

Decision maker: Governance & Audit & Standards Committee

Subject: Audit Performance Status Report to 16th December 2013 for
Audit Plan 2013/14 & Audit Strategy for 2014/2015

Date of decision: 30 January 2014

Report by: Chief Internal Auditor

Wards affected All
**Key decision (over
£250k)** No

1. Summary

- 1.1 There are 13 new critical exceptions highlighted in this report for 2013/14 Audit Plan.
- 1.2 There are 155 planned Audits for 2013/14 made up of 126 new reviews and 29 follow up audits. Of these 94 (60%) have been completed or are in progress as at 16th December 2013. This represents 62 audits (40%) where the report has been finalised, 8 audits (5%) where the report is in draft form and 24 audits (15%) currently in progress.
- 1.3 In addition to the planned audits there are 12 areas of on-going work and 5 of continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance are shown in Appendix A.
- 1.5 213 days of reactive work have been undertaken to 16th December 2013, with 245 days set aside in the 2013/14 Audit Plan.
- 1.6 The proposed Audit Strategy for Audit coverage for 2014/15 is attached as Appendix B to this report.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2013/14 to 16th December 2013 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework and to advise on the proposed Audit Strategy for the 2014/15 Plan.

3. Background

- 3.1 The Annual Audit Plan for 2013/14 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 24th January 2013 following consultation with Heads of Services, Strategic Directors and the Chair of this Committee.

4. Recommendations

- 4.1 That Members note the Audit Performance for 2013/14 to 16th December 2013.
- 4.2 That Members note the highlighted areas of control weakness for the 2013/14 Audit Plan.
- 4.3 That Members note the changes in the Audit Plan.
- 4.4 That Members approve the proposed Audit Strategy for the use of Audit resources for 2014/15.

5. Audit Plan Status 2013/14 to 16th December 2013

Percentage of approved plan completed

- 5.1 60% of the annual audit plan has been completed or is in progress as at 16th December 2013, slightly below the equivalent period last year but slightly higher than the year before. Despite some already significant time spent on special investigations, providing there is not a significant number of further ones, there is currently no reason why the Plan cannot still be met. Appendix A shows the completed audits for 2013/14. This percentage is made up as follows;
 - 54 new reviews (34%) where the report is finalised, 8 (5%) in draft form and 23 (15%) currently in progress.
 - 8 planned follow ups (5%) where the report is finalised and 1 (1%) work in progress.
- 5.2 As requested by Members of the Committee a breakdown of the assurance levels on completed audits is contained in Appendix A.

Changes to the Audit Plan

- 5.3 In total there are now 155 Audits in the Plan as opposed to 156 originally.
- 5.4 Asbestos Removal has been amalgamated with the planned Asbestos Management audit.
- 5.5 Super Connected City has been added. This provides, amongst other things, a voucher scheme of small grants towards initial capital expenditure of small & medium enterprises looking to upgrade to a superfast or above broadband connection. This is a new area for Internal Audit and coverage will include giving assurance on value for money and anti-fraud measures established for the Scheme.
- 5.6 The Contract with Special Schools Audit has been removed from the Plan as this work is now being covered under the Commissioning Children's Services Audit.
- 5.7 External Bailiffs has replaced the Debt Recovery audit which was focusing on the Internal Bailiffs. The focus of this audit has changed at the request of the Head of Financial Services due to the current proposal to restructure the department.
- 5.8 One follow up audit has been added to the plan, Debt Recovery, this will only follow up on exceptions raised in the 2012/2013 audit as stated above.

Reactive Work

5.9 245 days have been allowed for reactive work and investigations in 2013/14 and 213 days have been used to 16th December 2013.

5.10 The 213 reactive days were used for:

- 20 special investigations
- 37 items of advice (of half a day or more- advice which takes less time than this is not recorded)

As well as the following unplanned reviews:

- DECC LA Fuel Poverty Grant
- Troubled Families Grant
- Energy & Climate Change Grant
- Pilots National Pension Fund verification of contributions

Exceptions

5.11 Of the programmed reviews completed so far this year the number of exceptions in each category have been:

- 15 Critical
- 124 High Risk
- 33 Medium Risk
- 7 Low Risk (improvements)

5.12 The table below is a comparison of the audit status figures, up to 16th December 2013 for this financial year and the previous two years.

