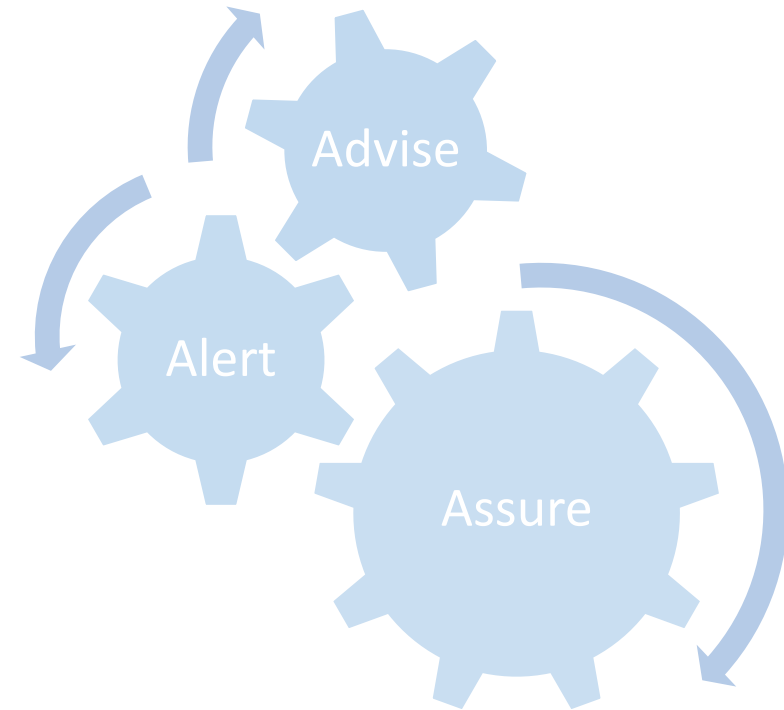


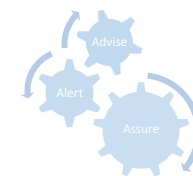


# Portsmouth City Council - Annual Audit Report 2018/19

Elizabeth Goodwin

Chief Internal Auditor





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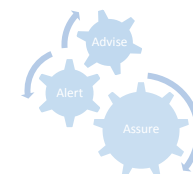
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# 1. Background

## 1.1 Public Sector Internal Audit Standards

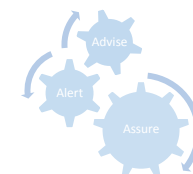
- 1.2 On 1<sup>st</sup> April 2013 the 'Public Sector Internal Audit Standards' (PSIAS) were formally adopted in respect of Local Government across the UK. The PSIAS apply to all internal service providers, whether in-house, shared services or outsourced. The Standards were revised from 1 April 2016 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.

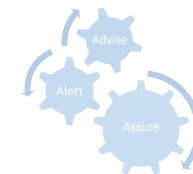


## 2. Annual Opinion

- 2.1 During 2018- 19 Internal Audit & Counter Fraud completed 64 full audits and 24 follow up reviews to plan. The results show that the level of 'No Assurance' and 'Limited Assurance' audited areas have decreased from the previous year, which is a positive move and reinforces the judgement that the direction of travel is that of 'good improvement', following on from 'stabilising' opinion last year.
- 2.2 This more positive position is however countered by a decline in the number of implemented agreed actions to mitigate risk exposure. It should be noted that actions to mitigate risk are determined by the relevant service along with their timeframe for implementation, yet the results of follow up work show that only 40% of agreed actions have been fully implemented. Further details are contained within the body of this report.
- 2.3 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. Limited Assurance is provided again this year, with the above narrative that the internal control framework in operation at Portsmouth City Council is improving.

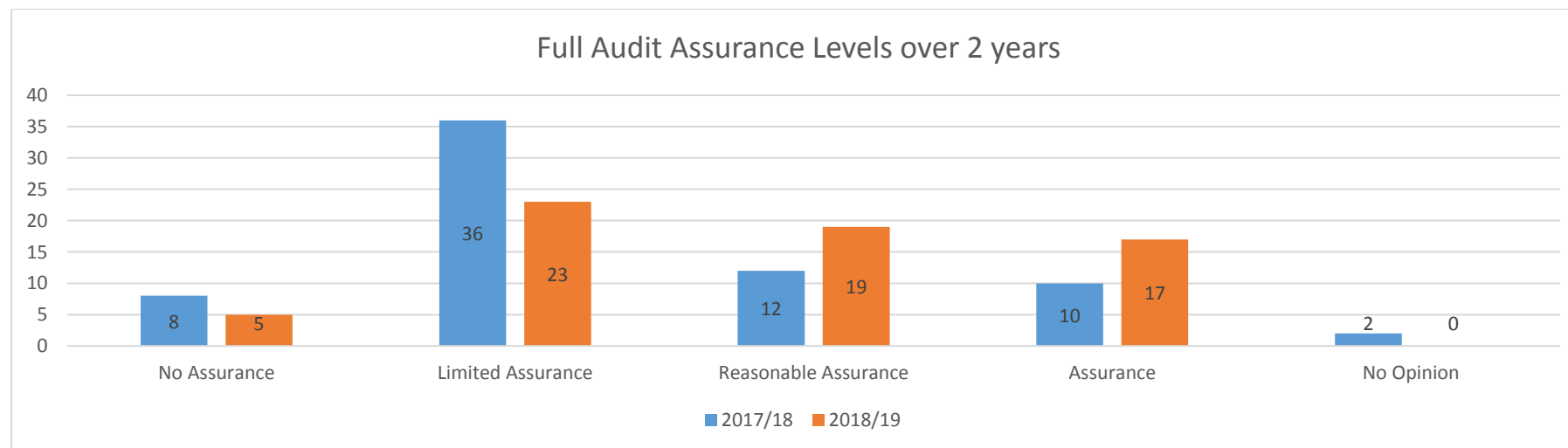
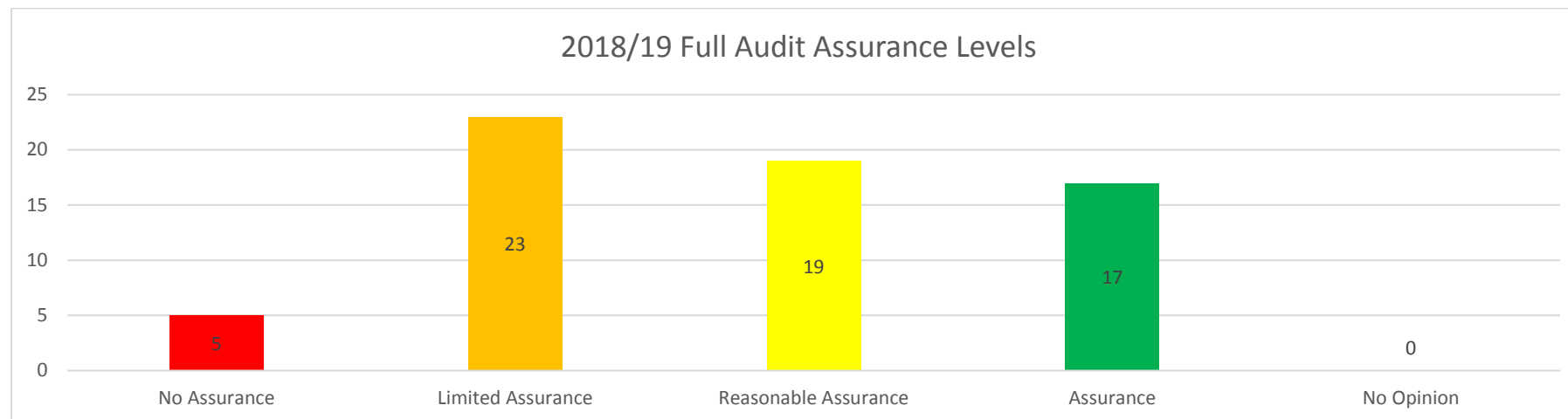


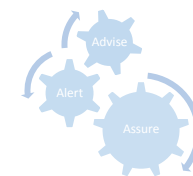
- 2.4 Internal Audit & Counter Fraud will continue to work with Directors and the Chief Executive to improve on specific areas of control, risk management and governance weaknesses.
- 2.5 Any significant corporate weaknesses and agreed actions are reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2018/19 may affect that year's work for External Audit. It may also inform their work for 2019/20 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.



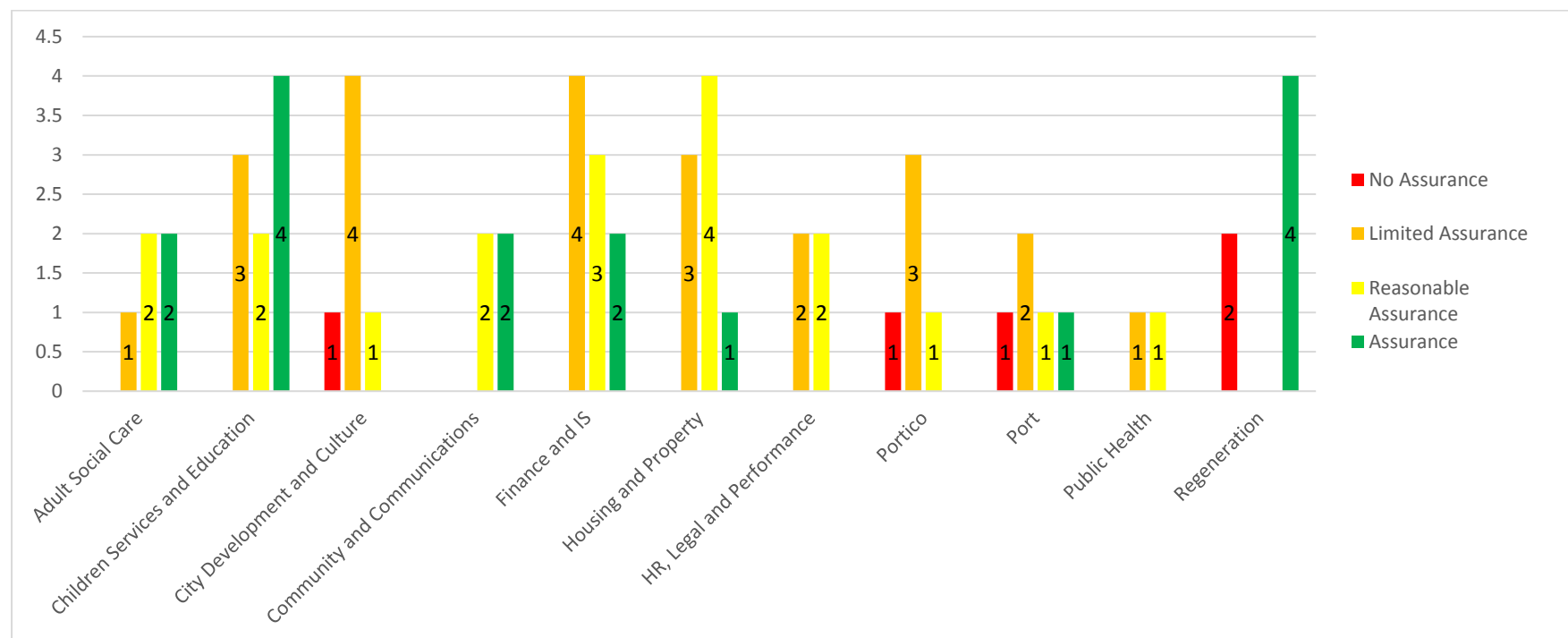
### 3. Results of work performed for 2018/19 as full audits & comparison against 2017/18

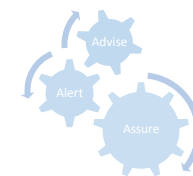
3.1 During 2018/19, 64 full audit reviews were performed with the following assurance levels noted.





### 3.2 Audit Assurance levels across Directorates





## 4. Key areas of concern for 2018/19

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

- Community Centres (Housing & Property)
- CCTV (Port)
- Home 2 School Transport (Service Delivery) (Regeneration)
- Hire Cars (Regeneration)
- Gifts & Hospitality (Portico)

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

4.3 During 2018/19 Internal Audit carried out follow up reviews on all areas where 'no assurance' was provided under the 2017/18 audit plan. The results show the following movement.

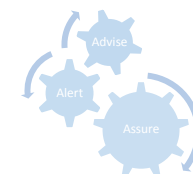
- Information Governance Data Sharing (Community & Communications) - post follow up assurance level - Limited Assurance
- Procurement (Portico) - post follow up assurance level - Limited Assurance
- Recruitment (Portico) - post follow up assurance level - Assurance
- St George (School) - post follow up assurance level - Assurance
- IT Procurement, Inventory & Disposal (Finance & IT) - post follow up assurance level - Limited Assurance
- Youth Centres/ Community Centres (Housing & Property) - post follow up assurance level - Reasonable Assurance

## 5. Exception Analysis

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

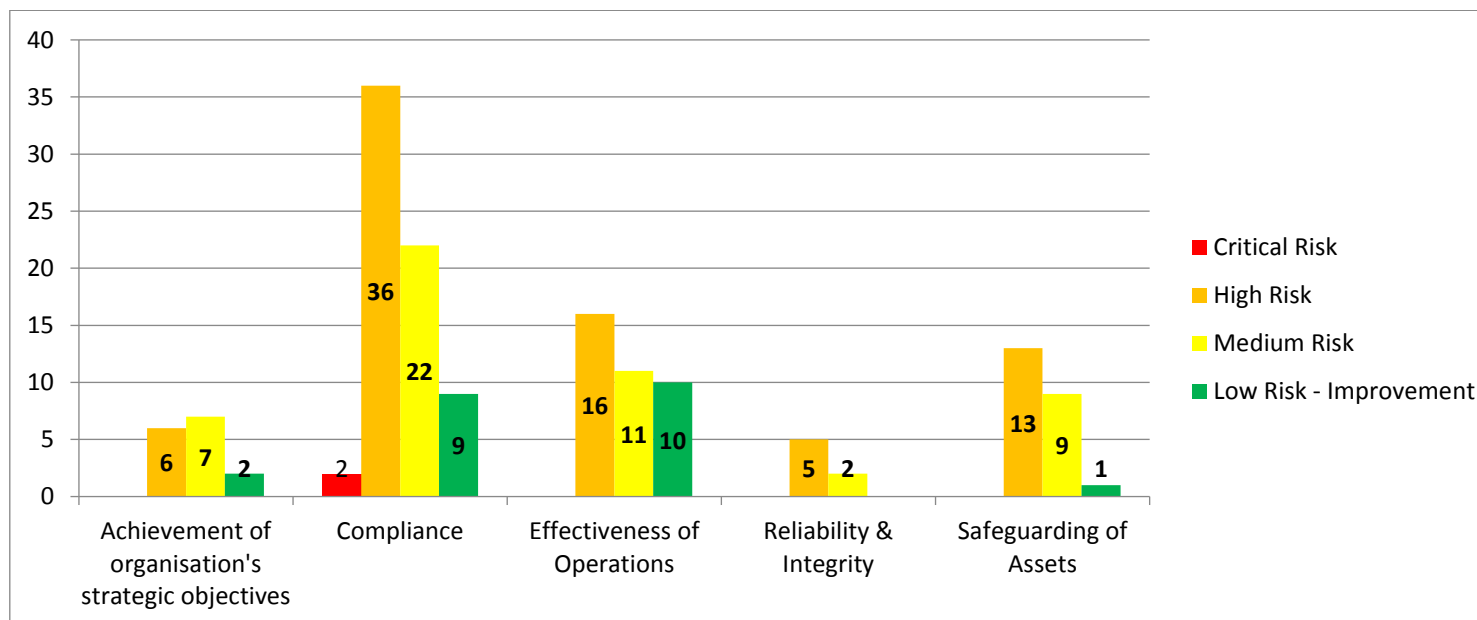
- Achievement of Organisational Strategic Objectives
- Compliance with Laws, Regulations, Policies and Procedures



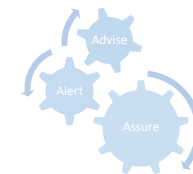


- Effectiveness of operations
- Reliability & integrity
- Safeguarding of assets

The bar chart below shows which categories have exceptions raised and their risk rankings.

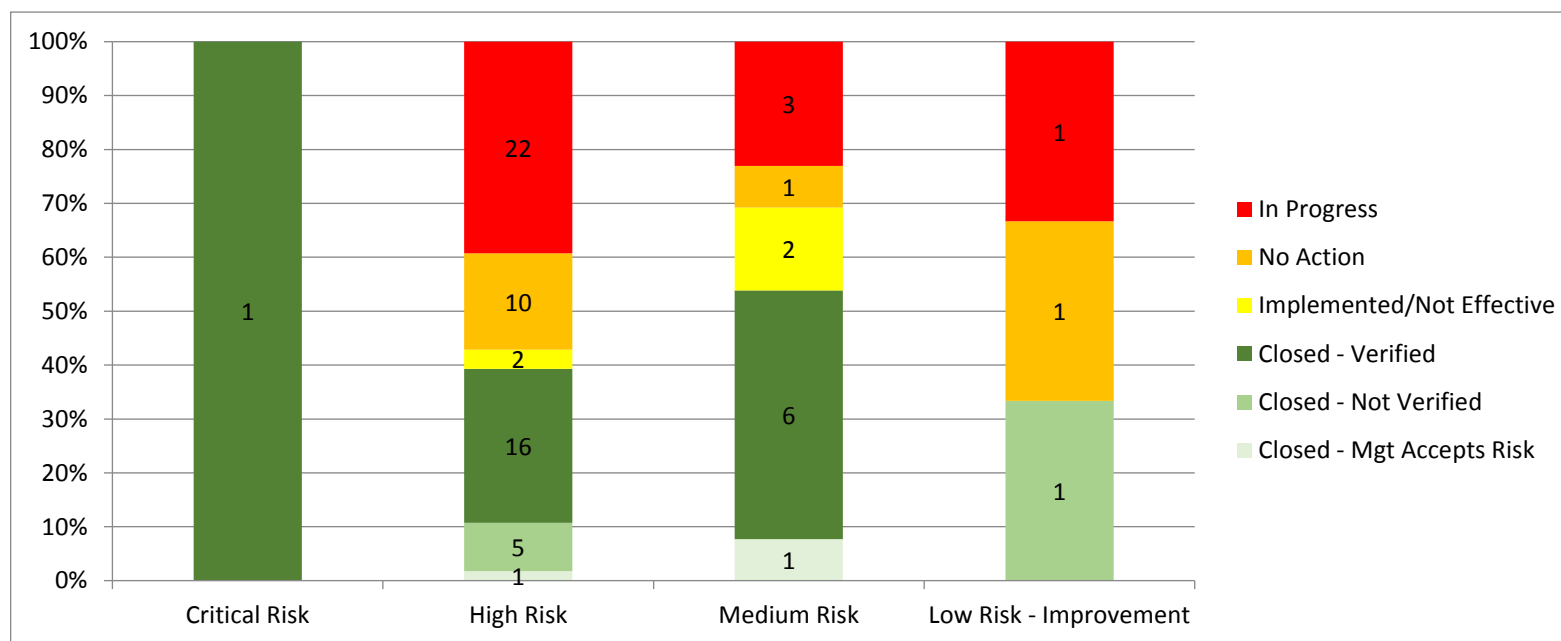


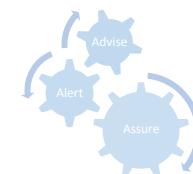
Exceptions by Risk and Category		Column Labels			
Row Labels	Critical Risk	High Risk	Medium Risk	Low Risk - Improvement	Grand Total
Achievement of organisation's strategic objectives		6	7	2	15
Compliance	2	36	22	9	69
Effectiveness of Operations		16	11	10	37
Reliability & Integrity		5	2		7
Safeguarding of Assets		13	9	1	23
Grand Total	2	76	51	22	151



## 6. Follow up Analysis

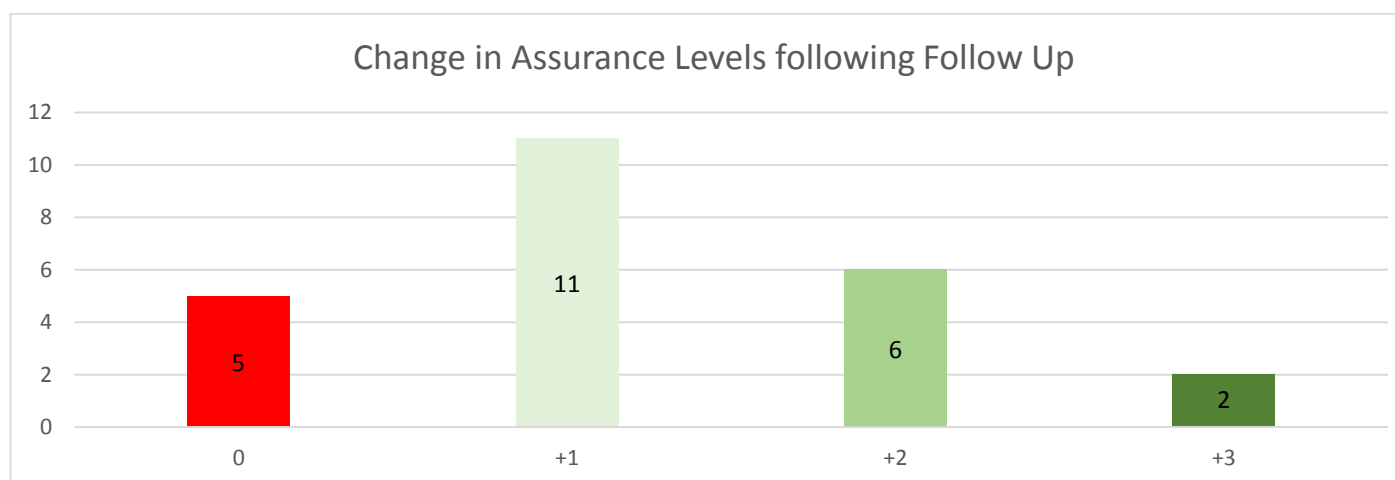
- 6.1 A proportion of audit work carried out during the year, relates to conducting audits on areas with high/ critical exceptions, in order to ascertain the implementation position of agreed actions. The bar chart below details the position overall and it is disappointing to note the number of areas yet to be actioned i.e. 42 in total.
- 6.2 The Internal Audit Service follows up all audits where at least 1 high risk exception has been raised. This is performed in the next financial year to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions or No Assurance audits are generally followed up within 3 months due to the potential severity of the risks identified.





Row Labels	Closed - Mgt Accepts Risk	Closed - Not Verified	Closed - Verified	Implemented/Not Effective	No Action	In Progress	Grand Total
Critical Risk			1				1
High Risk	1	5	16	2	10	22	56
Medium Risk	1		6	2	1	3	13
Low Risk - Improvement		1			1	1	3
<b>Grand Total</b>	<b>2</b>	<b>6</b>	<b>23</b>	<b>4</b>	<b>12</b>	<b>26</b>	<b>73</b>

- 6.3 The overall position of the exceptions followed up in 2018/19 show that 40% have been closed and verified by audit, however 60% remain open and or are in progress.
- 6.4 At the conclusion of the Follow-up review the overall assurance level is reassessed and a new opinion level is given. The results below demonstrate that there has been insufficient movement overall in areas re-examined during a follow up review. 67% (5+11) of the activities retested had either only improved to one position or had not improved at all and only 33% had improved sufficiently to resolve the risks and issues presented.





## 7. Data Analytics / Continuous Auditing

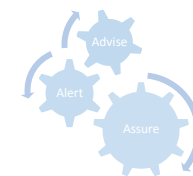
7.1 IDEA data analytics was used extensively throughout the 2018/19 financial year in order to aid Internal Audit & Counter Fraud use resources efficiency. These include:

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

7.2 Across all audits, including external clients IDEA is considered and where appropriate utilised. Examples of where IDEA was used include:

- Accounts Payable - Duplicate payments - run weekly.
- Random Sampling / Stratified Random Sampling
- Housing Rents - To identify new properties, or properties disposed of along with properties showing above a 15% increase
- Analysis on contract data - i.e. price and dates
- Rates analysis
- Comparison of training records to current employees.
- Comparison of Fleet vehicles to vehicles insured by PCC - to ensure all vehicles are insured
- iExpenses - To highlight (Spilt mileage claims/ split subsistence claims / claims non-compliant with the Travel and Subsistence Policy)
- Purchase Cards - To highlight (Split transactions / transactions over the limit / and transactions non-compliant with the purchasing cards policy)
- Multiple PDF reports converted to excel
- Payroll automation to highlight apprentices on the wrong NI code (comparison of apprenticeship data to an all employees report)

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 weekly basis on all invoices within the EBS system. Non validated invoices would not be paid until validation occurred therefore the risk of the duplicate payment being made is lower than those invoices which have been validated. During 2018/19 the tests identified the following:

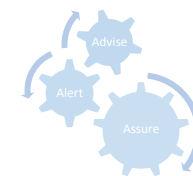
Row Labels	Sum of Amount
Not Validated Duplicate Invoice Value	£ 523,816.60
Validated Duplicate Invoice Value	£ 63,670.97
<b>Grand Total of the value of the duplicate invoices found</b>	<b>£ 587,487.57</b>

May 2018-March 2019	Total
Duplicate Payments Made	£ 91,550.29
Recovered	£ 64,070.55
Not recovered	£ 5,359.07
Awaiting Recovery	£ 22,120.67

- 7.6 IDEA has also been used in 9 external client audits during 2018/19.

