

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

**Date of meeting:** 27<sup>th</sup> October 2017

**Subject:** Audit Performance Status Report to 29<sup>th</sup> September 2017

**Report by:** Chief Internal Auditor

**Wards affected:** All

**Key decision:** No

**Full Council decision:** No

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## **1. Summary**

- 1.1 This is a progress report for the 2017-18 planned audit activities. To date three 'No Assurance' audits have been identified with no critical risks raised. Information on two of the 'no assurance' audits has been reported to G&A&S in previous reports. Details of the third 'no assurance' audit are contained within this report.
- 1.2 There are 71 Full Audits and 40 Follow ups, planned for 2017, totalling 111 reviews.
- 1.3 To date, 56 (50%) have been completed or are in progress as at 29<sup>th</sup> September 2017. This represents 36 (64%) audits where the report has been finalised, 1 (2%) where the report is in draft and 19 (34%) audits currently in progress.
- 1.4 In addition to the planned audits there are 11 areas of on-going work and 2 continuous audits which contribute to risk assurance.
- 1.5 Areas of Assurance are shown in Appendix A.

## **2. Purpose of report**

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2017/18 to 29<sup>th</sup> September 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 2017/18 to 29<sup>th</sup> September 2017.

- 3.2 That Members note the highlighted areas of control weakness from the 2017/18 Audit Plan.

#### **4. Background**

- 4.1 The Annual Audit Plan for 2017/18 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 3<sup>rd</sup> February 2017 following consultation with Directors and the previous Chair of this Committee. The Plan will be revised quarterly to take account of any changes in risks/priorities, in accordance with the Strategy.
- 4.2 For 2017/18 Internal Audit will conduct 1005 days of audit work for external clients.

#### **5. Audit Plan Status 2017/18**

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

- 5.1 50% of the annual audit plan has been completed. Appendix A shows the completed audits for 2017/18. Appendix B shows the completed follow up audits for 2017/18.

The overall percentage figure is made up as follows:

- 15 new reviews (64%) audits where the report has been finalised, 1 (3%) where the report is in draft and 19 (39%) audits currently in progress
- 21 (53%) planned follow ups where the report has been issued

- 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.

##### **Reactive Work**

- 5.3 Reactive Work undertaken by Internal Audit in 2017/18 includes:
- 12 special investigations (excludes Benefit and Council Tax Support cases)
  - 11 items of advice, (where the advice exceeds an hours work)

##### **Exceptions**

- 5.4 Of the 2017/18 full audits either completed or at the draft report stage the number of exceptions within each category have been:
- 0 Critical Risk
  - 45 High Risk
  - 15 Medium Risk

- 0 Low Risk (Improvements)

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

	2015/16	2016/17	2017/18
<b>% of the audit plan completed</b>	57%	57%	50%
<b>No. of Critical exceptions*</b>	1	1	0
<b>No. of High risk exceptions</b>	29	40	45

### **Ongoing Areas**

- 5.6 The following 11 areas are on-going areas of work carried out by Internal Audit;
- Regulation of Investigatory Powers Act (RIPA) - authorisations
  - Anti-Money Laundering monitoring and reporting
  - Investigations
  - Financial Rules Waivers
  - National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
  - 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**

- 5.7 The following 2 areas are subject to continuous audit (i.e. regular check to controls) and feed into overall assurance;
- Key risks management in services
  - Performance Management

Internal Audit, in collaboration with the Purchase to Pay (P2P) team, facilitates the weekly review of potential duplicate invoices. Using Data Analytics software to analyse all invoices, a number of automated tests highlight potential duplicates which the P2P team then investigate. Since the last report, a further £28,000 worth of potential duplicate payments have been stopped, bringing the total to £56,000 since July 2017. It should be noted that not all identified transactions would have definitely resulted in a duplicate payment; however a risk of them occurring was present prior to these tests being conducted.

## 6. Areas of Concern

### New areas of concern

#### 6.1 **Regeneration - Subscriber Identification Module (SIM) card inventory & stock control**

6.1.1 The audit of SIM card inventory & stock control was given no assurance as testing resulted in six high risk exceptions.

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

**Exception 1** - As at 28<sup>th</sup> July 2017 there were a total of 563 SIM cards listed on the SIM card inventory. Testing was unable to identify the location of 55 (10%) SIM cards listed as the location field had not been completed.

A further review of these SIM cards identified that 15 of the 55 (27%) were showing as active indicating that the SIM card was in use, but the location could not be verified.

Records in relation to the hand-held devices used by the Civil Enforcement Officers were not up to date. Discussions with the Civil Enforcement and Technical Supervisor confirmed that the 9 active SIM cards showing as allocated to staff members were no longer in use but records were showing them as active on the inventory.

Without up to date inventory records Management cannot gain assurance that all SIM cards that the Authority are responsible for under the contract with an external provider can be located and ensure that appropriate controls are in place to safeguard SIM cards that are in use.

**Agreed Action** - Review to take place of all SIM cards with no or potentially incorrect locations and their current locations to be updated. Any missing SIM cards to be barred/ cancelled. All the remaining SIM cards marked as active, bar 10 SIM cards marked as workshop spare, have been located. The Technical team have been instructed to check whether there are any duplicates or if they have been stored in another location.

**Exception 2** - At the time of testing there were no documented processes in place for ordering and disposing of SIM Cards no longer in use.

#### **Ordering SIM cards**

Testing established that SIM cards were ordered when required via email by staff. They are logged on the SIM Pro database which is accessed by Parking Staff only. At the time of testing there was no process in place for another member of staff to verify the appropriateness of orders being placed.

Without a separation of duties within the process or management oversight, staff could be ordering additional SIM cards where there is no business need,

resulting in large volumes of stock being held and potential fraudulent expenditure incurred.

**Disposing of SIM cards**

Testing identified SIM cards from the previous contract that expired over 4 years ago and SIM cards from the current contract that are no longer in use and are being held in the Parking Office. It is audit's understanding that these cards have been cancelled, however this has not been recorded on the current inventory records.

**Agreed Action -**

**Ordering SIM cards** - In future all SIM orders made by email will be copied to an additional Officer, to verify the business need.

**Disposing of SIM cards** - Once the cancellation process has been established with the current provider, arrangements to dispose of the SIM cards will be made.

**Exception 3** - At the time of testing there were 82 active SIM cards awaiting cancellation. Testing identified the tariffs that these SIM cards are on and established that they are cumulatively costing the Authority £435.50 per calendar month while waiting to be cancelled. It is audit's understanding that these SIM cards are waiting to be cancelled and that this cannot be carried out due to an ongoing dispute with the current SIM card provider.

**Agreed Action** - Contact to be made with the current contractor to establish the process to cancel these SIM cards.

**Exception 4** - It was confirmed that Parking Services order and manage the inventory records for SIM cards that are allocated to the Traffic Management Service. These SIM cards are used for road signs and traffic signals.

The SIM cards are logged on the central inventory record which is accessible by the Parking Services only. Staff rely on being given the correct location details to track the SIM cards that have been allocated to Traffic Management.

There was no evidence at the time of testing to confirm the transfer of SIM cards from Parking Service to Traffic Management.

**Agreed Action** - A transfer form is to be created to log and confirm SIM cards passed onto other sections. This will provide a full management trail of cards that have been transferred between sections.

**Exception 5** - Testing identified that the safe used in the parking office is accessed by an electronic keypad. Discussions with staff confirmed that the keys to PCC vehicles and SIM cards are held within the safe.

The key code on the safe had not been changed since before the previous Enforcement Manager left the Authority in August 2016. Additionally, at the time of testing it was not possible to locate the override key to the safe.

**Agreed Action** - Once the SIM card mentioned above has been disposed of no SIM cards will be stored in the wall safe. New SIM cards can be ordered on 24 hours' notice so no SIM cards will be held. All future SIM cards removed from active devices will be dealt with immediately.

**Exception 6** - A review of the inventory records confirmed that all SIM cards should be disabled for roaming, voice calls and circuit switched data (CSD).

Testing evidenced that 10 SIM cards had the circuit switched data enabled. Discussions with the Civil Enforcement and Technical Supervisor confirmed that 9 of the 10 SIM cards with the CSD data enabled were previously held in the handheld devices used by the Civil Enforcement Officers. For the remaining SIM card it was not possible to identify its location at the time of testing.

At the time of testing all of the 10 SIM cards were listed as active on the inventory records.

**Agreed Action** - Circuit Switch Data (CSD) and its requirement for use will be established. On completion of the ongoing dispute the decision will be made as to the continuation of CSD.

- 6.1.3 A follow up audit will be conducted on SIM cards inventory and stock control in quarter 4 as part of the 2017/18 audit plan.

#### **Updates on no assurance audits previously reported to committee**

- 6.1.4 No follow ups have been carried out on no assurance audits since the previous report made to G&A&S.

### **7. Equality impact assessment (EIA)**

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

### **8. Legal Implications**

- 8.1 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.
- 8.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

### **9. Finance Comments**

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

- 9.2 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 2017/18 Audit Plan
- Appendix A - Municipal Year 2017/18
- Appendix B - Completed follow up audits from 2017/18 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 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: