

**Title of meeting:** Governance & Audit & Standards Committee

**Date of meeting:** 3rd March 2017

**Subject:** Audit Performance Status Report to 6th February 2017

**Report by:** Chief Internal Auditor

**Wards affected:** All

**Key decision:** No

**Full Council decision:** No

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## **1. Summary**

- 1.1 One new no assurance audit has been completed since the last meeting. No critical risk exceptions have been raised.
- 1.2 There are now 125 planned audits for 2016/17 made up of 98 new reviews and 27 follow up audits. Of these 112 (90%) have been completed or are in progress as at 6th February 2017. This represents 66 audits (53%) where the report has been finalised, 4 audits (3%) where the report is in draft and 42 audits (34%) currently in progress.
- 1.3 In addition to the planned audits there are 11 areas of on-going work and 4 continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance on audits completed since the last meeting are shown in Appendix A. Results of follow up audits can be found in Appendix B

## **2. Purpose of report**

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2016/17 to 6th February 2017 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

## **3. Recommendations**

- 3.1 That Members note the Audit Performance for 2016/17 to 6th February 2017
- 3.2 That Members note the highlighted areas of control weakness for the 2016/17 Audit Plan

## **4. Background**

4.1 The Annual Audit Plan for 2016/17 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 29<sup>th</sup> January 2016 following consultation with Heads of Services, Strategic Directors and the previous Chair of this Committee.

## 5. **Audit Plan Status 2016/17 to 6th February 2017**

### **Percentage of the approved plan completed**

5.1 90% of the annual audit plan has been completed or is in progress as at 6th February 2017. Appendix A shows the completed audits for 2016/17. Appendix B shows the completed follow up audits for 2016/17

The overall percentage figure is made up as follows:

- 51 new reviews (41%) where the report has been issued, 4 in draft form (3%) and 35 (28%) where work is in progress
- 15 planned follow ups (12%) where the report has been issued and 7 (6%) where work is in progress

5.2 As requested by Members of the Committee a breakdown of the assurance levels on completed audits since the last meeting is contained in Appendix A. Where specific parts of the control framework have not been tested on an area (because it has been assessed as low risk for example) it is recorded as NAT (No Areas Tested) within the Appendix.

### **Changes to the 2016/17 Audit Plan**

5.3 Five full audits have been removed from the audit plan since the last meeting of the Committee.

5.3.1 At the request of the schools both the Harbour and Portsdown Primary school audits have been deferred until 2017/18

5.3.2 The Prevention and Early Intervention audit in Children's Services has been deferred to 2017/18 as the service is currently going through a significant change which will not be implemented until the new financial year.

5.3.3 The audit of IS Business Continuity was removed from the plan as a comprehensive external audit covering business continuity and disaster recovery has already been completed during 2016/17

5.3.4 The audit of Conduct and Ethical Behaviour has been removed as the scope of the audit has been adequately covered by other audits within the 2016/17 plan.

## 5.4 **External Clients**

Internal Audit has now secured 361 days of audit work for external clients during 2016/17. 59% of the days for this work have now been completed.

### **Reactive Work**

5.5 Reactive Work undertaken by Internal Audit in 2016/17 includes:

- 28 special investigations
- 30 items of advice

As well as the following unplanned reviews

- Channel Shift Programme
- Copyright Audit

### **Exceptions**

5.6 Of the full audits completed so far this year the number of exceptions within each category have been:

- 2 Critical Risk
- 98 High Risk
- 23 Medium Risk
- 9 Low Risk (Improvements)

5.7 The table below is a comparison of the audit status figures for February this financial year and the previous two years

	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>% of the audit plan progressed</b>	79%	91%	90%
<b>No. of Critical exceptions</b>	8	1	2
<b>No. of High risk exceptions</b>	107	59	98

### **Ongoing Areas**

5.8 The following 11 areas are on-going areas of work carried out by Internal Audit;

- Regulation of Investigatory Powers Act (RIPA)- authorisations and training
- Anti-Money Laundering review of Policy and training
- Investigations
- Financial Rules waivers
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Audit Commission
- National Anti-Fraud Network (NAFN) bulletins and intelligence follow up

