

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

**Date of meeting:** 13<sup>th</sup> March 2015

**Subject:** Audit Performance Status Report to 6<sup>th</sup> February 2015

**Report by:** Chief Internal Auditor

**Wards affected:** All

**Key decision:** No

**Full Council decision:** No

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## **1. Summary**

- 1.1 Two new critical risk exceptions have been highlighted in this report. A further three audits have resulted in "No Assurance" being given (One of these audits PAT Testing was reported on at the January meeting). Further details can be found under Section 6 of this report
- 1.2 There are now 159 planned audits for 2014/15 made up of 108 new reviews and 51 follow up audits. Of these 125 (79%) have been completed or are in progress as at 6<sup>th</sup> February 2015. This represents 84 audits (53%) where the report has been finalised, 5 audits (3%) where the report is in draft and 36 audits (23%) currently in progress.
- 1.3 In addition to the planned audits there are 12 areas of on-going work and 4 continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance are shown in Appendix A.
- 1.5 194.5 Days of reactive work have been undertaken to 6<sup>th</sup> February 2015, with 200 days set aside within 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 6<sup>th</sup> February 2015 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 2014/15 to 6<sup>th</sup> February 2015

3.2 That Members note the highlighted areas of control weakness for the 2014/15 Audit Plan

#### **4. Background**

4.1 The Annual Audit Plan for 2014/15 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 30th January 2014 following consultation with Heads of Services, Strategic Directors and the Chair of this Committee.

#### **5. Audit Plan Status 2014/15 to 6<sup>th</sup> February 2015**

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

5.1 79% of the annual audit plan has been completed or is in progress as at 6<sup>th</sup> February 2015. Appendix A shows the completed audits for 2014/15. Appendix B shows the completed follow up audits for 2014/15

The overall percentage figure is made up as follows:

- 55 new reviews (35%) where the report has been issued, 4 in draft form (3%) and 33 (20%) where work is in progress
- 29 planned follow ups (18%) where the report has been issued, 1 in draft form (1%) and 3 (2%) where work is 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. 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 2014/15 Audit Plan**

5.3 Six full audits have been removed and five follow up audits added since the last meeting of the Committee.

5.3.1 Integrated Commissioning Unit - Pre birth to 5 care pathway review - The strategy for this has yet to be agreed by the Joint Health & Well-being Board and as such cannot be tested at this time

5.3.2 Integrated Commissioning Unit - Contracts taken over from the PCT - the contracts transferred across were extended. More value will be obtained from reviewing these contracts in 2015/16 as more will have been re-tendered

5.3.3 Adult Social Care - New Models of Care - The focus of this audit was to be the construction of a new home for dementia patients. At this time the project has yet to go out to tender and as such the audit has been deferred until 2015/16.

- 5.3.4 Children's Social Care- Placement Panel - deferred after discussions with Head of Service. Placement panels will be included as part of a wider audit of Out of City Placements in 2015/16.
- 5.3.5 External - MMD - originally included within the Audit Plan were 4 unnamed full audits at MMD. Discussions with the MMD board have resulted in this being amended to 2 full audits (Distribution & Invoicing for Terminal Services) and 5 follow up audits (Accounts Payable, Accounts Receivable, Payroll, Transport all of which have open critical exceptions after an initial follow up and Customs Agency, which was carried out in 2013/14).

### **Reactive Work**

- 5.4 200 days have been allowed for reactive work and investigations in 2014/15 and 194.5 have been used to 6th February 2015.
- 5.5 The 194.5 reactive days were used for:
- 25 special investigations
  - 23 items of advice
- As well as the following unplanned reviews
- Adoption Reform Grant
  - Pilots National Pension Fund verification of contributions
  - Personal Travel Budgets
  - Parking Cash Office

### **Exceptions**

- 5.6 Of the full audits completed so far this year the number of exceptions within each category have been:
- 8 Critical Risk
  - 107 High Risk
  - 31 Medium Risk
  - 8 Low Risk (Improvements)
- 5.7 The table below is a comparison of the audit status figures for February for this financial year and the previous two years

	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
<b>% of the audit plan progressed</b>	91%	83%	79%
<b>No. of Critical exceptions</b>	1	15	8
<b>No. of High risk exceptions</b>	93	159	107
<b>No. of reactive days</b>	234	223	194.5

### **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 (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

### **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 Finance - Purchasing Cards**

- 6.1.1 A critical risk exception was raised after testing undertaken on 25 purchase card logs containing 179 transactions identified breaches of Financial Rules in the following areas:
- 7 transactions where an adequate VAT receipts were not provided
  - 2 transactions which did not have a genuine business need
  - 1 transaction where the collection of loyalty card points had occurred
- 6.1.2 Agreed Actions:
- Guidance relating to VAT and general purchase card "Dos and Don'ts" to be recirculated to all purchase card holders.
  - A targeted communication will be sent to line managers identifying key weaknesses to look out for when signing off transaction logs.

- Education and Children's Social Care managers to receive reminder training on inappropriate expenditure
- Purchase Card Policy to be reviewed in line with the implementation of a purchase card system which is expected during 2015/16

6.1.3 This will be followed up by Internal Audit in the first quarter of 2015/16.

## 6.2 **Finance - Concessionary Travel Passes**

6.2.1 A critical risk exception was raised regarding the storage and accounting for car parking scratch cards. Scratch cards were found to be stored securely and numbered however no records are kept with regard to the opening stock, number issued and the closing stock. This leaves the stock open to a risk of being misappropriated. At the time of audit testing the value of the stock was £121,680.

6.2.2 The following agreed actions have already been completed:

- All scratch cards to be counted. This action has been completed, there were at the time of the count 1014 books
- Dispose of 764 books via confidential waste and complete the required disposal form, which leaves enough stock until approximately March 2018.
- Remaining 250 books indelibly marked and entered into a control recording book.

6.2.3 The following agreed actions will form part of the new controls:

- When scratch cards are sold they will be marked against the relevant book within the control book, any issuing of cards is to be signed off by two members of staff
- The control book is reconciled on a monthly basis and any discrepancies investigated fully.

6.2.4 This will be followed up by Internal Audit in the first quarter of 2015/16

## 6.3 **Housing & Property Services - Homecheck Telecare**

6.3.1 The audit of Homecheck Telecare resulted in 5 high risk exceptions being raised and no assurance being given.

6.3.2 Four high risk exceptions related to breaches of PCC Financial Rules in the following areas:

- Cash Handling Instructions being unsigned and not being followed with respect to countersigning receipts when cash is transferred
- Compilation of paying in sheets and the frequency at which money is paid into cashiers
- The key to a lockable safety deposit box was held in a cupboard accessible by non Telecare staff
- Lack of formal process for stock control and inventory management

- 6.3.3 Agreed Actions: The following agreed actions have been implemented as a result of the exceptions detailed above:
- All relevant staff have signed the Cash Handling Instructions and have been instructed to ensure all receipts acknowledging the transfer of cash are now countersigned
  - Job numbers are now included within paying in sheets. All cash now paid in on at least a weekly basis
  - The key to the safety deposit box has been moved to a secure location
  - A process for monitoring inventory was implemented during the audit which involves staff having to sign in and out stock. A sample of 10 items were tested with no issues recorded
- 6.3.4 The final exception was raised as testing found that only 1 of the 5 Telecare staff had undertaken the necessary Manual Handling Course on the Managed Learning Environment. Failure to provide adequate training may leave the Authority open to the risk of litigation should an accident occur.
- 6.3.5 Agreed Actions: The four staff identified within the testing are to complete the training by March 2015.
- 6.3.6 To be followed up as part of the 2015/16 Audit Plan
- 6.4 **External - Wimborne Infant School**
- 6.4.1 The full school audit of Wimborne Infant School resulted in 12 high risk exceptions being raised, as such Internal Audit were unable to give any assurance as to the effectiveness of the financial management controls at the school.
- 6.4.2 The high risk exceptions related to non-compliance with the following PCC policies or SFVS requirements which has resulted in an audit opinion that the Governor's self-assessment of the financial management of the School is not in line with our findings as per the Schools Financial Value Standard (SFVS):
- SFVS (No clear framework of the relative responsibilities of the Head teacher, Finance Officer and Governors to ensure that effective financial management standards are in place and operating)
  - Financial Rules (no income trail from receipt to banking, poor inventory management, poor petty cash administration, cash handling instructions not signed by Finance Officer, no evidence staff are aware of the Whistleblowing Policy and no current IT Acceptable Use Policy)
  - HR Policy (no evidence of references being sought for some employees, retention of DBS documentation and incomplete Single Central Record)
  - H&S Policy (incomplete Business Continuity Plan)
  - PCC Scheme for Financing Schools (PTA Account - No audited statement of account)
- 6.4.3 Actions have been agreed and will be followed up as part of the 2015/16 Audit Plan.

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

7.1 The revised plan is on target to be achieved by 31<sup>st</sup> March 2015. A total of 10 critical exceptions have been reported to date for this financial year (2 from the 2013/14 Plan and 8 from the 2014/15 Plan) 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 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: 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?Committeed=148">http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeed=148</a>

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

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 Signed by: