

<b>Decision maker:</b>	Governance & Audit & Standards Committee
<b>Subject:</b>	Audit Performance Status Report to 26 <sup>th</sup> August 2014 for Audit Plan 2014/15
<b>Date of decision:</b>	26 September 2014
<b>Report by:</b>	Chief Internal Auditor
<b>Wards affected</b>	All
<b>Key decision (over £250k)</b>	No

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## 1. Summary

- 1.1 There is 1 new critical exception highlighted in this report for 2014/15 Audit Plan and 2 from the 2013/14 Audit Plan. Of those two one is an outstanding Critical risk from a 2012/13 audit and Internal Audit will report on the progress of implementing the agreed actions at a later date.
- 1.2 The Annual Audit Plan has been revised to take into account a reduction in Audit resource and changes in priorities and risk. Previously within the 2014/15 plan there were 182 planned Audits, made up of 137 new reviews and 45 follow up audits. There are now 166 planned Audits for 2014/15 made up of 120 new reviews and 46 follow up audits. This has seen a slight overall reduction in coverage of the Audit Universe from 25% to 22%.
- 1.3 Of the 166 Audits, 77 (47%) have been completed or are in progress as at 26<sup>th</sup> August 2014. This represents 23 audits (14%) where the report has been finalised, 11 audits (7%) where the report is in draft form and 43 audits (26%) currently in progress. This is a slightly higher completion of the Audit Plan in comparison to the same period for the last two years.
- 1.4 In addition to the planned audits there are 12 areas of on-going work and 3 of continuous audits which contribute to risk assurance.
- 1.5 Areas of Assurance are shown in Appendix A.
- 1.6 86 days of reactive work have been undertaken to 26<sup>th</sup> August 2014, with 200 days (revised down from 245) set aside in the 2014/15 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 2014/15 to 26<sup>th</sup> August 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 2014/15 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 30 January 2014 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 2014/15 to 26<sup>th</sup> August 2014.
- 4.2 That Members note the highlighted areas of control weakness for the 2014/15 Audit Plan.

### **5. Audit Plan Status 2014/15 to 26<sup>th</sup> August 2013**

#### **Revision of Annual Audit Plan**

- 5.1 Since the last meeting one Principal Auditor has resigned from post and due to budgetary pressures will not be replaced. A 2<sup>nd</sup> Principal Auditor is shortly due to go onto maternity leave, this position will be covered by a Trainee Accountant seconded from Financial Services as part of their training. As a result of this and due to changes in priorities and risks the following audits have been removed from the 2014/15 Audit Plan;
- 5.1.1 Children with Disabilities - This audit was included as the Service was due to move reporting location, this has since been delayed and as a result the audit will be deferred until 2015/16.
- 5.1.2 Coroners Inquests - This service is due to transfer under PCC in the late autumn/ winter 2014. The audit will therefore be deferred until 2015/16 when the full impact of activities and responsibilities will be clearer.
- 5.1.3 Selling of Advertising - The post holder duties have transferred to a new officer and therefore this audit will be replaced with a follow-up of the 2012/13 Audit.
- 5.1.4 Pupil Referral Units - Elements of the scope of this audit has synergies with the School Sufficiency Project audit. The Harbour School budget issues are being managed by Finance which should provide the necessary assurance
- 5.1.5 Due to the reduction in resources the annual risk rating scores have been reviewed with the agreement of the s151 Officer. The reviews listed below were at the lowest end of the high risk score and following the scoring review have been amended to medium risk and have therefore been removed from the Plan.
- Business Advice & Intervention
  - Air Quality
  - Attendance Monitoring
  - Working Anywhere
  - Fire Safety

- Local Welfare Assistance
- Parking Strategy
- Seafront Events
- Accommodation & Enabling
- Animal Health
- Business Continuity
- Contract Management
- Portsmouth Children's Trust
- Access Controls
- Use & Management of Assets (the Port)
- The Hard Interchange
- Performance Management

5.1.6 Due to changes in priorities/ risks the following audits/ follow-up reviews have been added to the 2014/15 plan:

- Devonshire Infant & Nursery (audit) - New school purchased SLA
- Public Health Grant (audit) - grant claim verification
- Superconnected City Grant (audit) - grant claim verification
- Debt Recovery (follow-up) - Requested by Head of Service
- Selling of Advertising (follow-up) - Replacing full audit

5.1.7 Due to the resource reduction the number of days allocated to reactive work including investigations has been reduced from 245 to 200.