	2011/2012	2012/2013	2013/14
% of the audit plan progressed	57%	63%	60%
No. of Critical exceptions	1	1	15
No. of High risk exceptions	88	62	124*
No. of reactive days	281	213	213

*65 of the high risk exceptions relate to Schools where full review programmes are being carried out in 2013/14 that were not carried out in the previous two years.

On-going Areas

5.13 The following 12 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 (included in the 245 days of reactive work)
- Financial Rules, review, waivers, training

- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Audit Commission
- Internal Data Matching of the Council's own data
- 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

- 5.14 The following 5 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
 - Business Continuity/Emergency Planning

6. Areas of Concern

Concerns identified since the last meeting

- 6.1 There are 13 new areas of concern (critical exceptions) highlighted in finalised reports to services since the previous status report to this Committee, from this year's Audit Plan.

6.2 MMD Transport Audit

- 6.2.1 Three new critical exceptions have been raised in relation to the transport activities carried out within MMD to external customers. These refer to the lack of adequate insurance verification in place for sub-contractors used. The existing exposure to the risk of fraud as reliance is placed on key individuals and the failure to safeguard assets appropriately. The details of these exceptions are included in the attached Appendix C

6.3 Secondary School

- 6.3.1 A special investigation was carried out on a Secondary School and is reported in the Investigation Report to this Committee. However, the audit found nine critical exceptions which identified systemic failings over the management and financial controls in operation. Due to the severity of those failings both the School and the Authority are in Internal Audits opinion, exposed to a critical degree of financial failure, fraud and reputational damage.

- 6.3.2 Audit have given a no assurance opinion that the School are currently using their funds either appropriately or effectively, or that they are safeguarding their assets, complying with relevant regulations and rules, or providing reliable financial and operational information in order to inform their decision making processes.

6.3.3 As a result of our finds the School have been issued with a 'Notice of Concern' in accordance with the scheme for Financing School's, section 2.17, by the Section 151 officer and Director of Children's Services. The Notice sets out the actions that the City Council requires the Governing Body of the School to implement, the expected time scales and the action the City Council will take if the Governing Body fails to comply.

6.3.4 The critical exceptions and additional nine high risk exceptions are detailed in the attached action plan, Appendix D. This Plan also contains the School's response to the issues raised as required under the Notice of Concern.

6.4 Information Governance Arrangements

6.4.1 One new critical exception was raised as a result of audit testing.

6.4.2 A security check of the building identified that despite two areas being restricted; Legal Service mezzanine floor and Children's Services access was in fact allowed to over 100 people.

6.4.3 Legal Services did not follow a clear desk policy because they believed access was restricted and as a result, they breached the Data Protection Act requirements, as steps had not been taken to secure sensitive and personal information. A follow up audit found that this had been rectified.

6.4.4 Children's Services when interviewed said they followed a clear desk policy but the Security checks during the audit found a number of areas where paperwork was being left on desks, or in unlocked drawers. The management response was to ensure that staff were reminded of their responsibilities and spot checks carried out.

6.4.5 Licensing does not have a clear desk policy and Internal Audit recorded 3 examples of documentation not secured due to moving from a secured area and not having suitable lockable cabinets. However the management response was to rectify this and remind staff of their responsibilities.

6.4.6 See attached appendix E for the extract from the main audit report for further detail.

7. No Assurance Audits

7.1 Although the following audit areas do not include any critical exceptions they are highlighted in this report as no assurance was given on the effectiveness of controls overall due to the number of high risks identified at the time of audit testing.

7.2 Hire Cars

7.2.1 A review of the Hire Car system was carried out which identified that there are currently no controls in place that allows the Authority to verify any mileage, fuel or damage costs invoiced to PCC.

7.2.2 In addition to this there are currently no requirements for a hirer to declare the business justification for hiring a car, leaving the system vulnerable to exploitation.

7.2.3 Finally, testing highlighted that there is currently no separation of duties within the invoice checking and payment process.

7.2.4 **Agreed Action**

Management agreed that a record sheet is to be introduced for pool cars requiring hirers to sign a record of the pre and post hire mileage, fuel and damage. The Internet registration process is to be updated with a field for the line manager's email address which will trigger an email to the manager to make them aware that their member of staff is hiring a car. The checking of invoices is to be moved to the Transport Admin Team and to be spot checked by management before payment is made. All actions agreed have been implemented from September 2013.

7.3 **Primary School**

7.3.1 In summary there was no evidence that the School had defined and documented the responsibilities of each person involved in the administration of its finances to avoid the duplication, or omission, of the framework of accountability for governors and staff.

7.3.2 That all appropriate assets are recorded, safeguarded and controlled and disposal of equipment is properly administered and controlled and that the use of the minibus is restricted to authorised staff with all journey details being recorded.

7.3.3 **Agreed Actions**

It was agreed that the structure and responsibilities of governors and staff will be reviewed to ensure financial management requirements are clear to all staff and governors; controls will be put in place to ensure compliance with Financial Rules in relation to the administration and control of the School's assets and the mini bus journey log sheets will be checked and evidenced on a termly basis to ensure that there are no gaps in the odometer readings and purchase of fuel is recorded. A hire agreement form will also be put in place for all external hirers.

7.4 **Youth Offending Team**

7.4.1 Staff are not fully aware of the National Standards timeframes as completion of asset assessments and contact being made is not always in compliance with these. Scoring of young people during assessments did not always clearly link to their risk of reoffending; intervention plan targets are not generally meeting SMART criteria and do not always link to the highest scoring risks and assessments and intervention targets are not always being reviewed in a timely manner.

7.4.2 **Agreed Actions**

The Youth Offending Team Manager has agreed to redistribute and discuss the National Standards. All staff are to attend bespoke assessment, planning, intervention and supervision training; to be reminded of requirements of young person's involvement in asset assessments and case file checks to be undertaken regularly.

7.5 **Safer Recruitment Children's Social Care**

7.5.1 Not all recruiting managers have done the Safer Recruitment training; interview notes and references were not on all files tested. One casual worker had been recruited without HR's knowledge and references, right to work documentation and a DBS check had to be carried out retrospectively; references were not always from appropriate sources, References are not always followed up as a matter of course to confirm that they are genuine.

7.5.2 Agreed Actions

All managers who recruit staff are to undertake the safer recruitment training; HR to be involved in the recruitment of all staff; right to work checks and DBS checks to be undertaken for all new staff. The wording on the reference request is to be modified and checked by the appropriate HR team to ensure that they have come from an appropriate source.

8. Comments on Plan 2013/14 to date

8.1 15 critical exceptions have been identified to date for this financial year. The number of high risk exceptions seems high but this figure is skewed by the number of high risks relating to the Schools Audits and is in fact slightly lower than previous years.

9. Proposed Audit Strategy 2014/15

9.1 The Chief Internal Auditor is required to produce an Annual Plan for each financial year to give a sufficient review of the Authority's functions in order to form an annual opinion on the effectiveness of the control framework. The purpose of the Strategy is to set out the strategic approach that will allow this to be managed.

9.2 The proposed Strategy is attached as Appendix B to this report. It defines:

- the service provision,
- how the functions are to be identified and risk assessed for inclusion in the Plan
- the activities that are required to be carried out regardless of risk.

10. Equality impact assessment (EIA)

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

11. City Solicitor's Comments

11.1 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.

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

12. Head of Finance & S151 Officer Comments:

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

12.2 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.

.....
Signed by: Lyn Graham, Chief Internal Auditor

Appendices:

- Appendix A - Completed audits from 2013/14 Audit Plan
- Appendix B - Audit Strategy for 2014/15 Audit Plan
- Appendix C- MMD critical exceptions & action plan
- Appendix D - School critical exceptions & action plan
- Appendix E- Information Governance Arrangements & action 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	http://www.legislation.gov.uk/uksi/2011/817/contents/made
2 Audit Strategy 2013/14	http://www.portsmouth.gov.uk/media/gas20130124r7appB.pdf
3 Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online http://www.portsmouth.gov.uk/yourcouncil/10349.html