## 8. Unplanned Reactive work

- 8.1 Throughout the financial year 2018/19, Internal Audit conducted 19 corporate investigations and received 98 investigation referrals relating to Council Tax Support, Right to Buy, Tenancy Fraud and Single Person Discount. Further details of all closed cases will be reported to this committee at the September 2019 meeting.
- 8.2 Internal Audit also provided services across the council with 11 items of advice were provided. Advice is recorded if the time spent to conduct the required work exceeds 1 hour of officer time.



## 9. External Client Analysis and Performance

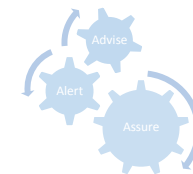
9.1 The Internal Audit & Counter Fraud service at Portsmouth City Council have maintained the contracts in place for the provision of Internal Audit & Counter Fraud duties with a number of external clients as noted below. These arrangements are to cover, audit, investigations & National Fraud Initiative work and where applicable the role of the Chief Internal Auditor.

9.2 External Client Base for 2018/19:

- 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
- Christchurch Borough & East Dorset District

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

- Portsmouth City Council
- Southampton City Council
- Isle of Wight Council
- Solent Local Enterprise Partnership
- Gosport Borough Council (November 2018 to date) also includes Test Valley

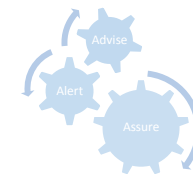


## 10. Quality Assurance

10.1 As part of the Public Sector Internal Audit Standards the Chief Internal Auditor is required to maintain a quality assurance and improvement programme (QA&IP) that covers all aspects of the internal audit activity. This QA&IP must include both internal and external assessments, which are detailed below under section 11.

10.2 In addition to this, quality and improvement requirements are assessed by means of:

- a) Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- b) Weekly or bi-weekly 1:1's with all members of staff, within Audit & Counter Fraud.
- c) Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- d) All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, much complete the required 'Continuous Professional Development'.
- e) An annual skills gap analysis across the team, to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been address by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (10.3 & 10.4).
- f) All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- g) Director feedback is requested in order to ascertain whether the service provided complies with PSIAS. The results from the 2018/19 returns are detailed below under 10.5.



## **Skills Gap Analysis for 2018/19**

### **10.3 Essential Areas** - where greater coverage of skills are needed moving forward:

- Auditing - Knowledge building is required to undertake auditing work for both the Isle of Wight and Gosport Borough Council where PCC are either operating under a shared service (with effect from April 2019) or currently supporting the council in the absence of key staff (November 2018). Whilst audit skills are transferrable the working practices and operating systems and applications are significantly different and require development time to gain appropriate knowledge and experience.
- Auditing - Specialist IT Auditing skills are limited within the service with only one officer currently qualified. To address this shortfall, professional training will be undertaken by a second officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements. For example the IWC have an IT auditor, but no qualified accountants within audit.
- Management - Isle of Wight Senior Management & Member Engagement - Currently only the Chief Internal Auditor has experience in this area. The current action plan is to increase the visibility and use of the Deputy Chief Internal Auditor at the Isle of Wight over the next financial year.

### **10.4 Desirable Areas** - where greater coverage of skills would be desirable:

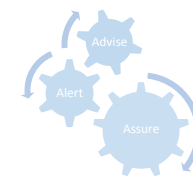
- Auditing - Academy Auditing - despite offering the service of internal audit to the Academies in the Portsmouth area, none have elected to use the service. As such the skills to audit academies are not as strong as would be desired due to lack of experience. No further action is proposed, IA will continue to offer the service of Internal Audit to Academies.

## **Director Feedback for 2018/19**

10.5 The Quality Assurance feedback looked to evidence how the Directors found the Internal Audit service in 3 key areas; Audit Approach, Audit Planning and Audit Process. From the returns received the results are as follows.

### **Audit Planning**





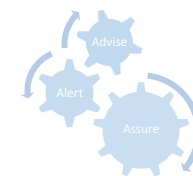
- a) Were Directors given opportunity to discuss potential auditable areas prior to the finalisation of the audit plan? **Results:** All Directors and or Assistant Directors (Children's & Families and Adult Social Care) were met with at the beginning part of the year. From the returns received all either 'agreed or strongly agreed' with this statement.
- b) Were Directors made aware of the proposed audits in their directorate and given opportunity to have input into their timings, in order to minimise disruption to services? **Results:** From the returns received all either 'agreed or strongly agreed' with this statement.
- c) Has a representative from audit periodically attended Departmental Management Team meetings, in order to gain further knowledge & understanding of issues arising? **Results:** From the returns received all either 'neither agree nor disagree, agreed or strongly agreed' with this statement. **Additional actions:** An increase in the level of attendance at these meetings will be carried out within the audit team.

### **Audit Process**

- d) At the start of individual audits, were Directors given the opportunity to comment on the scope of the review and was an Audit Planning Memorandum received prior to the commencement of the review, detailing the areas to be covered? **Results:** From the returns received all either 'agreed or strongly agreed' with this statement.
- e) Were any significant findings (critical exceptions or no assurance) communicated to the Directors prior to the draft report being issued? **Results:** From the returns received all either 'agreed or strongly agreed' with this statement.
- f) Were Directors given the opportunity to attend an audit exit meeting to discuss the findings? **Results:** From the returns received all either 'neither agree nor disagree, agreed or strongly agreed' with this statement. **Additional actions:** All Directors will be invited to attend all exit meetings.
- g) Did Directors receive draft reports with an opportunity to comment on the content? **Results:** From the returns received all either 'agreed or strongly agreed' with this statement.

### **Audit Approach**

- h) Were the auditors courteous throughout the audit process? **Results:** From the returns received all either 'agreed or strongly agreed' with this statement.



- i) Did the auditors appear sufficiently knowledgeable on the subject they were auditing? **Results:** From the returns received all either 'neither agree nor disagree, agreed or strongly agreed' with this statement. **Additional actions:** Further clarity will be sort from the Directors in this area the results of which will be considered when allocating future audit assignments within the team. If required additional training will be provided.
- j) Where possible, did the auditor keep the impact of the audit process on staff to an acceptable level? **Results:** From the returns received all either 'agreed or strongly agreed' with this statement.

10.6 The results indicate a positive response in relation all 3 key areas. An annual exercise of this nature will be carried out, with the results communicated moving forward.



## Appendix A

# 11 Public Sector Internal Audit Standards

### Introduction

- 11.1 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.
- 11.2 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. During 2017-18 an external assessment was undertaken in agreement with the standards and key individuals within the Authority the results of which have already been reported in full to this committee.

### Position Update

- 11.3 In summary the independent assessor confirmed that the section can demonstrate the delivery of a professional, independent and objective service that contributes to the good governance of the organisation and are able to deliver an annual audit opinion in accordance with the Standards. There were three areas of exception as noted below:
- (a) Standard 1100 requires that the Chief Internal Auditor (CIA) confirms annually to the board (GAS) the organisational independence of the internal audit activity. **ACTION TAKEN: A statement confirming the organisational independence of the internal audit activity has been included in this report under items 1.9 to 1.12.**



- (b) Standard 1110 (public sector requirements) states that the Chief Executive undertakes, countersigns, contributes feedback or reviews the performance appraisal of the CIA. The CX has requested 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. **ACTION TAKEN: Feedback and challenge is provided through the Council's performance management arrangements which include the Corporate Governance Board, and regular 1:1's with both the Deputy Chief Executive (Monitoring Officer) and the s151 Officer.**
- (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 this in the annual report to the board (GAS). **ACTION TAKEN: The Quality Assurance results have been included in this report under item 10.**

- 11.4 In addition to this the independent assessor identified that there was potentially a capacity issue within the service as at the time there were 14 fte posts within the Audit and Counter Fraud Service at Portsmouth City Council providing services to a number of external clients. For 2018-19 this equated to approximately 1000 under various contracts.
- 11.5 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. Resources to deliver the contracted services have reached capacity at a management level. However this is closely monitored and a detailed review of the resource requirements is being carried out during 2019-20. The results of which will be communicated with this committee in due course.
- 11.6 During 2018-19 a self-assessment has been performed against the Standards & Code of Ethics, the results of which are that the Internal Audit service provided by Portsmouth City Council is in compliance with the requirements of the Public Sector Internal Audit Standards.