

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

**Date of meeting:** 26<sup>th</sup> June 2015

**Subject:** Annual Internal Audit Report for the 2014/15 Financial Year

**Report by:** Chief Internal Auditor

**Wards affected:** All

**Key decision:** No

**Full Council decision:** No

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## **1. Summary**

- 1.1 In 2014/15 Internal Audit raised 11 Critical Risk exceptions, 6 of these have previously been reported to the Committee and 4 are detailed within this report. The final exception is currently at the draft report stage and is awaiting a response from the client. A further 8 audits have been given no assurance since the last meeting and are detailed in Section 6.
- 1.2 The final audit plan contained 102 full audits and 48 follow up audits. 100% of the revised 2014/15 Audit Plan has been completed with one outstanding report which is still work in progress.
- 1.3 In addition to the planned audits there are 11 areas of on-going work and 4 continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance are shown in Appendix A.
- 1.5 248 Days of reactive work was undertaken during 2014/15, with 200 days set aside within the 2014/15 Audit Plan

## **2. Purpose of report**

- 2.1 This report is to give the Annual Audit Opinion on the effectiveness of the control framework, based on the Internal Audit findings for 2014/15 and highlight areas of concern.
- 2.2 To advise Members of the Audit Plan for 2015/16.

## **3. Recommendations**

- 3.1 That Members note the Audit Performance for 2014/15

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

3.3 Members note the Annual Audit Opinion on the effectiveness of the system of internal control for 2014/15

3.4 Members endorse the Audit Plan for 2015/16

#### **4. Background**

4.1 The Annual Audit Plan for 2015/16 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 30th January 2015 following consultation with (at the time) Heads of Services, Strategic Directors and the Chair of this Committee. The Plan will be revised in October/ November this year to take account of any changes in risks/ priorities, in accordance with the Strategy.

#### **5. Audit Plan Status 2014/15**

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

5.1 100% of the annual audit plan has been completed or is in progress as at 1<sup>st</sup> June 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:

- 90 (60%) new reviews where the report has been issued and 12 (8%) in draft form.
- 40 (26%) planned follow ups where the report has been issued, 7 (5%) in draft form and 1 (1%) 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 The final 2014/15 Audit Plan contained 102 full audits and 48 follow ups. Audits removed since the last meeting are detailed below.

5.3.1 Adult Social Care - Care Home Placements - this audit was amalgamated with the ICU Care Home Place audit as the areas overlapped.

5.3.2 Finance - Cashiers - This area was covered in part by the 14/15 Cash Collection audit and will be included within a 2015/16 audit of the Portsmouth Income Management System (PIMS)

- 5.3.3 Finance - Local Enterprise Partnership Grant - This audit was removed as the grant does not require Internal Audit sign off.
- 5.3.4 Housing & Property - Emergency Procedures - This audit was covered by the audit of Risk Assessments for Outlying Buildings
- 5.3.5 Finance - Public Health Grant - This audit has been deferred and the work conducted as part of the 2015/16 audit of this area. Due to the Finance department's end of year priorities it was agreed that the audits of the 13/14 and 14/15 Grant would be conducted together in June 2015.
- 5.3.6 Corporate Assets and Business Standards - Asset Register & Valuations - The audit of this area has been deferred until 2016/17 due to the changeover to new software (Concerto).
- 5.3.7 HR, Legal & Procurement - Insurance Follow Up - The follow up of this area has been removed from the 14/15 plan. The areas of concern will be followed up in a 2016/17 audit of the Asset Register and Valuations
- 5.3.8 Culture and City Development - Community Infrastructure Levy - The 13/14 audit of this area did not have any exceptions; therefore there was no requirement for a follow up.

### **Reactive Work**

- 5.4 200 days have been allowed for reactive work and investigations in 2014/15 and 248 were used.
- 5.5 The 248 reactive days were used for:
- 30 special investigations
  - 35 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 2014/15 full audits either completed or at the draft report stage the number of exceptions within each category have been:
- 11 Critical Risk
  - 186 High Risk
  - 46 Medium Risk
  - 10 Low Risk (Improvements)
- 5.7 The table below is a comparison of the audit status figures for this financial year and the previous two years

	2012/13	2013/14	2014/15
<b>% of the audit plan completed</b>	100%	99%	100%
<b>No. of Audits Completed for the year</b>	125	143	150
<b>No. of Critical exceptions*</b>	8	18 (9)	11 (0)**
<b>No. of High risk exceptions</b>	184	215 (86)	186 (95)**
<b>No. of reactive days</b>	252	257	248

\* For 2013/14 and 2014/15 the number of exceptions relating to those raised in Schools have been placed in brackets alongside the overall total.

\*\*Please note that the figures within the table for 2014/15 include exceptions raised in audits currently at the Draft Report stage to provide an accurate comparison to previous years. The additional Critical Risk noted relates to the Legionella Audit. Internal Audit is currently awaiting a response from the parties involved and full details will be reported at the next meeting.

### **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
  - Anti-Money Laundering monitoring and reporting
  - 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 - Accounts Payable**

6.1.1 Two high risk exceptions were raised in relation to non-compliance with Financial Rules resulting in the audit being given "No Assurance":

- Rule R9 - Purchase orders should be raised before expenditure is incurred. A sample of 25 purchase orders were tested and 52% were raised after an invoice had been received. This means that expenditure is being committed before the proper authorisation is in place. This could lead to budgets becoming over committed as the budget holder will not have been made aware the expenditure has been incurred. It could also result in expenditure being committed in areas which would not have gained budget holder approval or fulfil a genuine business need.
- Rule R15 - Payment of invoices. A 3month period (October-December 2014) was tested and from 18,039 invoices 48% were found to have been paid early or late and therefore non-compliant with Financial Rules. Early payment of invoices is an inefficient use of the Authority's cash flow and could affect the Authority's ability to meet other financial commitments. Late payments could adversely affect the Authority's relationship with its suppliers who could withdraw their offer of credit or their goods/services completely, may incur financial penalties and impact on the Authority's reputation if small local suppliers are paid late.

6.1.2 Agreed Actions:

- Purchase Orders - Testing results are to be reviewed to identify reasons for non-compliance. A communication from the s.151 Officer is to be sent to staff on the Intranet reminding them to raise a purchase order before incurring expenditure
- The Accounts Payable team will investigate the testing results to determine the reason for early payments. Further actions to be discussed dependent on the results

6.1.3 Accounts Payable is a fundamental systems audit and as such will be followed up by Internal Audit as part of the 2015/16 Audit Plan.

#### 6.2 **Finance - Accounts Receivable**

6.2.1 During both the 12/13 & 13/14 Audits of this area, a critical risk exception was raised as testing identified there were insufficient controls over the authorisation of credit notes. 5,861 credit notes were produced from 1st April 2014 - 9th March 2015 equating to £8.15m. Follow up testing has confirmed that the agreed action of "*Monthly reports are to be produced by the Accounts Receivable team and emailed to nominated finance officers who will be responsible for monitoring and verifying the validity of the credit notes raised in*

*their area of responsibility.*" has not been implemented therefore the risk of fraud or loss remains.

- 6.2.2     **Agreed Actions:**  
The Accounts Receivable team will conduct periodic analysis of the credit notes report to identify any areas of concern. In addition monthly credit note reports are to be sent to Finance Managers to review
- 6.2.3     Accounts Receivable is a fundamental systems audit and as such will be followed up by Internal Audit as part of the 2015/16 Audit Plan. A follow up of the critical risk exception will be carried out in Q2
- 6.3       **Finance - Debt Recovery**
- 6.3.1     The audit of Debt Recovery was given no assurance as the auditor was unable to undertake any testing regarding the effectiveness of the quality checking and performance management framework
- 6.3.2     Due to a change in team management quality checking processes are still in their infancy and therefore it was not possible to produce the data required to test against the processes. The current reporting from the W2 document management system does not provide enough detail to be used as a management tool.
- 6.3.3     **Agreed Action:**  
To continue develop a functional quality checking and performance monitoring framework
- 6.3.4     To be followed up as part of the 2015/16 Audit Plan
- 6.4       **HR Legal & Procurement - Declaration of Interests**
- 6.4.1     Two high risk exceptions were raised as part of the Declaration of Interest Audit resulting in the audit being given "No Assurance"
- 6.4.2     The first exception was raised as testing identified that of 140 staff in band 13 and above 36 (26%) staff did not have a copy of their Declaration of Interest within their electronic EBS HR record. Of those 36, 25 had no evidence of a signed declaration. The remaining 11 had signed a declaration and it was sourced from their manager.
- 6.4.3     **Agreed Actions:**  
All employees are to complete a declaration within 28 days of starting at the Authority; this will then be updated annually. Moving forward employees will also not be able to pass probation without a signed declaration. Finally the Deputy Chief Executive will make enquiries to determine if signed declarations can be incorporated into the HR Self Serve module of EBS.

- 6.4.4 The second exception was raised as the current Code of Conduct document was found to be unclear in relation to the process for retention of the signed documents, does not adequately define when declarations should be reviewed and was not easily located by staff on the Intranet.
- 6.4.5 **Agreed Action**  
The Deputy Chief Executive is to review and update the Code of Conduct before uploading it to Policy Hub.
- 6.4.6 To be followed up as part of the 2015/16 Audit Plan
- 6.5. **HR, Legal & Procurement - Corporate Project Management**
- 6.5.1 Three high risk exceptions were raised as a result of this audit. The first exception was raised as minutes of project board meetings did not contain the expected level of challenge on the progress of a project. Secondly due to the management restructure 48% of the 33 major projects of the time no longer had a Project Director assigned to them. Finally the Corporate Project Board structure and purpose is under review. If this were to be removed there would be a lack of independent oversight and review of projects
- 6.5.2 **Agreed Action:**  
Jon Bell (Director of HR, Legal & Procurement) to take the highlighted risks to the next meeting of the Corporate Governance Group for discussion and further agreed actions.
- 6.5.3 A decision on whether this area will be followed up will be dependent on the outcome of the next Corporate Governance Group meeting.
- 6.6 **Housing & Property Services - Safer Recruitment**
- 6.6.1 A critical risk exception was raised with regard to the storage of Disclosure & Barring Service (DBS) checks on a central HR database. Of a sample of 82 who would have required a DBS check 4 (5%) could not be found within the database. Further discussions identified that in 2014 of the 408 DBS requests sent out only 211 (52%) had been received back by the recruitment team.
- 6.6.2 **Agreed Actions:**
- In the short term recruitment managers and assistants to be reminded to follow up with managers and candidates currently undergoing a recruitment exercise to ensure DBS details are captured within the central record
- In the medium term individuals without a record within the central record are to be contacted to obtain their DBS number and expiry date. HR plan to implement a new HR Tracker Data Base which will automatically alert managers when a DBS response has not been achieved. Finally the Intranet will be updated to remind managers to contact recruitment once DBS certificates have been sighted

In the long term HR are to consider the implementation of the e-bulk service which would allow customers to submit and receive back multiple applications electronically.

6.6.3 To be followed up in Quarter 1 2015/16

## 6.7 **Information Service - Data Archiving Modern Records**

6.7.1 Three high risk exceptions were raised as a result of this audit resulting in "No assurance" being given. The first exception was raised as no assurance could be placed on the accuracy of the guidance within the Corporate Retention Schedule. A second exception was raised as testing sampled 338 files held within Modern Records, 92 (27%) were found to be over 6 months past their disposal or review date. The third exception was raised as 3 of the 35 main folders within the W:/ were searched for files last modified between 1990 and 2005. A number of files were identified as being past their retention times. All three exceptions could result in the Authority being in breach of the retention times stipulated by legislation as well as the Data Protection Act. This could result in financial penalties and reputational damage.

6.7.2 Agreed Action:

A review and update of the Corporate Retention schedule will form part of the Information Management project plan which is being lead by Jo Duckenfield (Business Manager). This action was agreed for all three exceptions noted above.

6.7.3 To be followed up by Internal Audit in September 2015.

## 6.8 **Transport & Environment - Home to School Transport**

6.8.1 Two critical risk exceptions were raised as a result of this review. They related to a lack of checking to confirm that operators had the correct insurances specified within the contract and that the drivers supplied by the operators had a valid DBS certificate.

6.8.2 Agreed Actions:

Operators have been contacted and asked to provide the relevant insurance certificates and DBS certificates for their drivers. Moving forward annual and random spot checks will be undertaken in both areas.

6.8.3 To be followed up as part of the 2015/16 Audit Plan.

## 6.9 **Corporate Assets & Business Standards - Management of Markets**

6.9.1 Four high risk exceptions were raised during this audit resulting in "No Assurance" being given.



- 6.9.2 The first high risk exception was raised as testing found that there was no documented strategy for the management of markets within the service's business plan.
- 6.9.3 Agreed Action:  
A documented strategy for the management of markets is to be produced by the City Centre Manager
- 6.9.4 The second high risk exception was raised as testing found there was no effective controls in place to check stall holders electrical appliances and required safety equipment
- 6.9.5 Agreed Action:  
A checklist is to be produced so that Market Inspectors can undertake these safety spot checks
- 6.9.6 The third high risk exception was raised as the records available did not allow the Auditor to determine which traders occupied which pitch and as such what fees they should be charged.
- 6.9.7 Agreed Action:  
A review of the market fees is to be undertaken as well as a control sheet being produced to detail who has which pitch and what the fees should be.
- 6.9.8 The final exception was raised as testing found that there is currently no monitoring in place on the performance of the Market Inspectors
- 6.9.9 Agreed Action:  
The duties of the Market Inspectors are being reviewed; changes will be implemented by September 2015 along with the removal of any cash handling responsibilities as alternative methods of payment are agreed.
- 6.10. **External - Highbury Primary**
- 6.10.1 The full school audit of Highbury Primary School resulted in 12 high risk and two medium 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.
- 6.10.2 The high risk exceptions related to non-compliance with PCC Financial Rules, Policies, the Scheme for Financing Schools 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):
- **Financial Rules** - High Risk (the minutes do not reflect which budgetary reports were presented at the meetings or details of the current spend, keys to the safe were not taken off site outside of business hours, , Hire of the premises was not invoiced in accordance with the Lettings Policy,

