

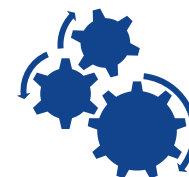


# Portsmouth CITY COUNCIL

## Portsmouth City Council Annual Audit Report 2021/22

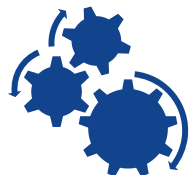
Elizabeth Goodwin, Chief Internal Auditor





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# 1. Background

## Public Sector Internal Audit Standards

**1.1** On 1<sup>st</sup> 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 1<sup>st</sup> 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:

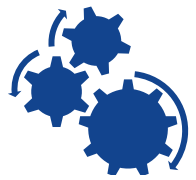
*A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

**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.

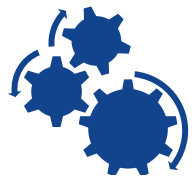
**1.8** An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2021/22 confirmed that the Portsmouth City Council's, Internal Audit Service is compliant with requirements.

### **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, Leader of the Council and the Chair of the Governance and Audit and Standards Committee.

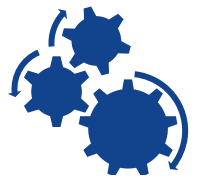


## 2. Annual Opinion for 2021/22

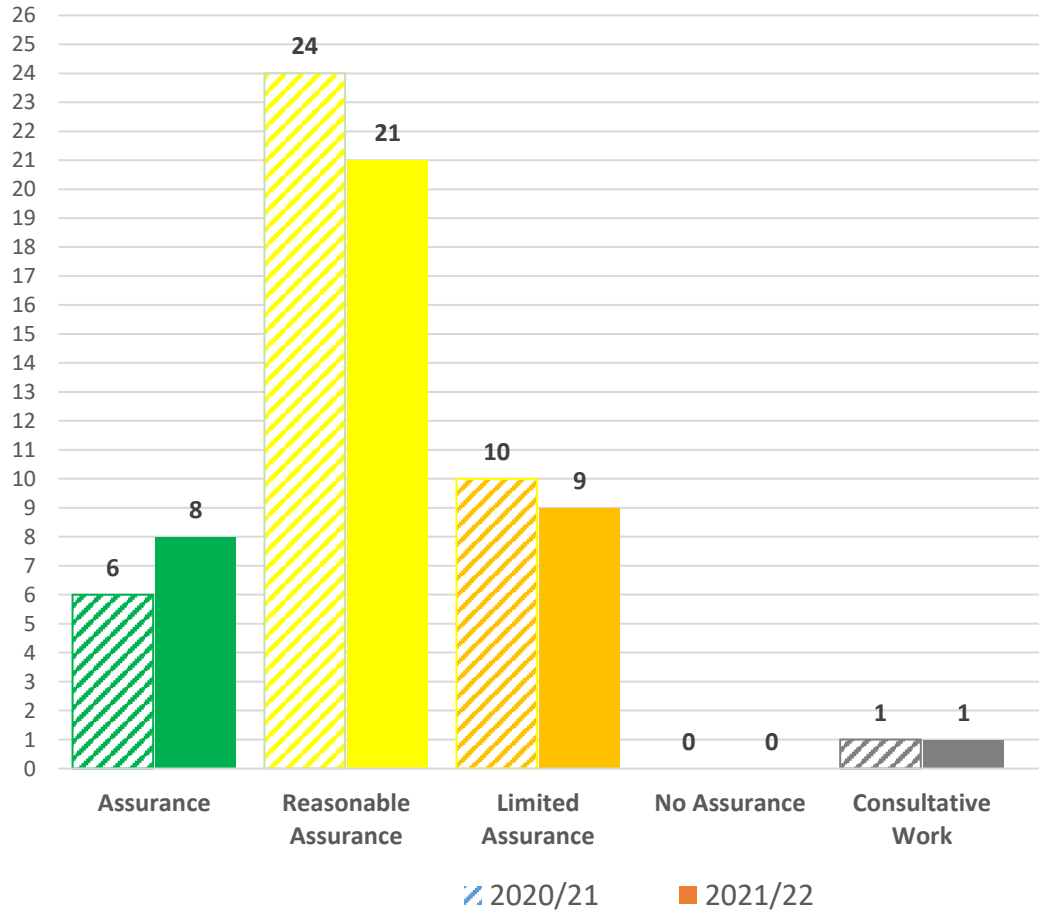
- 2.1** During 2021-22 Internal Audit & Counter Fraud completed 39 full audits, 23 grant reviews, 14 first follow ups and 6 second follow ups. The results show that the level of 'No Assurance' audited areas have stayed the same as last year. There has been a slight decrease of 'Limited and Reasonable' rated areas and an increase in 'Assurance' areas overall against the 2021/22 plan. As a whole 'Reasonable Assurance' has been attributed indicating that the governance framework is effective despite ongoing and significant pressures on the Authority. The historic annual opinion for numerous years has been Limited. A review of the results across the authority shows that there are no individual directorates that attribute to the majority of high-risk areas, although there are pockets of weakness that require improvement. The results across audit work performed this year have not identified any systemic failings. One critical exception has been raised and is detailed in this report, this relates to growing concerns and attempts of fraud, perpetrated by external parties.
- 2.2** Over the past several years a residual issue has been highlighted in the number of outstanding actions for implementation. This year there has been continued progress as 51% of risks exceptions have been closed. This is also reflected in that 65% of follow up audits achieved improvement for the opinion level, with only 35% remaining the same, due to insufficient movement to deliver actions. Although progress is noted, it is recognised that Covid 19 has had an impact on services for 2021/22 where due to circumstances outside of their control some actions were difficult or impractical to address. This position needs to continue to improve if the Authority is to strive to manage risk exposure more effectively and retain the overall assurance opinion. Corporate Governance Board and individual directorates will be updated on a quarterly basis with all open risk exposures.
- 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. Reasonable Assurance is provided for this year, with the above narrative that the internal control framework in operation at Portsmouth City Council is improving.



- 2.4** Any significant corporate weaknesses and agreed actions are reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2021/22 may affect that year's work for External Audit. It may also inform their work for 2022/23 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.

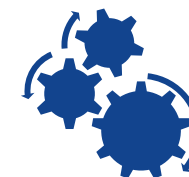


### 3. Comparative 2020/21 & 2021/22 Full Audit Assurance Levels

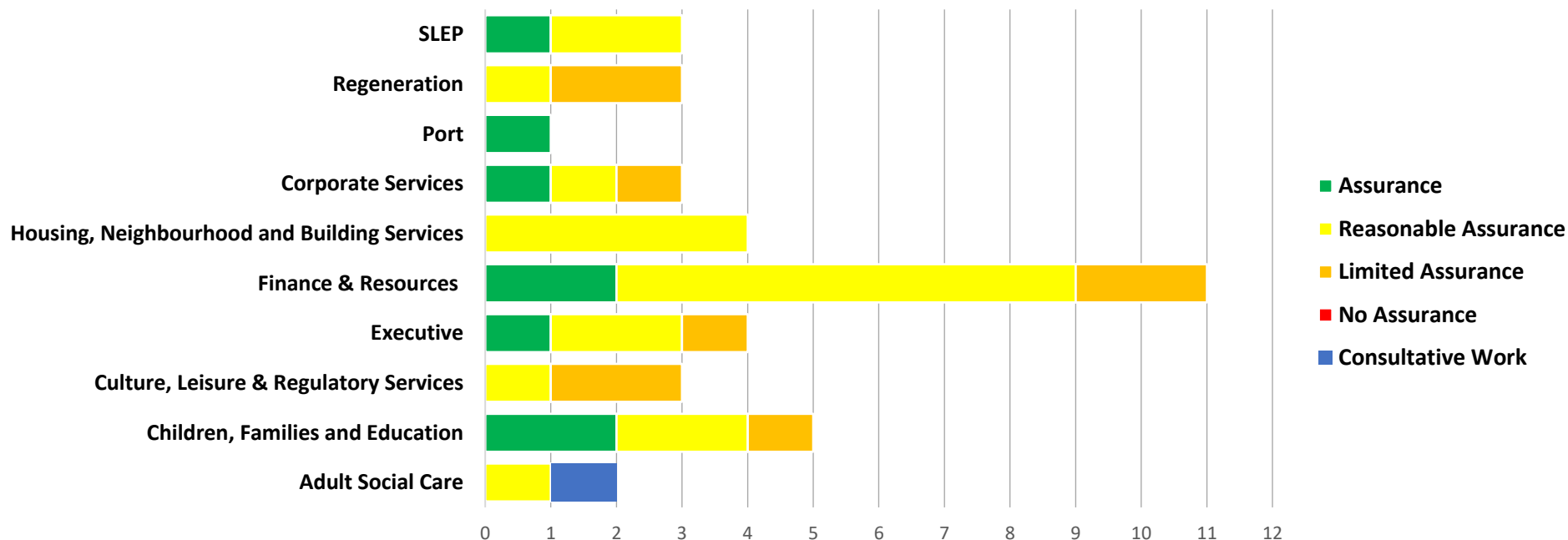


	2020/21	2021/22
<b>Assurance</b>	<b>6</b>	<b>8</b>
<b>Reasonable Assurance</b>	<b>24</b>	<b>21</b>
<b>Limited Assurance</b>	<b>10</b>	<b>9</b>
<b>No Assurance</b>	<b>0</b>	<b>0</b>
<b>Consultative Work</b>	<b>1</b>	<b>1</b>
<b>TOTAL</b>	<b>41</b>	<b>39*</b>

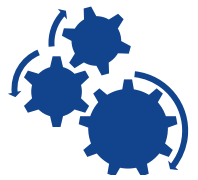
*\*Grant verification reviews have been excluded from the figures above. For context the number of grants requiring review and sign of by Internal Audit has increased from 13 in 2020/21 to 23 in 2021/22*



## 4. 2021/22 Full Audit Assurance by Directorate



	Assurance	Reasonable Assurance	Limited Assurance	No Assurance	Consultative Work	TOTAL
Adult Social Care	0	1	0	0	1	2
Children, Families and Education	2	2	1	0	0	5
Culture, Leisure & Regulatory Services	0	1	2	0	0	3
Executive	1	2	1	0	0	4
Finance & Resources	2	7	2	0	0	11



Housing, Neighbourhood and Building Services	0	4	0	0	0	4
Corporate Services	1	1	1	0	0	3
Port	1	0	0	0	0	1
Regeneration	0	1	2	0	0	3
SLEP	1	2	0	0	0	3
<b>TOTAL</b>	<b>8</b>	<b>21</b>	<b>9</b>	<b>0</b>	<b>1</b>	<b>39</b>

*\*Grant verification reviews have been excluded from the figures above. For context the number of grants requiring review and sign off by Internal Audit has increased from 13 in 2020/21 to 23 in 2021/22*



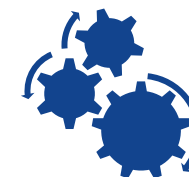


## 5. Key Areas of Concern for 2021/22

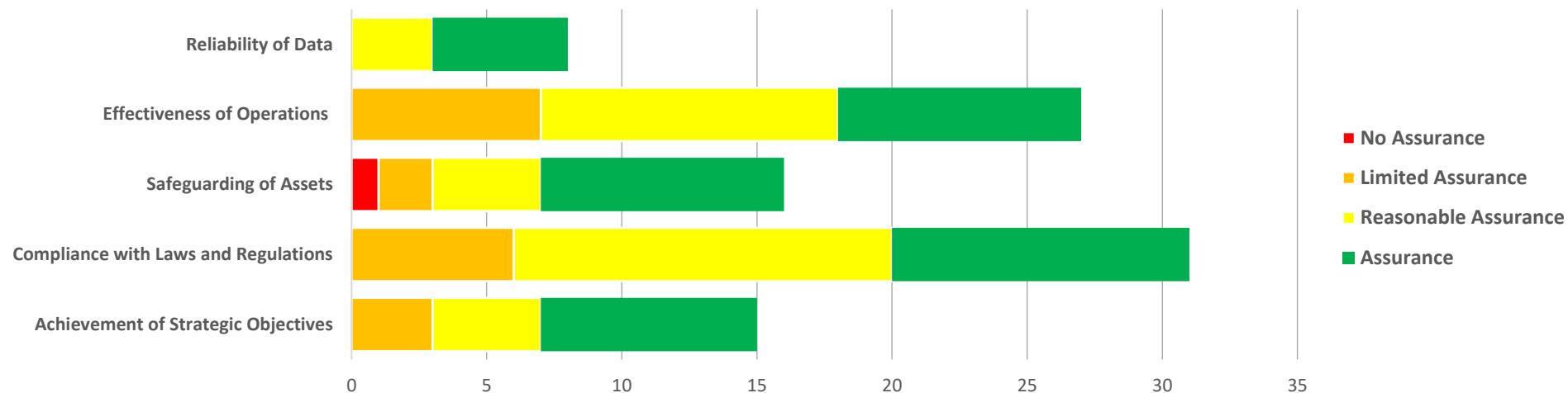
5.1 There were no 'no assurance' audits noted for this year which is the same position as last year. There has been one area of concern resulting from work conducted during the 2021/22 financial year, resulting in one critical risk exception being raised in relation to:

- **Accounts Payable - Supplier Bank Details (Further details included within the July 2022 Internal Audit Progress Report)**

5.2 During 2021/22 Internal Audit carried out follow-up reviews on all areas where one or more high risk exception was raised during 2020/21. While progress implementing actions has improved from 2020/21 (despite the impact of COVID 19) there are still areas where not all actions are fully implemented at the point of follow-up. Consequently, to ensure all actions are fully implemented, Internal Audit will continue the approach established in prior years, with second follow-ups carried out where this is the case.

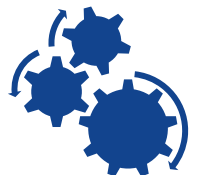


## 6. 2021/22 Assurance Analysis by Risk Classification

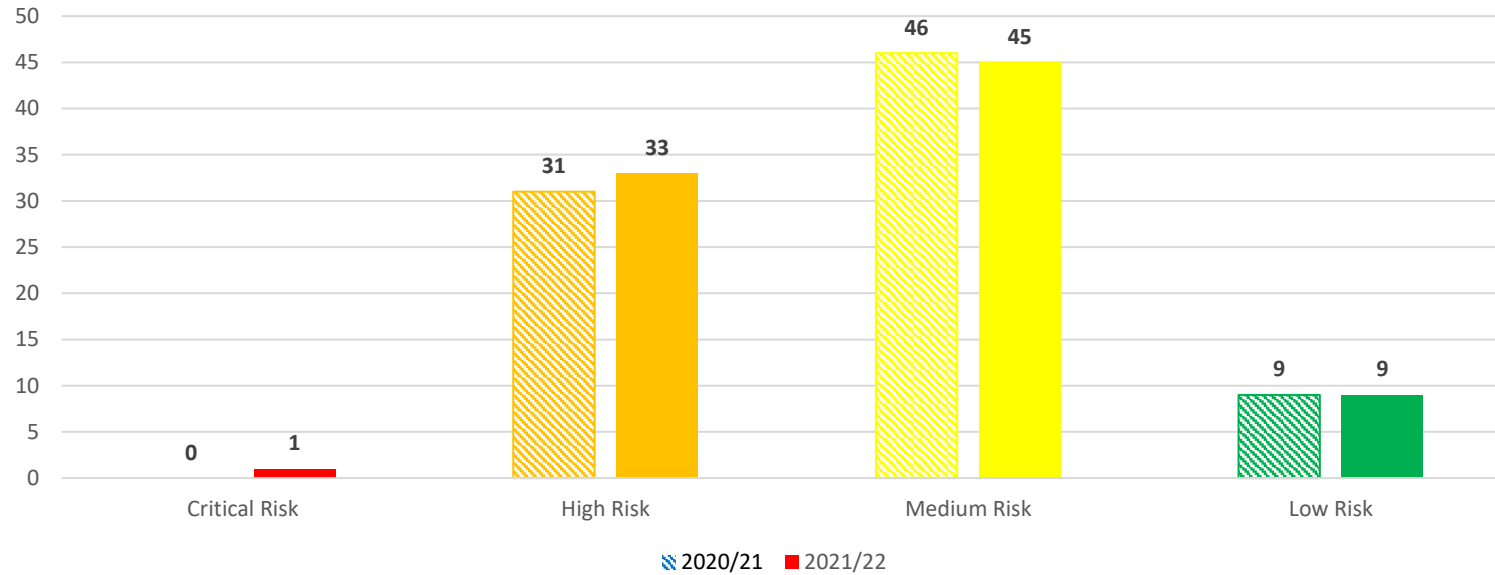


	No Assurance	Limited Assurance	Reasonable Assurance	Assurance	TOTAL
Achievement of Strategic Objectives	0	3	4	8	15
Compliance with Laws and Regulations	0	6	14	11	31
Safeguarding of Assets	1	2	4	9	16
Effectiveness of Operations	0	7	11	9	27
Reliability of Data	0	0	3	5	8
<b>TOTAL</b>	<b>1</b>	<b>18</b>	<b>36</b>	<b>42</b>	<b>97</b>

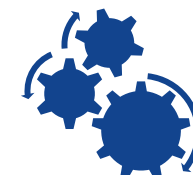
Note: not all audits assess all risk classifications; information on this page is limited to where audits assign an assurance rating to a risk classification.



