

**Decision maker:** Governance & Audit & Standards Committee

**Subject:** Audit Performance Status Report to 10<sup>th</sup> February 2014 for Audit Plan 2013/14

**Date of decision:** 13 March 2014

**Report by:** Chief Internal Auditor

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

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## 1. Summary

- 1.1 There are no new critical exceptions highlighted in this report for 2013/14 Audit Plan. Previously reported critical exceptions are included in Appendix B for information.
- 1.2 There are 150 planned Audits for 2013/14 made up of 121 new reviews and 29 follow up audits. Of these 124 (83%) have been completed or are in progress as at 10<sup>th</sup> February 2014. This represents 81 audits (54%) where the report has been finalised, 10 audits (7%) where the report is in draft form and 33 audits (22%) currently in progress.
- 1.3 In addition to the planned audits there are 13 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.
- 1.5 223 days of reactive work have been undertaken to 10<sup>th</sup> February 2014, with 245 days set aside in the 2013/14 Audit Plan.

## 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 10<sup>th</sup> February 2014 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

## 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 24<sup>th</sup> 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 10<sup>th</sup> February 2014.

4.2 That Members note the changes in the Audit Plan.

## **5. Audit Plan Status 2013/14 to 10<sup>th</sup> February 2014**

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

5.1 83% of the annual audit plan has been completed or is in progress as at 10<sup>th</sup> February 2014, 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;

- 67 new reviews (45%) where the report is finalised, 10 (7%) in draft form and 25 (17%) currently in progress.
- 14 planned follow ups (9%) where the report is finalised and 8 (5%) 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 150 Audits in the Plan as opposed to 155 originally.

5.4 The Pyramids audit has been removed from the plan due to a change in contractor. On-going discussions with relevant Heads of Service will determine whether any future audit reviews will be required in this area.

5.5 Grant Claims including LEP grants has been amalgamated with the Local Enterprise Partnership Funding audit.

5.6 The Mandatory Training audit has been amalgamated with the PDR review.

5.7 Two School's Themed audits have been removed as testing of school transactions has been included in the Petty Cash Audit and the Fuel Purchases review.

5.8 A Secondary School has been added to the audit plan. The results of which were reported at the last Governance and Audit and Standards committee.

5.9 The Oracle review has been moved to 'on-going areas' as advice and support has been given on the proposed changes to the new upgrade.

### **Reactive Work**

5.10 245 days have been allowed for reactive work and investigations in 2013/14 and 223 days have been used to 10<sup>th</sup> February 2014.

5.11 The 223 reactive days were used for:

- 20 special investigations
- 44 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**

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

- 15 Critical
- 159 High Risk
- 43 Medium Risk
- 7 Low Risk (improvements)

5.13 The table below is a comparison of the audit status figures, up to 10<sup>th</sup> February 2014 for this financial year and the previous two years.

	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/14</b>
<b>% of the audit plan progressed</b>	71%	91%	83%
<b>No. of Critical exceptions</b>	3	1	15
<b>No. of High risk exceptions</b>	125	93	159*
<b>No. of reactive days</b>	305	234	223

\*70 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**

5.14 The following 13 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
- Oracle R12 support and advice throughout the planned upgrade.

### **Continuous Audit Areas**

- 5.15 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**

- 6.1 There are no new areas of concern from the date of the last meeting.

### **7. No Assurance Audits**

7. 1 There are no new no assurance audits from the date of the last meeting.

### **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. The critical exceptions having been previously reported to this Committee are summarised on Appendix B.
- 8.2 Following on from an analysis of findings relating to non-compliance with Financial Rules, the s151 Officer issued a statement reminding staff of their obligations which was distributed by Corporate Communications on the 13<sup>th</sup> December 2013. The content of the communication to staff is detailed on Appendix C.

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

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

### **10. City Solicitor's Comments**

- 10.1 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.
- 10.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

**11. Head of Finance & S151 Officer Comments:**

- 11.1 There are no financial implications arising from the recommendations set out in this report.
- 11.2 As stated, a significant number (70) of the high risk exceptions relate to schools. Whilst the primary responsibility for the effective financial management and operation of internal controls rests with the school Governing Body, the S151 Officer has an overriding responsibility for the safeguarding and financial stewardship of all public funds administered by the City Council. Should the S151 Officer not be satisfied that effective financial management is taking place, he has the power to withdraw delegation of the schools budget and control and administer it centrally.
- 11.3 A significant proportion of the high risk exceptions revolve around the themes of:
  - Use of Ebay
  - Failure to obtain VAT receipts
  - Proper inventory records
  - Security of cash
  - Failure to raise purchase orders
  - Handling of income

In December 2013, the Head of Finance & S151 Officer circulated a communication to all staff reminding them of their responsibilities in these regard and the importance of them in protecting the Council's financial interests and ensuring proper accountability.

- 11.4 Overall, 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: Lyn Graham, Chief Internal Auditor

**Appendices:**

- Appendix A - Completed audits from 2013/14 Audit Plan
- Appendix B - Previously reported critical exceptions identified during 2013/14
- Appendix C- Corporate Communications re Financial Rules reminder from s151 Officer

**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/uksi/2011/817/contents/made">http://www.legislation.gov.uk/uksi/2011/817/contents/made</a>
2 Audit Strategy 2013/14	<a href="http://www.portsmouth.gov.uk/media/gas20130124r7appB.pdf">http://www.portsmouth.gov.uk/media/gas20130124r7appB.pdf</a>

3	Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online <a href="http://www.portsmouth.gov.uk/yourcouncil/10349.html">http://www.portsmouth.gov.uk/yourcouncil/10349.html</a>
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