poor inventory management, poor petty cash administration, cash handling instructions were not signed by the Finance Officer, Receipts had not been issued for all income exceeding £15.00, unaccounted mileage within the mini bus journey log sheets, no CCTV Policy).

- **HR Policy** - High Risk (retention of DBS documentation)
- **Scheme for Financing Schools** - High Risk (no agreed delegated spending limit for the Head teacher and no evidence of an Audited Statement of Account for the PTA fund).

6.10.3 Actions have been agreed and will be followed up as part of the 2015/16 Audit Plan.

#### 6.11 **External - Copnor Primary**

6.11.1 The full school audit of Copnor Primary School resulted in 9 high risk and 3 medium 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.

6.11.2 The high risk exceptions related to non-compliance with PCC Financial Rules, Policies, the Scheme for Financing Schools 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):

- **Financial Rules** - High Risk (safe combination not changed when previous Finance Staff left, no evidence of a current charging scale for Hire of the premises or a signed hire agreement form for the hirer, the inventory is not subject to an independent check and assets are not uniquely referenced, an instance of the petty cash reconciliation not being authorised, lack of controls over mini bus driver MIDAS certificates, no CCTV Policy, no evidence that staff have read, are aware of, or signed the IT Acceptable Use Policy).
- **PCC Scheme for Financing Schools** - High Risk (PTA Account - No audited statement of account)
- **SFVS** - High Risk (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)

6.11.3 Actions have been agreed and will be followed up as part of the 2015/16 Audit Plan.

### 7. **Annual Audit Opinion**

7.1 Due to the number of critical and high risk exceptions the Audit opinion for 2014 /15 is that only limited assurance on the effectiveness of the control framework can be given with the areas of most concern highlighted in section 6 and Appendix A

- 7.2 There are currently only three audit opinions to match the exception risk levels and these are: no assurance, limited assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be full assurance.
- 7.3 The Audit opinion for last year was also limited assurance due to the level of critical and high risk exceptions. The number of critical exceptions for 2014/15 has increased compared to the previous year although nine of these relate to one secondary school and should be considered in isolation. In addition to this there has been an increase in the number of investigations that have involved staff.
- 7.4 Internal Audit is concerned that the overall effectiveness of the control framework position has declined/not improved, which is not adequately reflected in the 'limited assurance' and will continue to work with Directors, the Deputy Chief Executive and the Chief Executive to improve on specific areas of control and risk management weaknesses.
- 7.5 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2014/15 may affect that years' work for External Audit. It may also inform their work for 2015/16 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required for a true and fair view of the financial position and compliance with professional codes of practice.
- 7.6 Internal Audit has carried out a self-assessment and confirms that they are compliant with the Public Sector Internal Audit Standards (PSIAS).

## **8. 2015/16 Audit Plan**

- 8.1 The Audit Plan planned coverage for 2015/16 has been drawn up using the Strategy approved by Members of this Committee at their 30<sup>th</sup> January 2015 meeting.
- 8.2 Meetings have been held with (at the time) all Heads of Services, Strategic Directors and the Chief Executive and the Chair of the Governance & Audit & Standards Committee who have all been consulted on the areas planned and the overall Audit Plan.
- 8.3 The 2015/16 Audit Plan is attached as Appendix C to this report. There are currently 90 Audits & 24 Follow up Audits identified although this will increase once preliminary audit work commences on areas such as schools, contracts and grants which are currently undetermined. In addition to this a six monthly review will be carried out to take account of changing risks & priorities, all of which will be reported back to this Committee.

**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. Legal Implications**

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. Finance Comments**

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

11.2 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
- Appendix C - 2015/16 Audit 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	Refer to Governance and Audit and Standard meetings –

Performance Status and other Audit Reports	reports published online <a href="http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeed=148">http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeed=148</a>
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The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ..... on .....

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Signed by: