

NON-EXEMPT

HAVANT BOROUGH COUNCIL

Governance, Audit & Finance Board

29th July 2020

**LIMITED ASSURANCE AUDIT REPORTS 2019-20: REVIEW AND
SUGGESTIONS FOR IMPROVEMENT
Corporate Governance Board**

FOR NOTING

Portfolio: Finance, Cllr Mark Inkster

**Head of Service: Lydia Morrison, Director for Corporate Services and
S151 Officer**

Key Decision: No

1.0 Purpose of Report

- 1.1 This report is submitted to Governance, Audit & Finance Board for noting, alongside the end of year internal audit report for 2019-20 prepared by the Southern Internal Audit Partnership.
- 1.2 This report is submitted on behalf of Corporate Governance Board and Executive Board, who have reviewed the audit reports carried out in 2019-20 which received a rating of limited or no assurance, in order to establish the necessary course of action to ensure continuous improvement in governance.

2.0 Recommendation

- 2.1 Governance, Audit & Finance Board is recommended to note the findings and common themes of the limited assurance audits carried out in 2019-20, as summarised in this report.
- 2.2 Governance, Audit & Finance Board is recommended to note the new procedure as recommended at option 2 paragraph 6.2 for resolving audit reports with limited or no assurance, which focuses on ensuring clear accountability and communicating the consequences of inaction to those involved in the internal audit process.

3 Executive Summary

- 3.1 Internal audit, as an important part of the governance framework of both Councils, is overseen by Corporate Governance Board, which provides assurance to Executive Board.
- 3.2 During 2019-20, several audit reports have been given a rating of limited or no assurance. These reports share common themes of poor or inadequate record keeping, limited understanding of budgetary matters (e.g. reconciliation), and the absence of the necessary written policies and procedures; the findings are detailed further in Section 5 of this report.
- 3.3 It is the view of Corporate Governance Board that this number of reports with limited or no assurance is concerning and that action should be taken to ensure that the weaknesses identified by internal audit are resolved and that the internal audit function continues to be effective and worthwhile.
- 3.4 Whilst the number of limited or no assurance reports is disappointing the internal audit programme for 2019/20 was set to target those areas where management were aware of potential weaknesses, in particular around those services provided by Capita. There has already been progress made against the identified management actions as the services successfully moved back in house on 1 April 2020, despite the additional work that has been required with respect to the Covid-19 pandemic response and recovery.

4 Additional Budgetary Implications

- 4.1 None.

5 Background and relationship to the Corporate Strategy and Directorate Business Plan/s

- 5.1 Internal audit is an important part of the governance framework which is set out in the Councils' Local Code of Corporate Governance. During each financial year, the internal audit service carries out audits of various services and functions provided by the authority. The areas to be audited are outlined in the internal audit plan for the year ahead and based on direction from the Councils' management team.
- 5.2 Each audit is given a rating of assurance based on the findings of the report: substantial, adequate, limited or no assurance. The report also articulates the necessary management actions to resolve the weaknesses identified in the framework of internal control, which are agreed by the relevant Team Leader/Head of Service before the report is finalised.
- 5.3 The internal audit function is overseen by Corporate Governance Board, which meets quarterly to review the outstanding management actions and any other issues of concern.

5.4 At the Extraordinary Corporate Governance Board meeting on 28th May 2020 it was noted that there were eight internal audit reports carried out in 2019-20 that received limited or no assurance.

5.5 Corporate Governance Board has reviewed these limited assurance reports to identify any common themes and establish how best to resolve the issues noted in the reports.

5.6 A 'limited assurance' rating is defined by the Southern Internal Audit Partnership as 'Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk'.

5.7 Across the eight reports with limited or no assurance, the following themes have been observed:

- Common themes include inaccurate or inadequate record keeping, limited understanding of and importance given to budgetary matters (particularly reconciliation), and a lack of written policies and procedures.
- In particular, the three audit reports that involve public-facing regulatory services (Fly Tipping, Food Safety and Animal Welfare Licensing) share a lack of consistency with record keeping and procedures, with several errors or inconsistencies noted in the auditor's sample of records. The poor audit result given to these two services suggests that where services are not shared across both Councils, they could still benefit from peer review and alignment of procedures, even if not becoming formally or fully shared. This would be useful to explore as part of the ongoing Transformation work.
- Issues noted in the other limited assurance reports (Human Resources, Treasury Management, Information Governance and Lease Income) are more diverse than the three Neighbourhood Support reports, but still share similar themes.
- Financial weaknesses are identified in several reports, particularly regarding debt recovery (Lease Income) and reconciliation of income (Animal Welfare Licensing, Lease Income). This will be a key opportunity for improvement following the transition of the Finance services back inhouse.
- The Treasury Management audit is particularly notable, having received a result of no assurance. The auditor found that there had been several egregious breaches of the written policies for the service (though as noted below, the service has since returned inhouse in order to rectify these issues).
- The role of performance management is raised in several of the limited assurance audit reports – at least two of the services reviewed do not

currently report any performance indicators corporately and it is also apparent that both poor record keeping and staff non-compliance with written policies and procedures are common weaknesses. This will be partially addressed via the upcoming overhaul of the Performance Management Framework and with planned Organisational Development interventions as part of the Transformation Programme, as well as the management actions identified in the individual audits. Where services do not have established performance metrics this will be picked up by the work on performance.

5.8 A number of the reports (Human Resources, Accounts Receivable and Treasury Management) relate to services that had been provided by Capita under the 5 Councils Contract and have since returned back in house. The issues observed by internal audit in their reports were already known to the Councils' management team, hence the return in house, and work to improve the systems and processes involved with these two services has already commenced. It should be noted that Accounts Receivable still remains within Capita. Corporate Governance Board does not think it necessary to intervene in the issues identified in these reports that are no longer with Capita at this stage, but will continue to monitor the completion of the management actions to ensure that the in house services fully rectify the issues observed in the reports.

5.9 All services have agreed management actions to address the issues raised. The majority of these actions have deadlines over the next few months and will therefore be reviewed at the next quarterly meeting of Corporate Governance Board if not yet completed.

5.10 The HBC Food Safety audit is of particular concern as 10 management actions were due to be completed by the end of March but no updates have yet been provided for any of these.

5.11 The Corporate Governance Board acknowledges that during the Covid-19 major incident, planned improvements to service may have been delayed while resources are diverted, but is of the opinion that the actions previously agreed should still be carried out wherever possible, given that the importance of the system of internal control is increased rather than decreased in times of crisis.

6 Options considered and reasons for the recommendation

6.1 **Option 1:** do nothing ('nothing' in this context means nothing over and above the existing governance arrangements for internal audit, which will continue as usual). The management actions arising from the 2019-20 limited assurance reports will continue to be monitored as usual by the internal audit service, which reports to Corporate Governance Board on the outstanding actions on a quarterly basis. However, it has proven difficult for the Board to ensure that outstanding actions are closed, particularly where actions concern more than one service or an external service provider (as accountability for closing the action is less clearly

specified in these cases). The concern with this option, therefore, is that management actions identified in the limited assurance reports may not be completed for several months or years, meaning that the risks outlined in the audit report will not be appropriately mitigated.

6.2 Option 2: in consultation with Internal Audit and Executive Board the procedure below has been agreed for monitoring and resolving Internal Audit:

- Requiring all services receiving limited assurance ratings to report to Executive Board and/or the relevant Portfolio Holder as soon as possible after the audit report is finalised to ensure that they understand the importance of resolving the issues identified in the audit and that any obstructions to completing the management actions can be overcome. Executive Board to be kept regularly updated of progress against management actions.
- Ensuring that services receiving limited assurance ratings are always audited again in the following financial year (and that Heads of Service are aware of this), therefore setting an expectation for improvement within that timeframe. The 'follow up' audit will be an ideal opportunity for services to demonstrate the changes made and should ensure that they remain accountable for completing the actions that they have committed to.
- Requiring services who receive more than one limited assurance rating in a row to report to Governance, Audit and Finance Board to explain why the issues have persisted and what will be done to rectify them and to provide regular updates on management actions to Governance, Audit and Finance Board
- Improving the recording and communications of management actions (particularly around where accountability lies for closing the actions, in cases where more than one service or service provider is involved).

7 Resource Implications

7.1 Financial Implications - none

7.2 Human Resources Implications - none

7.3 Information Governance Implications - none

7.4 Other Resource Implication - none

8 Legal Implications

8.1 Implementing the recommendation detailed above will help improve the system of internal control and the efficacy of the governance framework.

9 Risks

9.1 Implementing the recommendation detailed above will help improve the system of internal control and the efficacy of the governance framework, which will in turn reduce the risks detailed in the audit reports.

10 Consultation

10.1 Informal consultation with internal audit has taken place in the context of discussions at Corporate Governance Board meetings. The recommended option above may require a more formal consultation to take place and potentially a review/renegotiation of the internal audit service provided.

11 Communication

11.1 Communication is to be improved around the purpose and function of internal audit, the responsibilities of Heads of Service to resolve management actions, and the procedure for limited assurance reports – exact details to be finalised following agreement with internal audit on how to proceed.

12 Appendices: *None*

13 Background Papers: *Internal Audit Annual Opinion Audit Committee papers 29th July 2020*

Agreed and signed off by:

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