



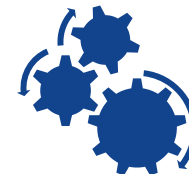
Portsmouth

CITY COUNCIL

Portsmouth City Council Annual Audit Report 2019/20

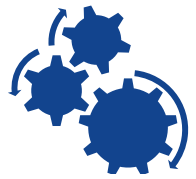
Elizabeth Goodwin, Chief Internal Auditor





Contents

- 1** Background - Page 3
- 2** Annual Opinion for 2019/20 - Page 5
- 3** Comparative 2018/19 & 2019/20 Audit Assurance Levels - Page 6
- 4** 2019/20 Audit Assurance by Directorate - Page 7
- 5** Key Areas of Concern for 2019/20 - Page 9
- 6** 2019/20 Assurance Analysis by Risk Classification - Page 10
- 7** Comparative 2018/19 & 2019/20 Exception Risk Rankings - Page 11
- 8** 2019/20 Follow Up Analysis - Page 12
- 9** Data Analytics / Continuous Auditing - Page 13
- 10** Unplanned Reactive Work - Page 15
- 11** External Client Analysis and Performance - Page 16
- 12** Quality Assurance - Page 17
- 13** Public Sector Internal Audit Standards - Page 19



1. Background

Public Sector Internal Audit Standards

1.1 On 1st April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1st April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.

1.2 The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:

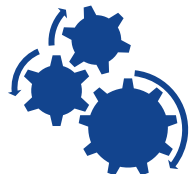
A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance

1.3 The responsibility for maintaining an adequate and effective system of internal audit within Portsmouth City Council lies with the Director of Finance (Section 151 Officer).

1.4 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*.

1.5 In accordance with the *PSIAS* the definition of internal auditing is:

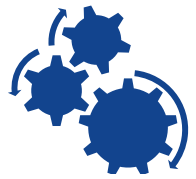
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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



- 1.6** 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.
- 1.7** 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.
- 1.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2019/20 confirmed that the Portsmouth City Council's, Internal Audit Service is compliant with requirements.

Statement of Organisational Independence

- 1.9** The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does however manage Insurance and provides advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.
- 1.10** 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.
- 1.11** The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer, the Leader of the Council and the Chair of the Governance and Audit and Standards Committee.



2. Annual Opinion for 2019/20

- 2.1** During 2019-20 Internal Audit & Counter Fraud completed 57 full audits and 31 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'.
- 2.2** This position is however countered by a residue issue, which has been highlighted over several years that the number of implemented actions, still remains poor, with only a 1% improvement from last year (Previously 40% actioned, increased to 41% for 2019/20). Although arrangements were amended and clients were given prior notice additional steps need to be enacted. Internal Audit will be conducting a second follow up on open/ in progress actions and, should inactivity remain, escalation to the Corporate Governance Board and individual directorates on a quarterly basis will occur.
- 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.

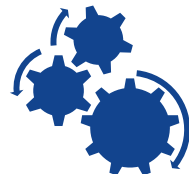
No Assurance

Limited Assurance

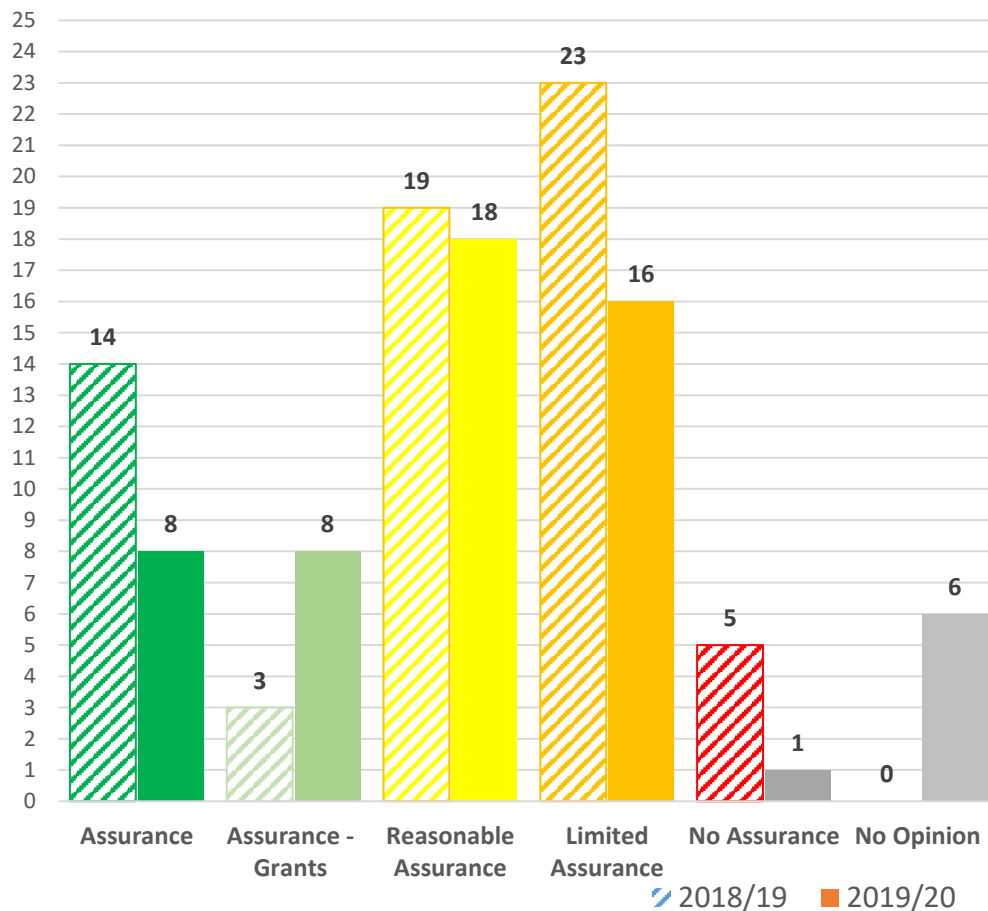
Reasonable Assurance

Full Assurance

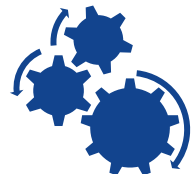
- 2.4** Any significant corporate weaknesses and agreed actions are reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2019/20 may affect that year's work for External Audit. It may also inform their work for 2020/21 and where they consider there are weaknesses in 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.



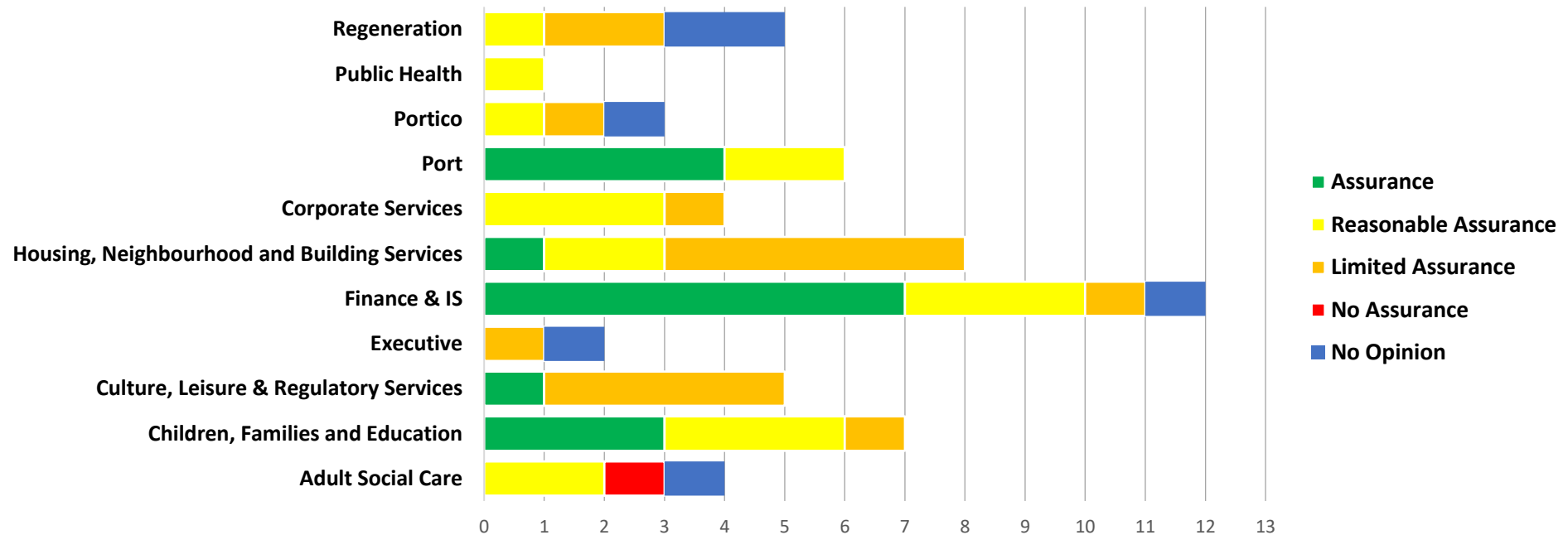
3. Comparative 2018/19 & 2019/20 Full Audit Assurance Levels



	2018/19	2019/20	TOTAL
Assurance	14	8	24
Assurance - Grants	3	8	9
Reasonable Assurance	19	18	37
Limited Assurance	23	16	39
No Assurance	5	1	6
No Opinion	0	6	4
TOTAL	64	57	121



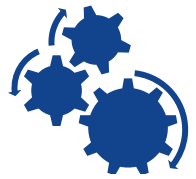
4. 2019/20 Full Audit Assurance by Directorate



	Assurance	Reasonable Assurance	Limited Assurance	No Assurance	No Opinion	TOTAL
Adult Social Care	0	2	0	1	1	4
Children, Families and Education	3	3	1	0	0	7
Culture, Leisure & Regulatory Services	1	0	4	0	0	5
Executive	0	0	1	0	1	2



Finance & IS	7	3	1	0	1	12
Housing, Neighbourhood and Building Services	1	2	5	0	0	8
Corporate Services	0	3	1	0	0	4
Port	4	2	0	0	0	6
Portico	0	1	1	0	1	3
Public Health	0	1	0	0	0	1
Regeneration	0	1	2	0	2	5
TOTAL	16	18	16	1	6	57



5. Key Areas of Concern for 2019/20

5.1 The 'no assurance' audit noted above relates to the following area:

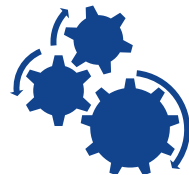
- **Deprivation of Liberties - Adult Social Care (this was reported to committee in March 2020)**

5.2 Follow up reviews to ascertain the current position for audits where one or more **high risk** exception was raised during 2019/20, including all of the areas summarised above, will be performed during 2020/21. Until this work is completed these will remain areas of concern.

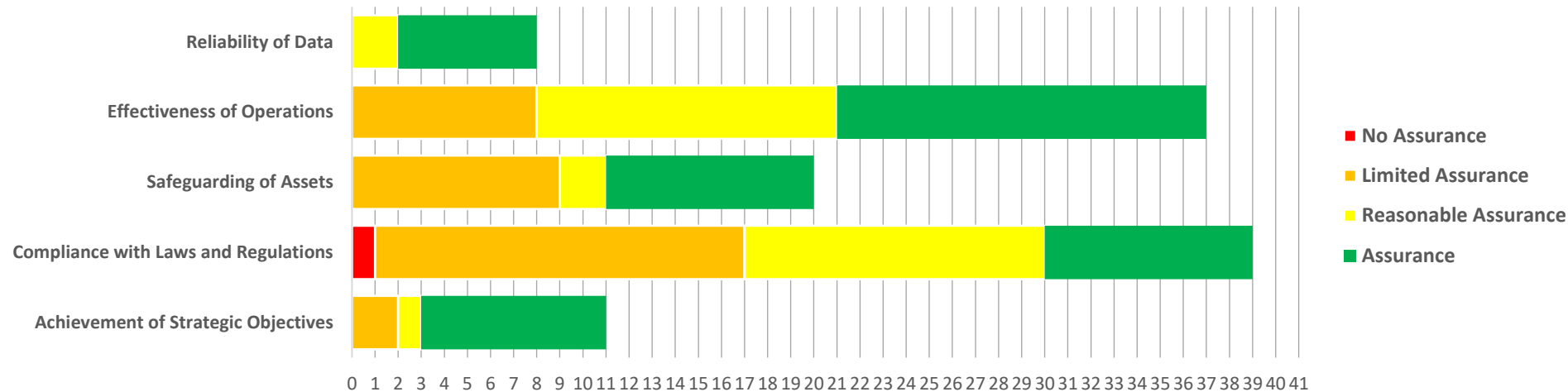
5.3 During 2019/20 Internal Audit carried out follow up reviews on all areas where 'no assurance' was provided under the 2018/19 audit plan. The results show the following movement.

- Community Centres (Housing, Neighbourhood and Building Services) - post follow up assurance level - **Reasonable Assurance** - This was reported to committee in March 2020.
- Gifts and Hospitality (Portico) - post follow up assurance level - **Limited Assurance** - This was reported to committee in March 2020.
- Hire Cars (Regeneration) - post follow up assurance level - **Limited Assurance** - This was reported to committee in March 2020.
- Home 2 School Transport (Regeneration) - post follow up assurance level - **Reasonable Assurance** - This was reported to committee in March 2020.
- CCTV (Port) - post follow up assurance - **Limited Assurance** - Further details can be found within the Internal Audit Progress Report July 2020.

5.4 Until actions are fully implemented assurance cannot be given that the underlying risks have been addressed. Due to this, in a change to usual practice, Internal Audit has scheduled additional follow-up activity during 2020/21, to revisit open actions from 2018/19 audits.

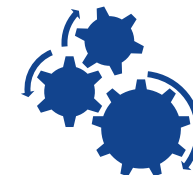


6. 2019/20 Assurance Analysis by Risk Classification

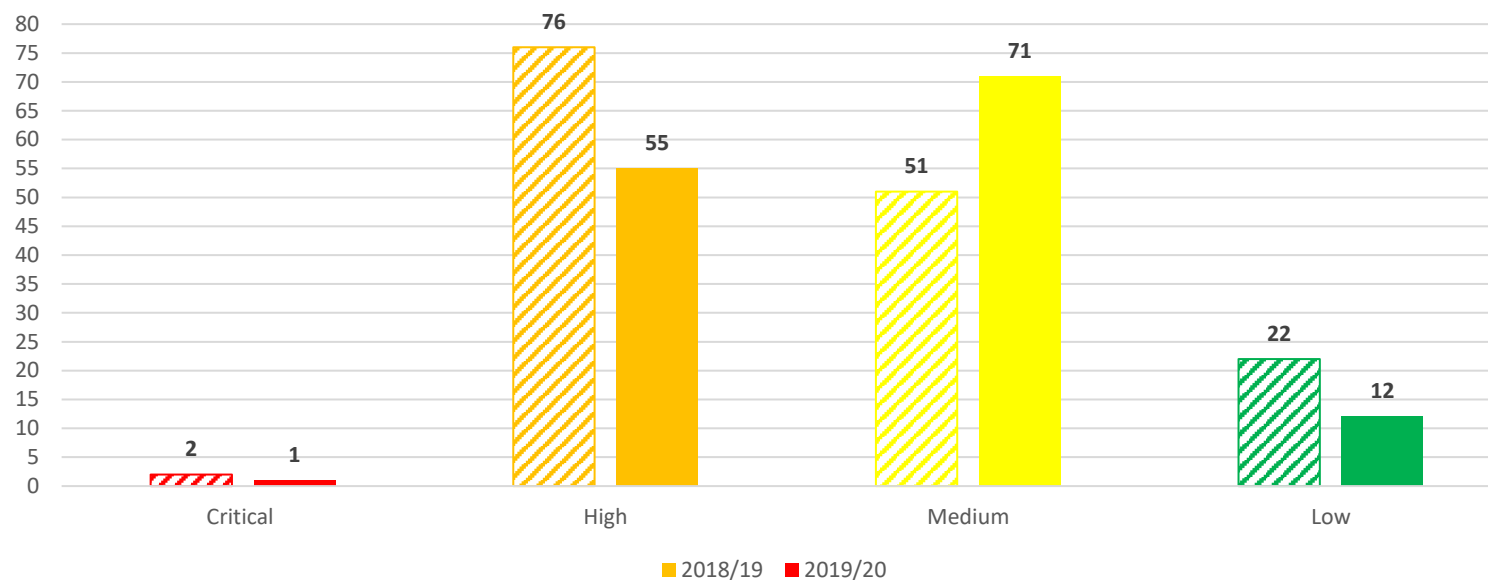


	No Assurance	Limited Assurance	Reasonable Assurance	Assurance	TOTAL
Achievement of Strategic Objectives	0	2	1	8	11
Compliance with Laws and Regulations	1	16	13	9	39
Safeguarding of Assets	0	9	2	9	20
Effectiveness of Operations	0	8	13	16	37
Reliability of Data	0	0	2	6	8
TOTAL	1	35	31	48	

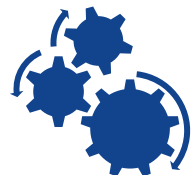
Note: not all audits assess all risk classifications; information on this page is limited to where audits assign an assurance rating to a risk classification.



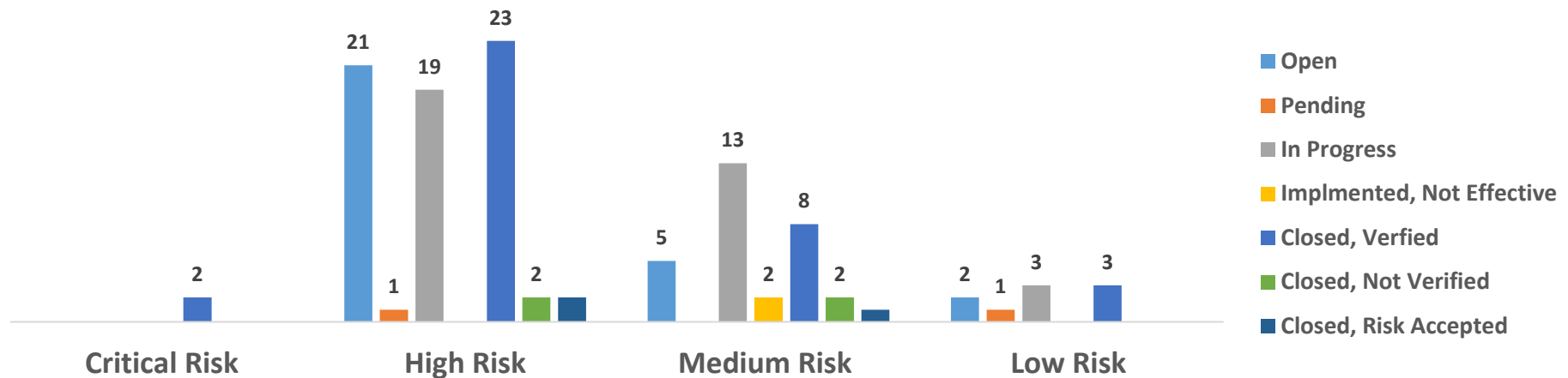
7. Comparative 2018/19 & 2019/20 Exception Risk Rankings



	2018/19	2019/20	TOTAL
Critical Risk	2	1	3
High Risk	76	55	131
Medium Risk	51	71	122
Low Risk	22	12	34
TOTAL	151	139	

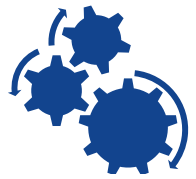


8. 2019/20 Follow Up Analysis



	Open	Pending	In Progress	Implemented, Not Effective	Closed, Verified	Closed, Not Verified	Closed, Risk Accepted	TOTAL
Critical Risk	0	0	0	0	2	0	0	2
High Risk	21	1	19	0	23	2	2	68
Medium Risk	5	0	13	2	8	2	1	31
Low Risk	2	1	3	0	3	0	0	9
TOTAL	28	2	35	2	36	4	3	110

Internal Audit follows up exceptions where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within three months due to the potential severity of the risks identified. The overall position of the exceptions followed up in 2019/20 show that 41% have been closed and verified by audit, however 59% remain open, pending and or are in progress.



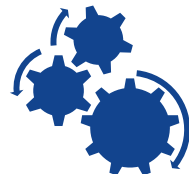
9. Data Analytics / Continuous Auditing

9.1 IDEA data analytics was used extensively throughout the 2019/20 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

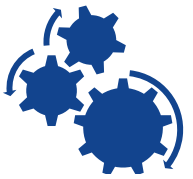
9.2 Across all audits, including external clients, IDEA is considered and where appropriate utilised. Examples of where IDEA was used include:

- Accounts Payable - Duplicate payments - run weekly.
- Random Sampling / Stratified Random Sampling
- Analysis on contract data - i.e. price and dates
- 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)
- Analysis of daily revenue, identifying dates where takings were outside of the normal parameters, correct calculation of VAT on prices for coffee shops.
- Data match of cars parked in specific location to identify cars without a permit



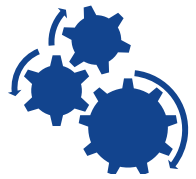
9.3 Internal Audit has also created a continuous auditing process in relation to the identification of potential duplicate payments at PCC. A series of 6 tests are run on a weekly basis on all invoices within the EBS system. Non validated invoices would not be paid until validation occurred therefore the risk of the duplicate payment being made is lower than those invoices which have been validated. The Accounts Payable team have now out-sourced to an external supplier 'AP Fiscals' for the identification of potential duplicate payments at PCC from March 2020. From April 1st 2019 to 3rd March 2020, the tests identified the following:

Row Labels	Sum of Amount
Non Validated Duplicate Invoice Value	£164,927.25
Validated Duplicate Invoice Value	£89,236.88
Grand Total of the value of the duplicate invoices found	£254,164.13



10. Unplanned Reactive Work

- 10.1** Throughout the financial year 2019/20, Internal Audit conducted 6 corporate investigations and received 115 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 2020 meeting.
- 10.2** Internal Audit also provided services across the council with 24 items of advice were provided. Advice is recorded if the time spent to conduct the required work exceeds 1 hour of officer time.



11. External Client Analysis and Performance

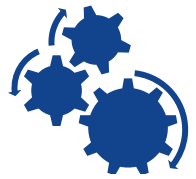
11.1 The Internal Audit & Counter Fraud service at Portsmouth City Council have maintained the contracts in place for the provision of Internal Audit & Counter Fraud duties with a number of external clients as noted below. These arrangements are to cover, audit, investigations & National Fraud Initiative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

11.2 External Client Base for 2019/20

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

11.3 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)

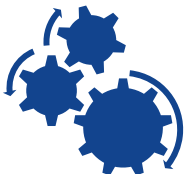


12. Quality Assurance

12.1 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 10.

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

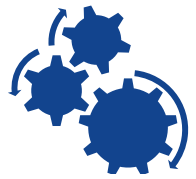
- a.** Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- b.** Weekly or bi-weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- 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, (this includes the wider 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 addressed 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 (12.3).
- 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 will be requested during 2020/21 in order to ascertain whether the service provided complies with *PSIAS*.



Skills Gap Analysis for 2019/20

12.3 Essential Areas: where greater coverage of skills is needed moving forward:

- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service with only two officers currently qualified. To address this shortfall, professional training will continue for a third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.



13. Public Sector Internal Audit Standards

Introduction

- 13.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards)* *Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) 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.
- 13.2** *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 on Portsmouth City Council's Internal Audit & Counter Fraud Service.