

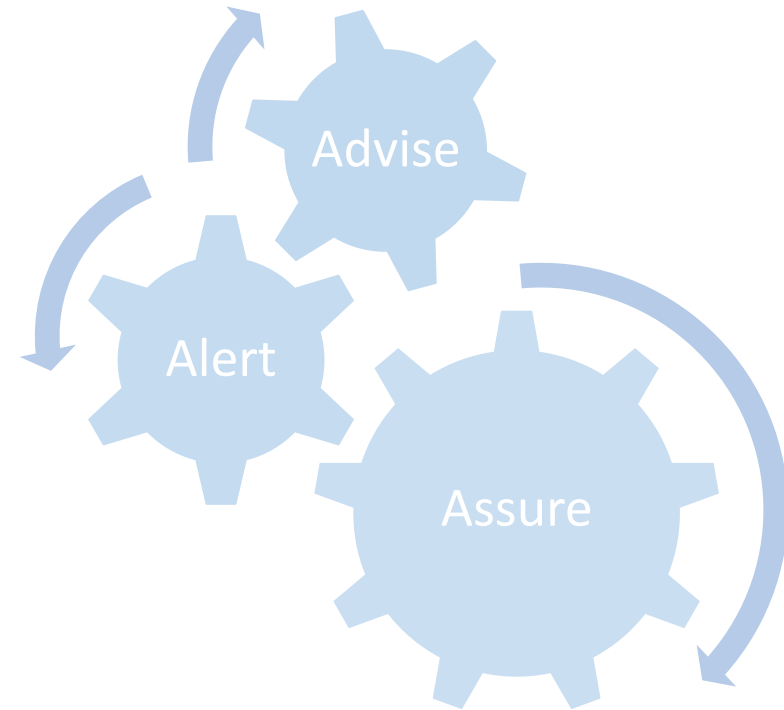


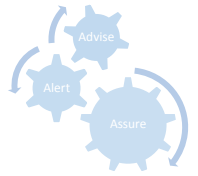
Portsmouth
CITY COUNCIL

Portsmouth City Council -
Annual Audit Report
2017/18

Elizabeth Goodwin

Chief Internal Auditor





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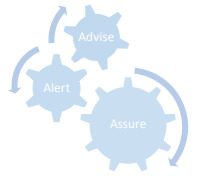
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1. Background

1.1 Public Sector Internal Audit Standards

1.2 On 1st April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The Standards were revised from 1 April 2016 to incorporate the mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

1.3 The Accounts and Audit Regulations 2015 Section 5, define the requirement for an internal audit function within Local Government stating that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'

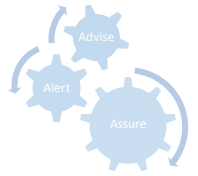
1.4 The responsibility for maintaining an adequate and effective system of internal audit within Portsmouth City Council lies with the Director of Finance & Information Services (S151 Officer).

1.5 The Chief Internal Auditor is responsible for effectively managing the internal audit activity in accordance with the '*Definition of Internal Auditing*', the '*Code of Ethics*' and '*the Standards*'.

1.6 In accordance with the PSIAS the definition of Internal auditing is;

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

1.7 In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion based on an objective assessment of the Authority's framework of governance, risk management and control.



1.8 The Annual Internal Audit Opinion must incorporate;

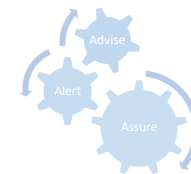
- The Opinion;
- A summary of the work that supports the Opinion; and
- A statement on conformance with PSIAS and the results of the quality assurance and improvement programme.

1.9 Statement of Organisational Independence

1.10 The Internal Audit & Counter Fraud Section has no operational responsibilities for any financial systems, including system development and installation. It does however provide advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

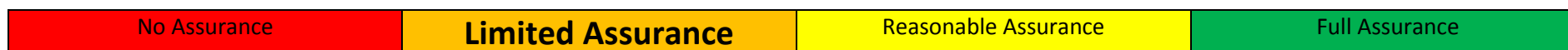
1.11 The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

1.12 The Internal Audit Section has free and unfettered access to the s151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance and Audit and Standards Committee.

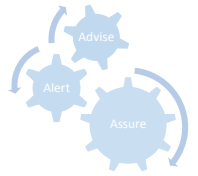


2. Annual Opinion

- 2.1 During 2017- 18 Internal Audit & Counter Fraud completed 68 full audits and 43 follow up reviews to plan. The results show a high level of high risks identified and a drop in critical risks from the previous year. Due to the number of exceptions raised overall the audit opinion for 2017/18 will remain at limited assurance as an assessment of the effectiveness of the internal control framework.
- 2.2 Last year the annual opinion was presented that the direction of travel was that of, deteriorating not improving, for this year the position appears to have stabilised. In forming this opinion consideration has been given to the use of a data analytics software tool that has enabled us to extend the level and depth of testing performed. This has identified higher failure rates in testing which over time is expected to subside. In addition to this we have been able to place an element of reliance on our analysis of the effectiveness of other assurance work carried out. This assessment will be extended during 2018-19 across the authority.
- 2.3 The results of follow up work also show that only 41% of agreed actions have been fully implemented. It is not clear at this stage the root cause of why 59% of agreed actions have not been implemented and additional time will be allocated to understand why.
- 2.4 Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance.

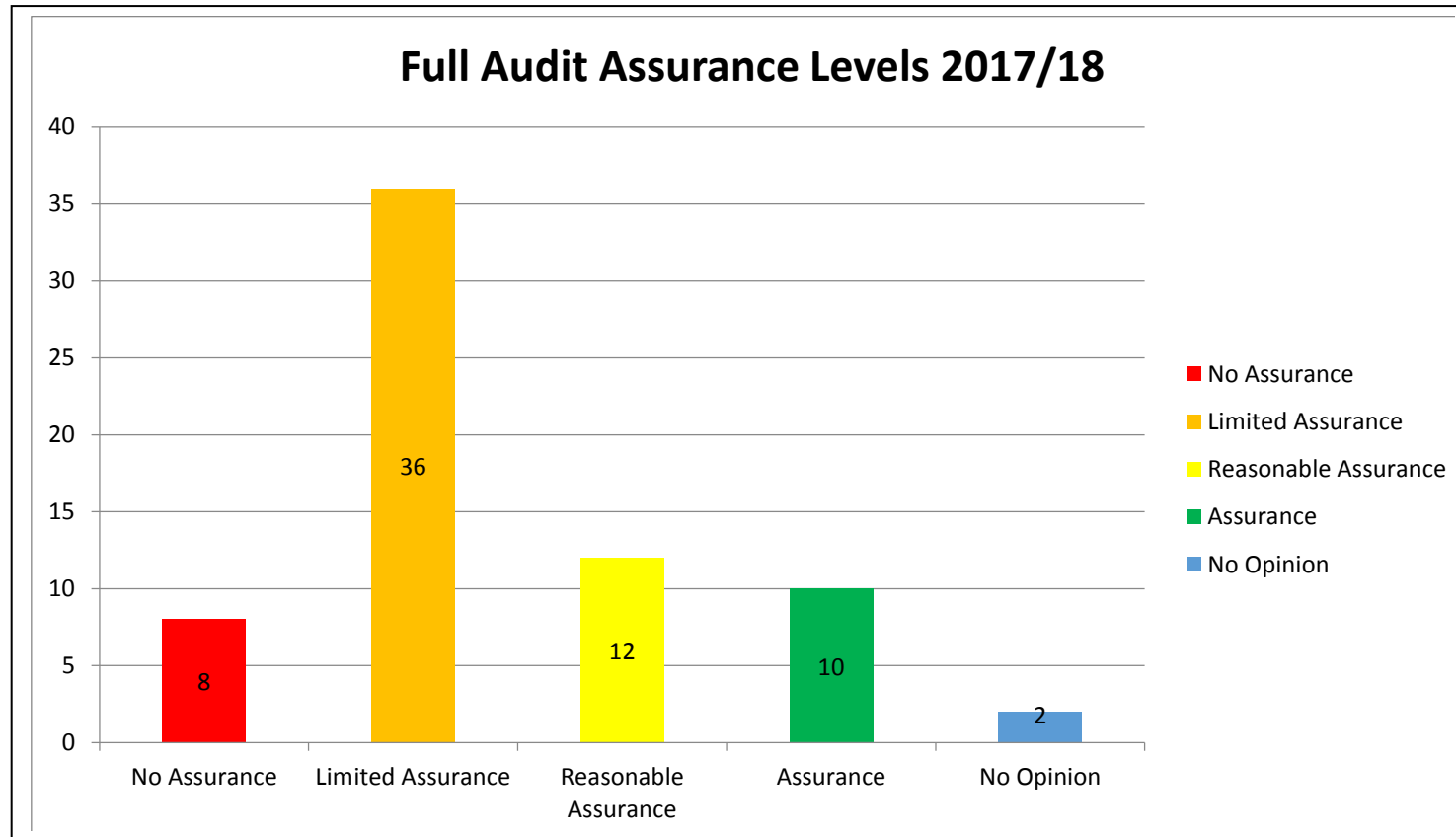


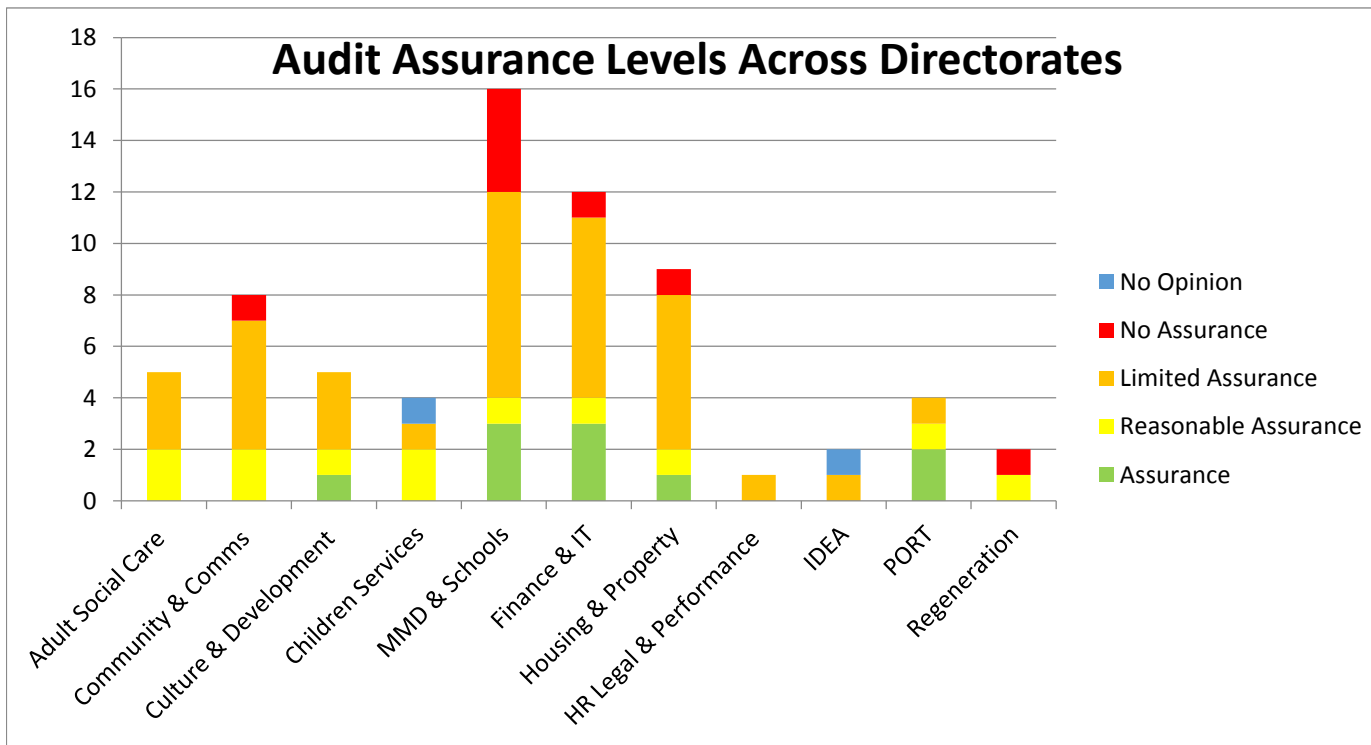
- 2.5 Internal Audit & Counter Fraud will continue to work with Directors, the Deputy Chief Executive and the Chief Executive to improve on specific areas of control, risk management and governance weaknesses.
- 2.6 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2017/18 may affect that year's work for External Audit. It may also inform their work for 2018/19 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.



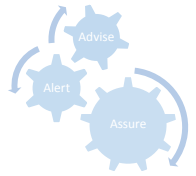
3. Results of the work carried out against plan

3.1 During 2017/18, 68 audit reviews were performed with the following assurance levels noted.





Row Labels	Assurance	Reasonable Assurance	Limited Assurance	No Assurance	No Opinion	Grand Total
Adult Social Care		2	3			5
Community & Comms		2	5	1		8
Culture & Development	1	1	3			5
Children Services		2	1		1	4
MMD & Schools	3	1	8	4		16
Finance & IT	3	1	7	1		12
Housing & Property	1	1	6	1		9
HR Legal & Performance			1			1
IDEA			1		1	2
PORT	2	1	1			4
Regeneration		1		1		2
Grand Total	10	12	36	8	2	68



4. Key areas of concern

4.1 The 'no assurance' audits noted above relate to the following areas:

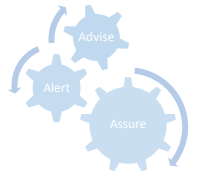
- Information Governance Data Sharing (Community & Communications)
- Procurement (MMD)
- Recruitment (MMD)
- St George (School)
- Mayfield (School)
- IT Procurement, Inventory & Disposal (Finance & IT)
- Youth Centres/ Community Centres (Housing & Property)
- Parking SIM Card, Inventory & Stock Control (Regeneration)

4.2 Follow up audits to ascertain the current position of all 'no assurance' areas are either underway or pending. Until this work is completed they will remain as an area of concern.

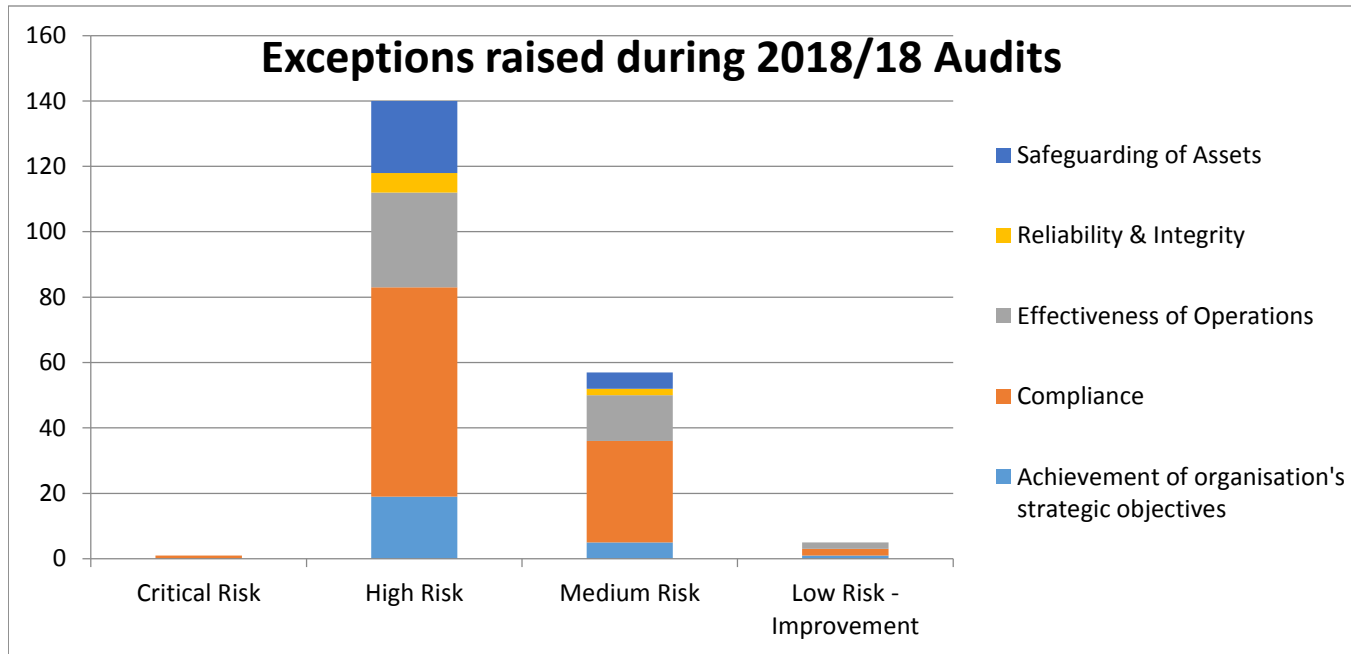
4.3 All exceptions raised by Internal Audit are categorised under one of five headings, these are;

- Achievement of organisational strategic objectives
- Compliance
- Effectiveness of operations
- Reliability & integrity
- Safeguarding of assets

4.4 The results noted on the following page show that 48% (98) of the 203 exceptions raised during 2017/18 are noted under the 'compliance' category, however this does not reflect the level of testing naturally carried out in this area and is therefore provided for information only.



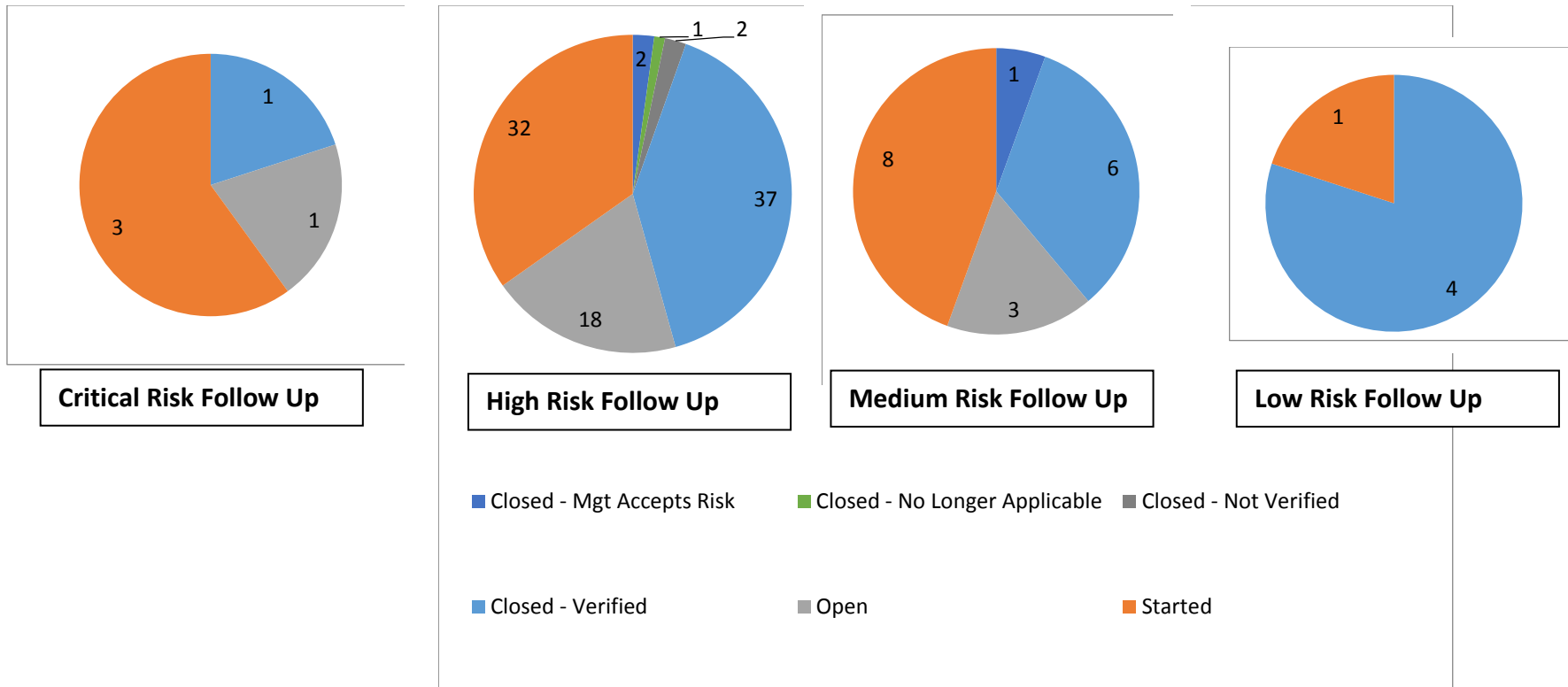
5. Exception Analysis



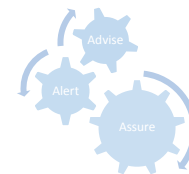
Risk	Risk Categories					Grand Total
	Achievement of Organisation's Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	
Critical Risk		1				1
High Risk	19	64	29	6	22	140
Medium Risk	5	31	14	2	5	57
Low Risk - Improvement	1	2	2			5
Grand Total	25	98	45	8	27	203



6. Follow up Analysis



- 6.1 The Internal Audit Service follows up all audits where at least 1 high risk exception has been raised. These audits are followed up in the next financial year to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions or No Assurance audits are followed up within 3 months due to the potential severity of the risks identified.
- 6.2 The overall position of the exceptions followed up in 2017/18 show that 41% have been closed and verified by audit, however 59% remain open and or are in progress.



7. Data Analytics / Continuous Auditing

7.1 IDEA data analytics was used extensively throughout the 2017/18 financial year in order to aid Internal Audit & Counter Fraud use resources efficiency. These include:

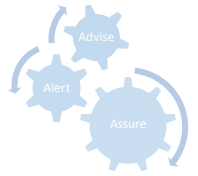
- Continuous Auditing
- Audit Testing
- Audit Sampling
- Fraud Testing
- Data Analysis

7.2 Out of 68 Full audits undertaken at PCC in 2017/18, IDEA was used in 27 separate audits, equating to 39% of the full audits undertaken. Specifically, 100% population testing was undertaken in certain areas of the testing for Purchase Cards, Accounts Payable, iExpenses and Accounts Receivable.

7.3 Two specific audits were undertaken to use IDEA for the identification of error and the collection of tax.

7.4 Internal Audit has also created a continuous auditing process in relation to the identification of potential duplicate payments at PCC. A series of 6 tests are run on a two weekly basis on all invoices within the EBS system. During 2017/18 the tests identified the following:

Row Labels	Sum of Amount
Not Validated Duplicate Invoice Value	£ 323,822.76
Validated Duplicate Invoice Value	£ 66,230.42
Unknown	£ 55,976.35
Grand Total of the value of the duplicate invoices found	£ 446,029.53

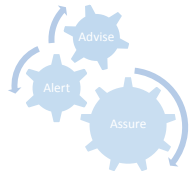


7.5 IDEA has also been used in 9 external client audits during 2017/18 with proposals to set up similar continuous auditing projects in two other Local Authorities.

8. Unplanned Reactive work

8.1 Throughout the financial year 2017/18, Internal Audit conducted 12 corporate investigations (outside of Council Tax Support, Right to Buy and Tenancy Fraud).

8.2 Internal Audit also provided services across the council with 12 items of advice. Advice is recorded if the time spent to conduct the required work exceeds 1 hour of officer time.



9. External Client Analysis and Performance

9.1 The Internal Audit & Counter Fraud service at Portsmouth City Council increased their undertaking of external work by 166% in the financial year 2017/18. This is due to the service obtaining a substantial contract with Southampton City Council for both Chief Internal Auditor duties and a significant proportion of their required audit days. Counter Fraud services have also been sold to other authorities covering investigations, National Fraud Initiative, policy revision and bespoke training.

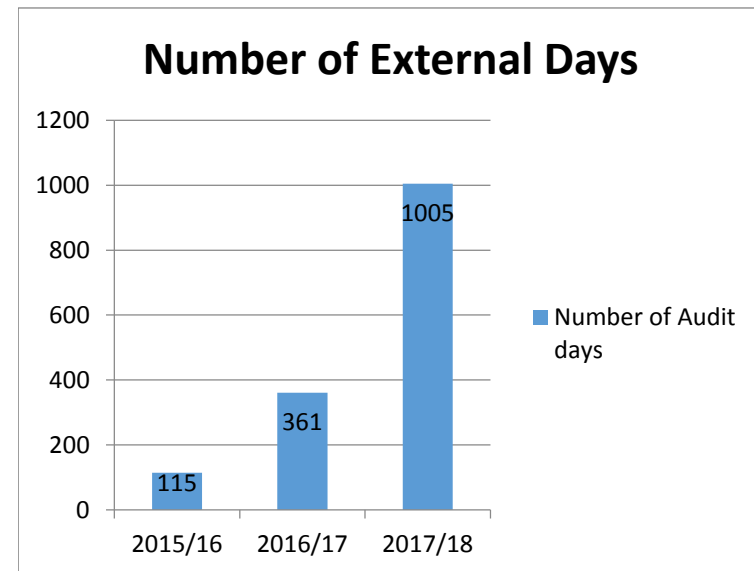
9.2 During the financial year 2017/18, the Internal Audit & Counter Fraud service completed 89 Full Audits, 7 pieces of consultancy work and 5 investigations at the external client bases noted below. In addition, audit plans and opinions have been produced for the Authorities where the role of Chief Internal Auditor is required.

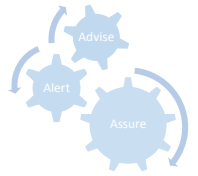
9.3 Current External Client Base:

- Southampton City Council
- Fareham Borough Council
- Solent Local Enterprise Partnership
- Gosport Borough Council
- Eastleigh Borough Council
- Various PCC Schools
- Isle of Wight Council
- Langstone Harbour Board

9.4 Chief Internal Auditor role is covered for the following organisations;

- Portsmouth City Council
- Southampton City Council
- Isle of Wight Council
- Solent Local Enterprise Partnership





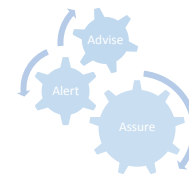
10. Public Sector Internal Audit Standards

Background

- 10.1 Under the Public Sector Internal Audit Standard (PSIAS) 1310 requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the Standards) must be undertaken. Standard 1311 allows for periodic self-assessments, which for Portsmouth City Council has been carried out each year since the standards were introduced. The results of the self-assessments have been communicated annual alongside the annual audit opinion to this committee.
- 10.2 Standard 1312 requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. For 2017-18 an external assessment has been undertaken in agreement with the standards and key individuals within the Authority.

Introduction

- 10.3 The Public Sector Internal Audit Standards, updated April 2017, state that "A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector."
- 10.4 The Relevant Internal Audit Standard Setters (RIASS) (as recognised by the Account and Audit Regulations) for local government across the UK, is the Chartered Institute of Public Finance and Accountancy (Cipfa).
- 10.5 These common set of Public Sector Internal Audit Standards (PSIAS) encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF).
- 10.6 The Standards include a Code of Ethics covering:
- Integrity



- Objectivity
- Confidentiality
- Competency

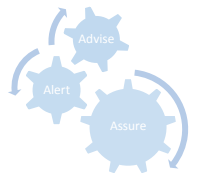
10.7 The Standards cover 11 key areas:

- 1000 Purpose, Authority & Responsibility
- 1100 Independence & Objectivity
- 1200 Proficiency & Due Professional Care
- 1300 Quality Assurance & Improvement Programme
- 2000 Performance Standards- Managing the Internal Audit Activity
- 2100 Performance Standards- Nature of Work
- 2200 Performance Standards- Engagement Planning
- 2300 Performance Standards- Performing the Engagement
- 2400 Performance Standards- Communicating Results
- 2500 Performance Standards- Monitoring Progress
- 2600 Performance Standards- Communicating the Acceptance of Risks

Scope

10.8 The scope of the review was agreed with the Monitoring Officer, Director of HR, Legal and Performance, s151 Officer and the previous chair of the Governance & Audit & Standards Committee (GAS) and was as follows:

- Evidence that the Internal Audit & Counter Fraud Service at Portsmouth City Council (PCC) complies with current Public Sector Internal Audit Standards, including the Code of Ethics; by evaluating:
 - Relevant documentation
 - Discussions with the Chair of the Governance & Audit & Standards Committee, Senior Management (including the CX, s151 and Monitoring Officers and Director of HR & Performance), external audit and members of the Internal Audit Staff
- Review of capacity in relation to resources v work required for PCC and externally contracted to others.



Findings

10.9 It was found that the service complies with all the Standards and Code of Ethics with the following three exceptions:

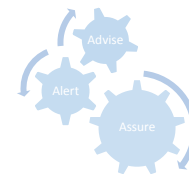
- (a) Standard 1100 requires that the Chief Internal Auditor (CIA) confirms annually to the board (GAS) the organisational independence of the internal audit activity. Although the Charter and Strategy affirm the definition of Internal Audit, reports to the GAS do not specifically refer to audit independence as an on-going assurance and this could be included as part of the Annual Audit Opinion.
- (b) Standard 1110 (public sector requirements) states that the Chief Executive undertakes, countersigns, contributes feedback or reviews the performance appraisal of the CIA and that feedback is also sought from the Chair of the G&A&S. currently there is no input from these sources. An annual PDR (Performance Development Review) is undertaken by the Director of HR, Legal and Performance as the Chief Internal Auditor's line manager. An enhancement to this suggested by the CX was that the Director of Finance and s151 Officer as the main client of the Service and the Deputy Chief Executive and Monitoring Officer as another key client, be asked for feedback as part of the PDR process. Discussions with the relevant officers (except s151) and the previous GAS Committee Chair revealed that they were all in accordance with having input.
- (c) Standard 1320 requires that the CIA must report the results of the quality assurance and improvement programme to senior management including conclusions and any corrective action and include in the annual report to the board (GAS). Whilst there is evidence of day to day supervision and measurement of activity achieved to planned, there is no formalised assurance programme to demonstrate on going improvement which could include a stated aim of a quality assurance programme to demonstrate the efficiency and effectiveness of the IA activity. This could be included as part of the Audit Strategy or Charter reports to G&A&S.

10.10 Discussions with the Deputy Chief Executive and Monitoring Officer, the Chief Executive as Head of Paid Service, the Chair of the Governance and Audit and Standards Committee, the Director of HR and Performance and the External Auditor for PCC (Ernst & Young) demonstrated that the IA Service is highly regarded as professional, is trusted to inform and alert senior management and the GAS to significant matters, in a timely fashion and delivers on its purpose. The s151 Officer views are still to be obtained.

10.11 There were a number of areas of good practice identified namely:

Audit Management

- The Audit skills gap analysis,



- Management of individual performance,
- The audit universe risk assessment,
- Team Mate electronic files and processes

Contribution to good governance

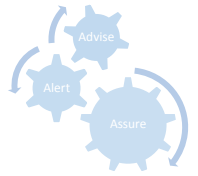
- The use of a Corporate Governance Group, consisting of The CX, Deputy CX, Directorate of Finance, Director of HR, Legal & Performance and the CIA which meets regularly to discuss matters of governance,
- The monthly meetings the CIA has with the s151 Officer,
- Ad-hoc meetings between the CIA and Chair of the Governance and Audit and Standards Committee,
- The Investigation Steering Panel consisting of the deputy CX as monitoring Officer, the Director of Finance as s151 Officer and the Director of HR, Legal & Performance, the Deputy CIA and the Internal Audit Counter Fraud Officer which determines the investigation of any suspected fraud in accordance with the Counter Fraud Policy and Response Plan,
- Assurance Mapping- whilst this is still in its infancy it is a good start and will hopefully enable a wider Annual Audit Opinion to be given using the whole of the organisation's assurance framework.

Capacity

10.12 There are currently 14 members of staff within the Audit and Counter Fraud Service at Portsmouth City Council which provides services to Portsmouth City Council and eight other organisations in the capacity of either CIA services, Counter Fraud Services and or general auditing. For 2017-18 this equated to an allocation of days, with a current level of approximately 1000 reserved under various contracts.

10.13 The nature of audit work and the close supervision required ensuring quality and compliance with Standards, relies on a significant level of management oversight. Any further expansion of the Service would require a review of management hierarchy and capacity.

10.14 Any loss of Audit staff could leave PCC exposed to the risk of not achieving PCC's agreed Audit Plan, as resources would have to meet the requirements of the external contracts first.



Conclusion

10.15 It is considered that whilst it is important to action the three areas of non-compliance, it has not had a significant impact on the overall ability of the Internal Audit and Counter Fraud Service to deliver the Service as specified by their Charter and Code of Ethics. They can demonstrate that they deliver a professional, independent and objective activity that contributes to the good governance of the organisation and are able to deliver an annual audit opinion in accordance with the Standards.

Resources in delivering the contracted services have reached capacity at a management level. The organisation may wish to review the current provision as a whole and the hierarchy, if it wishes to expand the Service and their current contracts; with a view to ensuring that income is equitable, sufficient and sustainable and that risks are shared equally amongst the contracted organisations.