
**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

HAVANT BOROUGH COUNCIL

Annual Internal Audit Report & Opinion 2022-23

Prepared by: Antony Harvey, Deputy Head of Partnership

June 2023

Contents

Section	Page
1. Role of Internal Audit	2
2. Internal Audit Approach	3
3. Internal Audit Coverage	4-5
4. Internal Audit Opinion	5
5. Governance, Risk Management & Control – Overview & Key Observations	6-10
6. Quality Assurance and Improvement	10
7. Disclosure of Non-Conformance	11
8. Quality control	11
9. Internal Audit Performance	12
10. Acknowledgement	12
Annex 1 – Summary of Audit Reviews Completed 2022-23	13-15

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. The 2022-23 internal audit plan was considered by the Audit and Finance Committee in April 2022. 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. Following the decision to end the Joint Management Team and Shared Staff arrangements with East Hampshire District Council (EHDC), and at the request of the then Interim Chief Executive and Interim Chief Finance Officer, the plan included a provision for both consultancy / advisory work and for service specific / operational reviews to respond to corresponding emerging issues and risks during this period of transition and significant change.

The agreed plan stated 'In order to provide an annual report and opinion on the framework of internal control, risk management and governance, sufficient assurance work will still be required. The plan therefore includes provision for service specific / operational reviews which will be aligned to the programme to transition from the joint arrangements and will be identified through regular liaison with the senior management team'.

Whilst initial engagement was positive, with a number of additional audit areas confirmed, a lack of capacity / engagement from the Council has resulted in less than anticipated audit coverage over the period. Furthermore, even when audit reviews had commenced, in some instances engagement has not been maintained and therefore delivery of some agreed reviews has stalled. At the time of writing this report, audits of Asset Management – Lease Income, Information Governance – CAPITA, and Benefits (including Council Tax Support Scheme) are well underway, however they have not sufficiently progressed in order to form an assurance opinion. The outcome of these reviews will therefore contribute towards the 2023-24 annual report and opinion.

The revised 2022-23 plan also included a review of Data Decoupling, to assess the processes followed to identify data shared with EHDC and how the data will be separated. Following agreement that the review would go ahead in the Autumn 2022, it took several months to progress the initial stages of the audit and agree a Terms of Reference in March 2023, however we have been unable to progress the review past this point.

We appreciate the Council have experienced a period of transition and, understandably, organisational capacity required to facilitate audits has been impacted, however it is imperative that an adequate level of assurance is attained over the framework of governance, risk, and control in which it operates. Whilst this exceptional year resulting in less than planned assurance work can be tolerated in isolation, the

absence of sufficient assurance for a second year may affect our ability to provide an overall opinion on the Council's framework of governance, risk and control for 2023-24 which would result in a 'limitation of scope' annual report and opinion.

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.

Annual Internal Audit Opinion 2022-23

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.

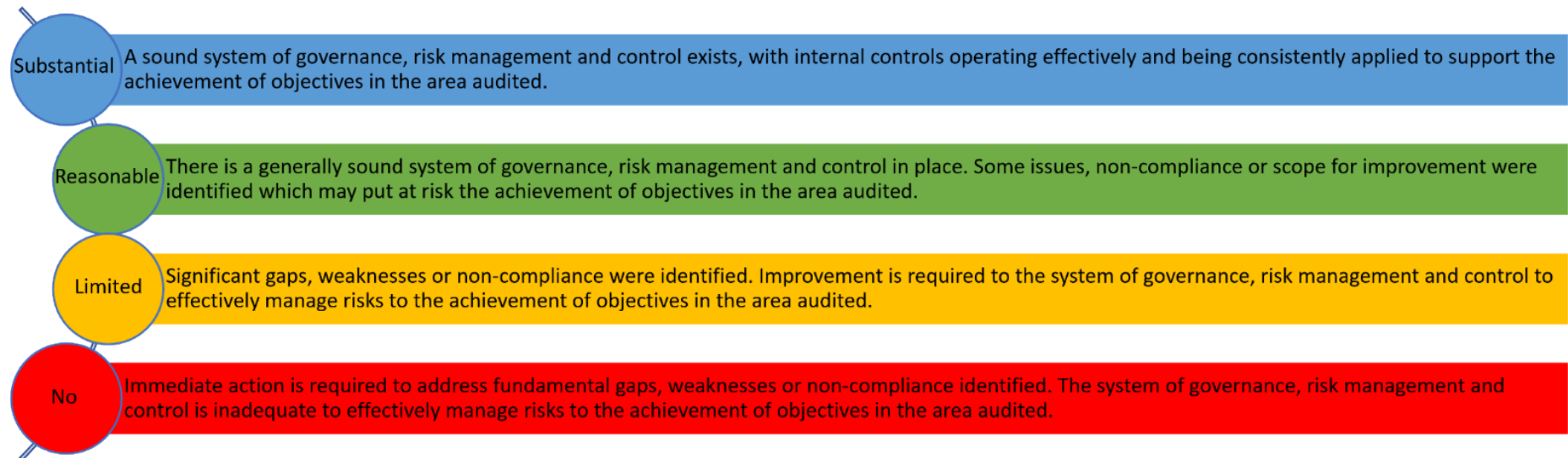
In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice.

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. Governance, Risk Management & Control – Overview & Key Observations

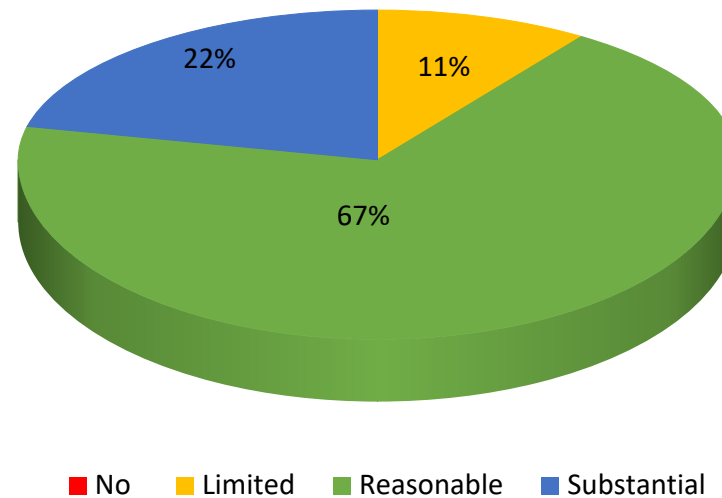
Assurance opinions for 2022-23 reviews

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:



The 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, and a high level summary of each review is provided in Annex 1.

Assurance Opinions



Governance

Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes an overview of:

- the governance structure in place, including respective roles, responsibilities and reporting arrangements
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved and appropriately publicised and accessible to officers and staff.

In addition, during 2022-23 we undertook reviews of the Annual Governance Statement, which concluded with a 'Substantial Assurance Opinion' and a review of Business Continuity Planning, which concluded with a 'Reasonable Assurance Opinion'.

Based on the work completed during the year in our opinion the governance frameworks in place across the Council are generally robust, fit for purpose and subject to regular review. As the Council continues to review and update how it provides its' services and operations, it should ensure there is the capacity to formally update the associated governance frameworks accordingly.

Risk management

We reviewed risk management arrangements in the Council during 2021-22 which resulted in a 'Limited Assurance Opinion'. We undertook a follow-up review in 2022-23 to assess the Council's progress with implementing the agreed actions arising from the initial audit and found that considerable progress had been made with 11 actions fully implemented and with progress made with completing the remaining action.

In accordance with the constitution, the Audit & Finance Committee play a key role 'to monitor the effective development and operation of risk management in the Council'. This has been supported throughout the year through the Committees overview of the Corporate Governance & Risk Policy considered at its meeting on 28 July 2022.

The risk register is a key document that is taken into account during the development of our risk based internal audit plan. The information in the risk register is taken into account when scoping each review in detail to ensure that our work is appropriately focussed.

Control

In general, internal audit work found there to be a reasonable control environment in place across the majority of review areas included in the 2022-23 plan that were working to support the delivery of corporate objectives.

We generally found officers and staff to be well aware of the importance of effective control frameworks and compliance, and also open to our suggestion for improvements or enhancements where needed. Management actions agreed as a result of each review are monitored to completion to ensure that the identified risks and issues are addressed.

We are pleased to report that no audit concluded with a 'No Assurance Opinion' report although one audit concluded with a 'Limited Assurance Opinion'. The key areas of challenge identified or confirmed through our work are outlined below:

Accounts Receivable / Debt Management

The audit found that the amounts raised for a sample of invoices tested could be matched to their chargeable source, had appropriately assigned VAT codes, and supporting documentation was available upon request. There is an established procedure for setting up the payment of periodic invoices (PIMS), involving verification and authorisation before the invoices are issued. The process for matching income to invoices appears robust as our sample of 25 invoices showed corresponding payments and the correct assigning to a debtor's account.

However, there is no overall Debt Management Policy in place, various processes are yet to be defined, roles within debt recovery have not been clearly allocated to business owners (where applicable) and there is no effective monitoring or reporting of debt recovery across the Council's service areas (excluding Revenues & Benefits and Parking). Testing confirmed that the first two reminder stages are being carried out by the Accounts Receivable Team, although for stages three and four (after 28 and 42 days respectively) the letters are generated and sent to the relevant service managers directly, however, it is not clear which service managers these letters are being sent to, as system reports are not provided by Capita, and there are no procedures regarding how debts should be managed beyond this stage.

Whilst there is an established process to provide new starters with the necessary access to Integra, authorised by the Chief Finance Officer, we were unable to obtain a system report to show which staff have access to Integra and what functions they can carry out. This prevented us from providing any assurance on the segregation of duties within the Accounts Receivable function, or assurance that procedures cannot be circumvented by finance officers or others with the Council service areas. It could also not be evidenced that access to Integra is revoked once staff leave, or how quickly this is actioned. It has been confirmed that HBC officers are unable to obtain these reports from Capita.

Although monthly reports are run on the 'in-query' debts, testing showed that there are instances where debts have seemingly been placed in query without justification, accompanying evidence or notes. It appears that officers with Integra access (even outside of Accounts Receivable Team) are also able to put invoices in-query without justification. In addition, evidence could not be provided to justify the 10 refunds made during the financial year, although they are marked by the system as debit adjustments. There is currently no documented refund procedure in place.

At the time of review, there had been only one write-off for the current year, whilst there are a number of legacy debts on system, suggesting that there are potential debt write-offs that are overdue for consideration. There are no KPIs in place to monitor the performance of the Accounts Receivable function, or for management to ensure that debt levels are kept within agreed limits.

Management actions

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. Progress is reported to the Audit & Finance Committee throughout the year through the quarterly internal audit progress reports. Whilst it is acknowledged that some of the responsible managers may have changed, the volume of actions that have passed their implementation date (approximately 40%) remains a concern.

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 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 2022-23 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.
- An internal 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%	73%
Positive customer survey response - 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 2023).

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

June 2023

Annex 1

Summary of Audit Reviews Completed 2022-23

Substantial

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Review area	Summary
Financial Stability – Budget Rebasings and MTFS	The audit established there was a clear process for reviewing and rebasing the 2022-23 budget and updating the Medium-Term Financial Strategy (MTFS) as part of the transition arrangements to becoming a standalone Council. We found that Executive Heads and key stakeholders were consulted throughout the rebasing process to ensure budgets were realistic, achievable and reflected the new organisational structure; with the rebased budget approved by Cabinet and Full Council in September 2022. The Budget Working Group was set up, with a clear remit and appropriate governance framework, to make recommendations to Cabinet on how to achieve a balanced budget within the MTFS. Income & expenditure assumptions, pressures, risks & mitigations were clearly documented and considered prior to approval by Cabinet and Full Council in November 2022.
Corporate Governance Framework - AGS	The audit found robust governance arrangements are in place in line with the 'CIPFA Delivering Good Governance in Local Government Framework'; systems and processes are in place for the production and approval of the Annual Governance Statement (AGS) in accordance with Regulation 6 of the Accounts and Audit Regulations 2015; and action plans within the AGS are proportionate with progress reported to the Audit and Finance Committee.

Reasonable

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Review area	Summary
Business Continuity Planning	The audit found a sound framework for Business Continuity Planning; including a Corporate Business Continuity Plan (BCP) documenting responsibilities for strategic and operational actions required following an incident. The Corporate BCP includes a list of critical services provided by the Council and timescales for recovering services. 18 service areas are considered to be critical and

	testing of 13 services' BCPs (excluding IT BCP which would be subject to a specific audit) found they had all been updated following the separation from EHDC, with the intention to review all plans annually. At the time of review, annual testing of the plans by following at least one of a variety of potential scenarios and documenting lessons learnt had been completed for 11/13 service BCPs however the Corporate BCP and two Service BCPs had not been formally tested; there were no BCPs for the critical services provided by Norse SE. There was some inconsistency between recovery timescales in service BCPs to those in the Corporate BCP; and contact details for key staff, third parties and suppliers were not consistently recorded.
Contract Management Arrangements	The review found generally good contract management in place, with no major issues identified although some variation in practice was found, which will be enhanced through the introduction of training for officers responsible for the management of all major contracts and the revision of all related policies and procedures based upon Government best practice guidance.
HR – Recruitment	The audit assessed the existing end-to-end recruitment and onboarding processes; the associated policies and procedures; and the majority of recent recruitment cases supported by HR, to determine whether they were completed accurately for each candidate and within a timely manner. In the majority of cases, all relevant checks (including right to work) had been completed promptly, with all relevant documentation held on file, although for one case completed before the current staff were in post, we could not provide assurance as very little documentation was held. The audit was completed whilst the Council were in the process of reviewing the framework, to help identify opportunities for improvement, which included enhancing policies & procedures and developing performance measures & monitoring mechanisms. It is proposed that a follow-up audit is carried out once the revised framework has been rolled out and becomes more embedded.
Accounts Payable	There are appropriate processes for ordering, receiving and paying for goods and services; and to verify and approve the accuracy of payment runs prior to payment runs; with opportunities and develop performance measures and monitoring mechanisms, to drive further potential efficiencies and inform continuous improvement. We could not provide assurance that access to financial systems is appropriately restricted, segregation of duties is being enforced or leavers are promptly removed as a report of current users and their access rights could not be provided.
Treasury Management	The review found that all activity was in line with the approved Treasury Management Strategy; transactions were promptly and accurately reflected in the financial system; and each transaction was clearly documented. and appropriately authorised, are within the limits stated within the up-to-date Treasury Management Strategy, with creditworthiness checks undertaken by the Council's Treasury Management advisors, prior to investment. Opportunities to improve include formalising operational processes and day to day requirements; and improving performance reporting.
Homelessness – Service	The purpose of the audit was to provide assurance on the progress being made to implementing the action plan developed by the Housing Services Review Panel based upon recommendations for service improvement following a visit by the Department for Levelling Up, Housing & Communities HAST Team. The audit found that the action plan addressed all the areas of weakness identified by the HAST Team; the panel met on a regular basis to review progress with implementing the action plan; and, at the

Improvement Action Plan	time of review, notable progress had been made with delivering the service improvement actions. The audit identified opportunities to enhance through the prioritisation of actions according to risk and with the consistency of progress monitoring and reporting.
--------------------------------	--

Limited Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Review area	Summary
Accounts Receivable / Debt Management	Please refer to pages 9-10