- Counter Fraud Programme
- Policy Hub project to ensure that all Council policies are held in one place and staff are notified of the policies relevant to them
- G&A&S Committee reporting and attendance and Governance,
- Audit Planning and Consultation
- Risk Management

### **Continuous Audit Areas**

- 5.9 The following 4 areas are subject to continuous audit (i.e. regular check to controls) and feed into overall assurance;
- Legionella Management
  - Asbestos Management
  - Key risks management in services
  - Performance Management

## **6. Areas of Concern**

### **New Areas of Concern**

#### **6.1 External - Medina Primary School**

6.1.1 The initial audit of the Medina Primary School was given no assurance as testing resulted in 6 high risk exceptions being raised.

6.1.2 The 6 high risk exceptions and agreed actions are summarised in the table below:

<b>Exception</b>	<b>Agreed Action</b>
Testing reviewed the Schools Financial Value Standard (SFVS) statement for the year ending March 2016 and the auditor was unable to substantiate a number of the declarations within the statement. It was also not clear what documentation had been submitted to governors when they signed off on the statement.	The SFVS will be included as a regular agenda item at the Finance, Personnel & Property committee and evidence will be submitted to support each statement. The final document will be presented to the full governing body for ratification before submission to the Local Authority.
No evidence was found that the Governors of the school had a Disclosure and Barring Service (DBS) check. This is in breach of the School Governance (Constitution) (England) Regulations 2012.	All governors will be subject to an enhanced DBS check immediately.
A number of issues were found with hire agreement arrangements. No evidence was found that the governing body had approved the fees. Hire	The Governing Body will agree the Community Letting Charges (including 'Head teacher' discretion rates) and this will be reflected in the relevant minutes.

<p>agreements were found for only 5 of 8 hirers and no evidence was available to confirm the 8 hirers had the required insurances in place. Without a hire agreement this is no evidence the hirer has accepted the terms and conditions for use. If an accident were to occur and the relevant insurance not in place the school could be exposed to compensation claims.</p>	<p>All Hirers will be required to sign a new Hire Agreement Form (which clearly states the cost of hire) with effect from April 2017 and to provide a copy of their indemnity insurance policy.</p>
<p>None of the four staff responsible for income collection had signed the PCC Income Handling Policy. This may mean that staff are not following Financial Rules and placing them in a vulnerable position to accusations of mishandling funds.</p>	<p>All staff involved in cash collection will read and sign a copy of the PCC Income Handling Policy &amp; Instructions and a copy will be retained on file.</p>
<p>From a sample of 6 purchase orders, 5 were raised retrospectively which is a breach of Financial Rules. The total spend on these purchase orders was £2679.92. Purchase orders form part of the internal control process for expenditure, raising them retrospectively bypasses the control as the expenditure is already committed.</p>	<p>The internal process for ordering goods and services will be reviewed to establish if there is a weakness in controls resulting in the orders being raised retrospectively. Following on from this purchase orders will be raised, where possible, before expenditure is incurred.</p>
<p>Testing on a sample of 3 employee's files found that the school had retained on DBS application and one DBS document on file which is a breach of the DBS Code of Practice and the Data Protection Act 1998. This could result in a financial penalty for the Authority</p>	<p>Any DBS documents or disclosure information held in employees personal files will be shredded and, moving forward; the school will only retain documentation which has been obtained to evidence the 'right to work in the UK</p>

6.1.4 A follow up audit for the school will be conducted as part of the 2017/18 Audit Plan.

**Updates**

**6.2 Transport, Environment & Business Support - Portsmouth Craft & Manufacturing Industry - Partially Resolved**

6.2.1 The 2015/16 audit of Portsmouth Craft & Manufacturing Industry (PCMI) resulted in no assurance being given. A follow up audit was conducted as part of the 2016/17 Audit Plan.

6.2.2 5 high risk exceptions were raised as part of the original audit. The results of follow up testing are detailed in the table below.