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

5.2 47% of the revised Annual Audit Plan has been completed, or is in progress as at 26<sup>th</sup> August 2014, more than the equivalent period last year. Appendix A shows the completed new audits for 2014/15. Appendix B shows the completed follow up audits for 2014/15. This percentage is made up as follows;

- 12 new reviews (7%) where the report is finalised, 10 (6%) in draft form and 39 (24%) currently in progress.
- 11 planned follow ups (7%) where the report is finalised, 1 (1%) in draft form and 4 (2%) currently in progress. A total of 29 exceptions have been followed up within the 11 finalised reports, of these 16 (55%) have been closed leaving 13 (45%) where the risk had not yet been sufficiently mitigated.

5.3 As requested by Members of the Committee a breakdown of the assurance levels on completed audits 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) on the Appendix.

5.4 A record of completed follow up audits can be found in Appendix B. This Appendix also breaks down the number of exceptions followed up for each audit and is separated by risk level. An explanation has been provided where agreed actions on high risk exceptions have not yet been completed.

## **Reactive Work**

5.5 200 days have been allowed for reactive work and investigations in 2014/15 and 90 days have been used to 30<sup>th</sup> August 2014.

5.6 The 90 reactive days were used for:

- 10 special investigations
- 9 items of advice

As well as the following unplanned reviews:

- Pilots National Pension Fund verification of contributions
- Adoption Reform Grant
- Parking Office

## **Exceptions**

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

- 1 Critical
- 17 High Risk
- 11 Medium Risk
- 3 Low Risk (improvements)

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

	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/15</b>
<b>% of the audit plan progressed</b>	32%	32%	47%
<b>No. of Critical exceptions</b>	3	2	1
<b>No. of High risk exceptions</b>	16	58*	17
<b>No. of reactive days</b>	162	128	90

\*32 of the high risk exceptions related to Schools where full review programmes were carried out in 2013/14 that were not carried out in the previous two years.

## **On-going Areas**

5.9 The following 12 areas are on-going areas of audit work;

- Regulation of Investigatory Powers Act (RIPA)- authorisations and training
- Anti-Money Laundering review of Policy and training
- Investigations (included in the 200 days of reactive work)
- 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
- Compliance with Financial Rules monitoring

### **Continuous Audit Areas**

5.10 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**

### **Concerns identified since the last meeting**

6.1 There is one new area of concern (critical exception) highlighted in finalised reports to services since the previous status report to this Committee from this year's Audit Plan. There are also two from the 2013/14 Audit Plan. Actions have been agreed for all three raised exceptions.

#### **6.2 Planning & Building Control (2013/14 Audit)**

6.2.1 The Planning & Building Control audit raised one critical exception relating to work undertaken by the Building Control Surveyor is not checked. This could result in financial loss to the Authority if discounts are being awarded fraudulently or incorrectly. It could also lead to accusations of favoritism towards certain clients. This exception was originally raised during the 2012/13 audit of this area.

6.2.2 The agreed action from the 2012/13 exception was that whilst the department was restructured and a new Building Control Manager appointed calculation sheets would be spot checked by the then Assistant Head of Planning Services. Follow up testing in July 2014 confirmed this had not been completed and it was further agreed that the charge sheet would be reviewed by the now City Development Manager by the 1<sup>st</sup> August 2014.

#### **6.3 Additional Follow-up**

6.3.1 A second follow up of the critical risk exception and three high risk exceptions that remained open has been undertaken. Testing evidence that actions agreed had still not been implemented. In relation to the critical risk, a random sample of building control files were selected to ensure that the fee was accurate and spot checks had been undertaken. Testing was unable to evidence for 10% (3/30 of the files selected) how the fees were calculated, there was no evidence of spot checking on any of the files reviewed.

#### **6.4 Legionella Management (2013/14 Audit)**

6.4.1 The Legionella Management audit highlighted one critical risk exception. During the 2012/13 audit of this area 5 fountains were subject to a risk assessment which highlighted that they were in need of remedial action. Testing identified that no remedial work had been undertaken on 4 of the 5 fountains.

#### **6.5 Agreed Actions**

6.5.1 Jon Crawford (Water Quality Engineer) has confirmed the following:

6.5.2 Southsea Castle, Rock Gardens & Victoria Park Fountains: The recommended remedial work has been completed and all three fountains are now operational

6.5.3 Baffins Pond Fountain: This fountain has been turned off permanently

6.5.4 Legionella sampling will be undertaken on the three fountains noted above. A contractor has been selected and regular sampling of the fountains has commenced.

#### **6.6 Private Foster Carers (2014/15)**

6.6.1 The Private Foster Carers audit highlighted one critical risk exception. Testing identified that 2 of 7 private fostering arrangements sampled had no evidence of a Disclosure & Barring Service (DBS) check being requested. Due to a change in the process the Authority no longer receive a copy of the certificate and are reliant on the private foster carer providing a copy of the return. If the Authority cannot verify the content of the DBS check, children could be put into the care of someone unsuitable for the role.

#### **6.7 Agreed Action**

6.7.1 Admin staff are to be made aware that when a DBS check is requested the reference number is to be recorded on the relevant database file of the private foster carer with immediate effect. This is due to be followed up in October 2014.

#### **6.8 Update on Secondary School reported January 2014**

6.8.1 In July 2013 Internal Audit carried out an investigation into alleged financial irregularities at a Secondary School and as a result of the overall findings the School were issued with a 'Notice of Concern' under the scheme for Financing Schools Section 2.15 jointly by the Section 151 Officer and Director of Children's Services.

6.8.2 The Notice of Concern set out specific actions required by the City Council to be implemented by the Governing Body and the School's senior management team to address concerns raised. A second visit has been carried out by Internal Audit the purpose of which was to ascertain the progress made in relation to those actions and to perform a full audit on the remaining financial activities that were not covered during the initial investigation.

6.8.3 It was identified during this second visit that the majority of actions agreed in the school's action plan were evidenced as having been resolved by resignation, retirement,

or implementation; for example significant progress has been made to resolve the concerns relating to safeguarding of assets, including physical verification and disposal authorisation and obtaining value for money for purchases of IT equipment and general supplies.

- 6.8.4 Following on from this the full audit, has identified 14 additional high risk exceptions and 1 medium risk exception and the lack of financial management and oversight remains a major cause for concern. Many of the new audit findings which will be reported in detail at the next committee meeting indicate that there is a lack of financial competence across the School and Governing Body. The report is currently being finalised and will be issued shortly.

## **7. Comments on Plan 2014/15 to date**

- 7.1 The revised plan is on target to be achieved by 31<sup>st</sup> March 2015. Only 1 critical exception has been identified to date for this financial year and the number of high risk exceptions found has decreased compared to previous years.

## **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 consideration**

- 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. Head of Finance & S151 Officer 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.
- 10.3 The S151 Officer is content with the aforementioned reduction in coverage of the audit universe to 22% and remains satisfied that the revised plan contains adequate and effective audit coverage.

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Signed by: Lyn Graham, Chief Internal Auditor

## **Appendices:**

Appendix A – Completed audits from 2014/15 Audit Plan  
 Appendix B - Completed follow up audits from 2014/15 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/uksi/2011/817/contents/made">http://www.legislation.gov.uk/uksi/2011/817/contents/made</a>
2 Audit Strategy 2014/15	<a href="http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2375&amp;Ver=4">http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&amp;MId=2375&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>