
Southern Internal Audit Partnership

Assurance through excellence
and innovation

HAVANT BOROUGH COUNCIL ANNUAL INTERNAL AUDIT REPORT AND OPINION 2021-22

Prepared by: Antony Harvey, Deputy Head of Partnership

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1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to

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

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

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.

As the Chief Internal Auditor, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisation's success.
- Risks inherent in the achievement of objectives.
- 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.



The Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

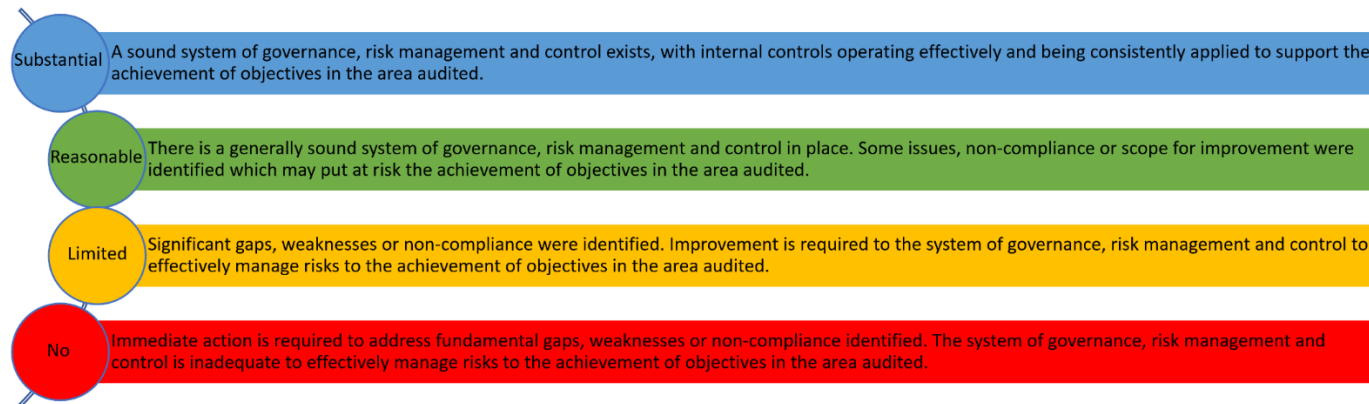
Working practices have been reviewed, modified and agreed with all partners following the impact and lessons learned from the COVID-19 pandemic and as a result we have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

3. Internal Audit Coverage

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 evidence to provide reasonable assurance that the internal control system is operating effectively.

The 2021-22 internal audit plan was considered by the Audit and Finance Committee in March 2021. It was informed by internal audit's 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 and ensure that it continues to provide assurance, as required, over new or emerging challenges and risks that management need to consider, manage, and mitigate. Changes made to the plan were agreed with the Executive Board and reported to the Audit and Finance Committee in the internal audit progress reports which were reviewed at each meeting.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:



4. Internal Audit Opinion

As Chief Internal Auditor, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual 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.

We enjoy an open and honest working relationship with the Council. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. I feel that the maturity of this relationship and the Council's effective use of internal audit has assisted in identifying and putting in place actions to mitigate weaknesses impacting on organisational governance, risk and control over the 2021-22 financial year.

Annual Internal Audit Opinion 2021-22

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 the internal control environment.

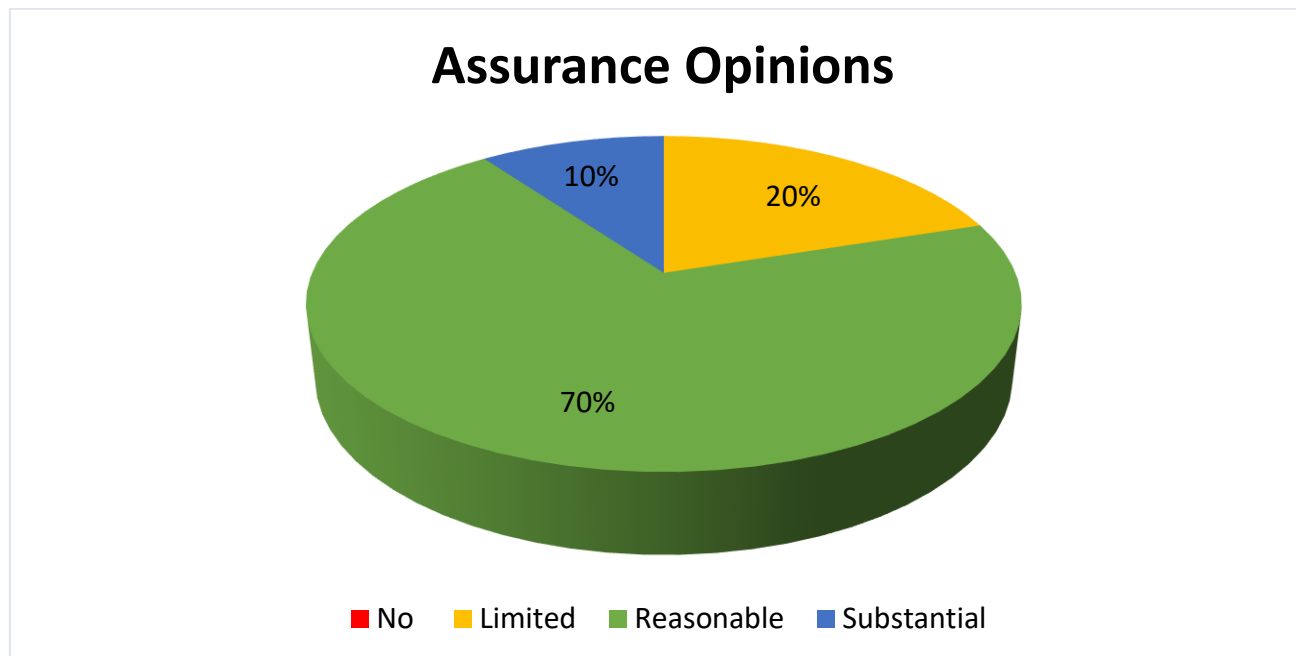
In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice.

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

5. Overview & Key Observations

Overview - Assurance opinions for 2021-22 reviews

Significant findings from our reviews have been reported to the Audit and Finance Committee throughout the year and a summary of the assurance opinions is outlined below.



Key observations

In general, internal audit work found there is a sound system of governance, risk management and control across the majority of areas reviewed. Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. Where applicable, assurance work completed during 2021-22 reflected the joint management and shared staff arrangements with East Hampshire District Council in place at the time of review.

Following Council's decision to withdraw from the joint arrangements, a systematic review of all governance arrangements will be required to reflect the Council's revised structure and new ways of working. Internal Audit will work with the Council to review all outstanding actions to ensure they remain appropriate (including responsible officer and intended timescales for implementation), whether alternative actions are required to address the identified risk or where action is no longer required (e.g. if related to harmonising processes across the two Councils). Regular progress updates will continue to be provided to the Audit and Finance Committee through our on-going progress reports on the status of pending, complete and overdue actions.

We are pleased to report that no reviews concluded with a 'No assurance' audit opinion however four reviews concluded with 'Limited assurance' as summarised below:-

Risk management

The responsibility for risk management at a corporate level has been assigned to the Corporate Governance Board, who provide assurance on risk management to the Executive Board. The Risk Management Framework provides guidance and defines the roles and responsibilities of key members of staff however it has not been reviewed or updated since 2018 and contains out of date information.

A Corporate Risk Register is in place to identify, record, evaluate and prioritise all risks that have been identified with strategic importance in line with the Risk Management Framework. All risks recorded in the Corporate Risk Register are assigned a risk owner who is of sufficient seniority to ensure that the risks are managed appropriately. Controls to manage identified risks are recorded and monitored to ensure they are still operating. Risk owners update the Corporate Risk Register quarterly, and the register is discussed and reviewed by the Corporate Governance Board. Risks scoring above the Councils' risk appetite (currently set at 15) should be reported to Audit and Finance Committee each quarter as part of the Quarterly Performance Report however this has not consistently taken place.

Operational risk registers were provided to audit for six service areas across the Council however no registers were received from the remaining seven service areas therefore we cannot confirm that operational risk registers are in place for half of the Council's service areas. Within the operational risk registers received, we found that some of the identified risks had not been assigned risk owners and the evaluation and scoring of risks was incomplete. Health and Safety risk assessment training has been delivered however there has not been any formal 'business' risk management training to staff for some years and discussions identified that there is confusion in some Service areas between business risk registers and Health and Safety risk assessments.

Procurement

Having previously been outsourced to Capita, on 1st January 2021 responsibility for procurement at a corporate level returned to an in-house team, consisting of a Strategic Procurement Manager and a Procurement Manager. Procurement roles and responsibilities for other officers, including the Chief Finance Officer, Monitoring Officer, and Heads of Service, are documented in Council's Contract Standing Orders (CSOs). A dedicated Procurement page is available to staff on the intranet, which directs staff to the CSOs and clearly prescribes the current requirements and procedures surrounding procurement processes. The Public Contracts Regulations 2015 and Local Government Transparency Code provide much of the legal framework surrounding local government procurement activities, and significant work is underway to improve compliance with procurement requirements. We found that all work completed by the Procurement Service to award new contracts since January 2021 was compliant with CSOs and supported by appropriate documentation. Signed contracts are held for the new contracts and there are effective controls to ensure the contract register is updated.

Although improvements have been made, there remain areas of noncompliance which are not directly within the control of the Procurement Service. We analysed all expenditure between April 2020 and September 2021 and identified 83 suppliers where there was an aggregated spend exceeding £50,000 with each supplier. For 58 of these suppliers, there is no central Procurement Service record of a contract or exemption/waiver, nor any other supporting documentation such as tenders, quotations, award notifications etc. It is noted that in part, there may be gaps in information due to the transfer back from Capita and some records may be held within departments however this cannot be argued for all cases therefore we cannot provide assurance that CSOs are consistently complied with.

From a Finance perspective, CSOs state that expenditure for goods, works and services should be supported by either a contract or a purchase order (PO). Where expenditure was not supported by a registered contract, we found that 75% (£1.5m) of our sample was not supported by a PO. Furthermore, analysis of a £0.5m sample of expenditure within the finance system established a lack of segregation of duties as £177k of this expenditure showed evidence that the purchase requisitioner and the approver was the same person.

CSOs have not been reviewed since November 2020, and do not reflect the latest guidance issued by government brought about by the end of the Brexit Transition Period (31 December 2020). The Council does not have a procurement strategy in place in order to specify its strategic and operational procurement objectives, how these are to be achieved, and how this will be measured and assessed for success.

Accounts Receivable/Debt Management

The accounts receivable and debt management functions have been brought back in-house from the 01 April 2021, after being managed by Capita for three years. It has been confirmed by management that, at the time of handover, Capita had not been performing a number of the accounts receivable and debt management functions for several months, and as such the Council have inherited additional backlog and processes that have not been completed effectively prior to the transition.

The review confirmed that invoices were raised by appropriate authorised individuals, VAT had been correctly calculated and the amount raised matched the chargeable source. Upon receipt, income was also accurately reflected on the debtor's account. The debtor's suspense account is regularly investigated and cleared. Credit notes and refunds are supported by appropriate documentation and are authorised.

Whilst there are process notes in place that cover the performance of key accounts receivable related functions and the running of associated reports, roles and responsibilities for the accounts receivable function have not been clearly defined or documented and there is some uncertainty around the expectations of the accounts receivable functions. The debt recovery process is not agreed or documented and there is confusion across the Authority over roles and responsibilities for debt recovery between Accounts Receivable officers and Service Departments. Outstanding debts are not being chased consistently.

There are over 500 invoices 'In Query' and suppressed from debt chasing. We were advised a large proportion of these were handed over from Capita and in many cases, there is no documentation to support why the debt has been marked in query and debt recovery actions suppressed. The process for approving access to the debtor's module does not always involve Finance which may lead to inappropriate accesses being granted. There are several leavers and Capita staff that continue to have access to the debtor's module.

With the exception of the Estates Team, there are no KPI's or debt reporting to show the Council's debt position or if there are any issues or concerns that need addressing. Senior management have not been issued with debt reports on a regular basis as expected as the automatic process for these to be emailed to them each month has not been working.

Asset Management – Tenanted Properties

This audit focused on the estates management and maintenance for tenanted properties, including consideration of the progress with addressing the key weaknesses identified within the CIPFA 2019 Peer Review. The review did not include the maintenance and management of the Councils' operational buildings or the maintenance of Council owned miscellaneous land and fixtures.

Overall, this review has concluded that the key weaknesses identified in the 2019 CIPFA Peer review of the Councils have not been remedied, namely:

- 'Property Data is currently held in a range of formats and spreadsheets with a varying degree of confidence over the comprehensiveness and reliability of information'
- 'The Councils do not currently have a single effective view of statutory compliance across their estates'
- 'There is some uncertainty about responsibilities for certain assets'
- 'Both Councils have some understanding of maintenance need but this is mainly based on experience of staff rather than through full, up to date condition surveys of the whole estate.'

The audit found that there is no asset management system or single source of information/database to record all assets along with their statutory compliance / maintenance requirements and inspection frequencies. A paper-based compliance file is held for each property however, it was confirmed that due to the supporting documentation increasingly being held electronically, the paper records are not always complete or consistent. It is not possible to effectively establish the Councils' responsibilities for each tenanted property without consulting the leases on individual property files. The team work on an annual cycle of identifying what checks are required in the upcoming period from a review of the individual files.

Whilst the audit found (for a sample of tenanted properties) that key statutory checks had been completed in all cases, including Gas safety, Electrical inspection, Asbestos survey, Legionnaires assessment, Fire alarm test and Emergency lighting test, we cannot extend this assurance to all assets due to the various sources of information and inconsistent/incomplete record keeping.

There is no evidence of management reporting regarding overall performance as the current record keeping processes make this impractical.

6. Quality Assurance and Improvement

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a Quality Assurance and Improvement Programme (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 provision for 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 2020.

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

'The mandatory elements of the International Professional Practices Framework (IPPF) include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through 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 2021-22 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- 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.
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

9. Internal Audit Performance

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

| Performance Indicator | Target | Actual |
|---|-----------|-----------|
| Percentage of internal audit plan delivered (to draft report) | 95% | 96% |
| Positive customer survey response | | |
| ● Havant Borough Council | 90% | 99% |
| ● SIAP – all Partners | 90% | 99% |
| Public Sector Internal Audit Standards | Compliant | Compliant |

Customer satisfaction is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date April 2022).

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 Southern Internal Audit Partnership

July 2022

Annex 1

Audit Reviews and Opinions 2021-22

| Substantial Assurance | Reasonable Assurance | Limited Assurance | No Assurance |
|--|---|---|--------------|
| <ol style="list-style-type: none"> 1. Health and Safety (Covid-19) 2. Covid-19 Business Grants | <ol style="list-style-type: none"> 1. Income Collection and Banking 2. Accounts Payable 3. Business Rates 4. Main Accounting and Reconciliations 5. Council Tax 6. (IT) Cyber Attack Response Pathway 7. Service Continuity Planning (Loss of IT) 8. IT Device Management 9. Regeneration 10. Planning Enforcement 11. Disabled Facilities Grants 12. Hampshire Home Choice - Housing Register (Homelessness) 13. Planning / Developers Obligations 14. Tree Management | <ol style="list-style-type: none"> 1. Asset Management (Tenanted Properties) 2. Risk Management Arrangements 3. Procurement Arrangements 4. Accounts Receivable & Debt Management | None |

We completed three follow up reviews in respect of Building Control, Licencing (Animal Welfare) and Food Safety, where the audits had concluded with a 'Limited Assurance Opinion' in previous years. Each follow-up review found that the majority of actions have been implemented. We also facilitated the Council's participation in the National Fraud Initiative.