<b>Exception</b>	<b>Follow Up Results</b>	<b>Further Agreed Action</b>
When undertaking manufacturing work there were no terms and conditions highlighting both party's responsibility to comply with copyright laws	There have been difficulty obtaining suitable terms and conditions. A copy of another establishment has now been received.	Draft terms and conditions have now been drafted and have been sent to the PCC Legal team to review.
Staff responsible for cash handling at PCMI had not signed PCC Cash Handling instructions. Cash was being counted and reconciled by one person and reconciliations found not to contain sufficient detail	Cash handling instructions have now been signed by all relevant staff. Cash up and reconciliations are still performed by a single member of staff (often low value and less than £100)	Manufacturing Supervisors to verify the cash counted on weekly cash ups. Cash up sheets will be signed and dated by both the Admin/Finance Officer and the supervisor
Stock records and physical stock takes were not occurring in breach of Financial Rules	Stock records are now being held but do not reference stock purchases. To be effective stock records should record current levels alongside incoming and outgoing stock.	Stock records will now include the purchase of raw materials. Reconciliations can then be performed to verify that the levels of materials identified in the stock checks are correct in relation to the purchase and subsequent use of materials in manufacturing.
Testing on a sample of 25 jobs highlighted 50% where free form pricing had been used for one element. Similarly 23% contained an element where the calculation template had been overridden. No supporting evidence was present to justify why the prices had been charged	On a sample of 10 jobs no instances were found where either free form pricing or the manual override functions had been used. All had been priced correctly using the Estimate system.	No further action required
Mandatory training records were reviewed	Follow up testing reviewed the training	No further action required

for all 16 staff at PCMI. None of the 16 staff sampled had completed all areas required by the Performance Development Review.	records for all current members of staff (9). At the time of testing all staff had completed the required mandatory training courses	
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6.2.3 At present there are no plans for a further follow up audit in this area.

**6.3 Adult Social Care/Integrated Commissioning Unit - Individual Service Contracts - Partially Resolved**

6.3.1 The 2015/16 audit of this area was given no assurance. A follow up audit was undertaken as part of the 2016/17 Audit Plan/

6.3.2 2 high risk exceptions were raised in the original audit. The results of follow up testing are detailed in the table below:

Exception	Follow Up Results	Further Agreed Action
It was discovered that there was no clear ownership/responsibility for individual service contracts (ISC) within the Authority	Adult Social Care has now taken ownership/responsibility for individual service contracts and are monitoring their effectiveness.	No further action required
Inefficiencies were found in relation to the processing of ISCs. There were duplication of efforts within the process and wasteful practices surrounding postage	A funded nursing care style report was considered to replace ISCs but has not been implemented. Improvements have been made in regard to emails being sent instead of ISCs however Residential Care ISCs continue to be printed and sent out.	The issue of ISCs will be addressed as part of the implementation of the Swift replacement system

6.3.3 At present there are no plans for a further follow up audit in this area.

**7. Comments on the plan to date**

7.1 The plan is on target to be achieved by 31<sup>st</sup> March 2017. A total of 2 critical exceptions have been reported to date and the number of high risk exceptions found is in line with the 2014/15 figures where a similar number of school audits were undertaken.

**8. Equality impact assessment (EIA)**

8.1 The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

**9. Legal Implications**

9.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council’s legal requirements and the Council is fully empowered to make the decisions in this matter.

9.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

**10. Finance Comments**

10.1 There are no financial implications arising from the recommendations set out in this report.

10.2 The S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

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Signed by: Elizabeth Goodwin, Chief Internal Auditor

**Appendices:**

- Appendix A – Completed audits from 2016/17 Audit Plan
- Appendix B - Completed follow up audits from 2016/17 Plan

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Accounts and Audit Regulations	<a href="http://www.legislation.gov.uk/ukxi/2011/817/contents/made">http://www.legislation.gov.uk/ukxi/2011/817/contents/made</a>

2	Audit Strategy 2016/17	<a href="http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=3331&amp;Ver=4">http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=3331&amp;Ver=4</a>
3	Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings –reports published online <a href="http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeeld=148">http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeeld=148</a>

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ..... on .....

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Signed by: