufficient supporting documentation. Legal Agreements were adequate, and the chargeable amount for leases and rent review/lease renewals dates were agreed and correctly documented. Rent reviews and lease renewals were taking place within expected timescales, although the CIPFA peer review and testing during the audit confirmed that there was no adequate diary system in place for generating alerts or notifications to facilitate effective and timely completion of the rent reviews/lease renewals process. The Property team are a small team with reliance upon a single officer for many of the administrative processes, posing a potential business continuity risk. There were no documented procedures related to the property lease responsibilities, although the Team were in the process of implementing recently drafted process flow charts. Data was not being regularly reviewed and checked, increasing the risk of errors not being identified and promptly addressed.

Invoices were issued on a timely basis, a month prior to their due date, and for the correct amounts. The initial debt recovery process, up to the escalation/legal stage, was in place and administered effectively. Capita's roles and responsibilities relating to the initial debt recovery process for lease income were clearly defined. However, contrary to the Service Delivery Plan, there was no liaison between the Capita Finance Team and the Property Team. It was unclear who within the Property Team was responsible for the legal stage of the debt recovery process and there are no clearly documented legal debt recovery policy / escalation procedures. It is noted however that, at the time of review, the Council had engaged an external consultant to assist with the production of these. Lease income received was coded appropriately in the General Ledger and aged debt reviews were undertaken and reported to management on a regular basis. However, lease income collected by external agents on behalf of the Council was not being checked for accuracy and completeness.

**Animal Welfare (Licencing) – Limited Assurance Opinion.** A formal animal welfare policy, setting out the Council's animal welfare intentions and providing clarity over applicants and officers' roles and responsibilities, was not in place. Application forms contained a checklist section to help applicants ensure all supporting documentation was submitted with the application form. Whilst the application checklist could be used by staff as an aide to ensure all required information had been received and scanned onto the Acolaid system, in some cases, copies of application forms and supporting documents to verify the application and license were either not held on the Acolaid system or were not fully completed. Several cases were also identified where there was no evidence of a license being issued. There were no performance indicators for the animal welfare service, no checklists to guide case completion and there were no arrangements for supervisory quality reviews of the inspection officers' work.

We were unable to confirm that all income had been correctly charged, promptly received and correctly recorded in the main accounting system as there was no reconciliation between licenses issued on Acolaid, invoices raised and income received on the finance system.

**Neighbourhood Quality (Fly Tipping) – Limited Assurance Opinion.** The 'Vision of the enforcement strategy' outlines the principles to be followed for fly tipping cases however at the time of review, no formal procedures or performance timescales were in place for investigation and enforcement. Notifications of fly tipping through the customer service system were referred for investigation promptly however there is no formal performance management reporting regarding fly tipping investigations. All investigation cases had individual folders that are held securely, with appropriate access restrictions. All evidence was held in evidence bags however there was no storage log of evidence held and photographs taken and collected for evidence were not always date and live time stamped. No supporting document/information was available to confirm why an individual/case was cautioned for fly tipping.

Health and Safety risk assessments are issued to officers annually however signed copies were not obtained as evidence that they had been read and understood. Related training had been provided and appropriate PPE had been issued to them. A communication protocol is in place with Norse SE regarding the identification and clearance of sites and contract KPIs are in place with Norse SE to monitor the timeliness of site clearance.

**Food Safety Inspections – Limited Assurance Opinion.** Food hygiene inspection records and documentation were recorded in Acolaid. However, the audit identified that inspections were not always completed within the legislative timescales, follow up visits were not consistently undertaken and there was inaccurate, inconsistent and incomplete record keeping within Acolaid. Quarterly compliance checks were undertaken to help ensure food safety officers were updating records accurately, however there was no record to demonstrate that any issues highlighted had been resolved. Whilst relevant data was uploaded on an annual basis to the Food Standards Agency within the required deadlines, there were discrepancies between the information held in Acolaid, internal reports and the annual Food Standards Agency LAEM return.

## 6. 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-assessments 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.

## 7. 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.

## 8. 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 2019-20 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.

## 9. Internal Audit Performance

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

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered	95%	100%	88%
Positive customer survey response			
<ul style="list-style-type: none"> <li>Havant Borough Council</li> </ul>	90%	n/a	100%
<ul style="list-style-type: none"> <li>SIAP – all Partners</li> </ul>	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

*Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process throughout the year.*

## 10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the 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.

Antony Harvey  
Deputy Head of the Southern Internal Audit Partnership  
June 2020

## Annex 1

## 2019-20 Audit Reviews and Opinions

Substantial Assurance	Adequate Assurance	Limited Assurance	No Assurance
<ol style="list-style-type: none"> <li>1. Financial Stability</li> <li>2. Norse South East - Transition / Mobilisation</li> </ol>	<ol style="list-style-type: none"> <li>1. Business Continuity Planning / Disaster Recovery</li> <li>2. Health and Safety</li> <li>3. Income Collection and Banking</li> <li>4. Accounts Payable (draft report)</li> <li>5. Payroll</li> <li>6. IT Asset Management</li> <li>7. Norse South East - Governance Arrangements</li> <li>8. Licencing</li> <li>9. Developers Obligations and Contributions / CIL</li> <li>10. Bank Reconciliations</li> </ol>	<ol style="list-style-type: none"> <li>1. Human Resources</li> <li>2. Information Governance</li> <li>3. Lease Income</li> <li>4. Animal Welfare (Licensing)</li> <li>5. Accounts Receivable / Debt Management (Sundry Debtors) – (draft report)</li> <li>6. Neighbourhood Quality (Fly Tipping)</li> <li>7. Food Safety</li> </ol>	<ol style="list-style-type: none"> <li>1. Treasury Management</li> </ol>