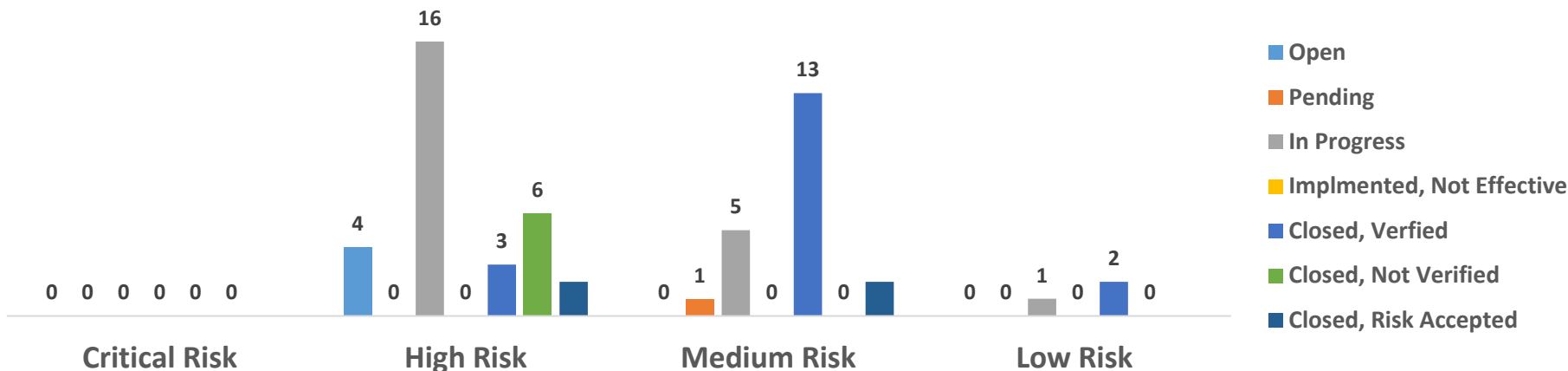
## 7. Comparative 2020/21 & 2021/22 Exception Risk Rankings



	2020/21	2021/22
<b>Critical Risk</b>	<b>0</b>	<b>1</b>
<b>High Risk</b>	<b>31</b>	<b>33</b>
<b>Medium Risk</b>	<b>46</b>	<b>45</b>
<b>Low Risk</b>	<b>9</b>	<b>9</b>
<b>TOTAL</b>	<b>86</b>	<b>88</b>



## 8. 2021/22 Follow Up Analysis



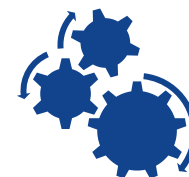
	Open	Pending	In Progress	Implemented, Not Effective	Closed, Verified	Closed, Not Verified	Closed, Risk Accepted	TOTAL
<b>Critical Risk</b>	0	0	0	0	0	0	0	0
<b>High Risk</b>	4	0	16	0	3	6	2	31
<b>Medium Risk</b>	0	1	5	0	13	0	2	21
<b>Low Risk</b>	0	0	1	0	2	0	0	3
<b>TOTAL</b>	4	1	22	0	18	6	4	55

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 figures above also include results from second follow ups. Internal Audit has conducted second follow ups where the first review has highlighted risk exposure still unmitigated. The overall position of the exceptions followed up in 2021/22 show that 51% have been closed which is an improvement from the 2020-21 year by 11%, however it is noted that 49% remain open, pending and or are in progress.

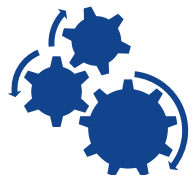


## 9. 2021/22 Grant Audit Summary

Audit	Directorate	Status	Assurance Level	Comments
2SEAS PECS Grant	Port	Final	Assurance	
2SEAS PECS Grant	Port	Final	Assurance	
2SEAS SPEED Grant	Port	Final	Assurance	
Additional Dedicated H2S & College Transport No 31/5137 Tranche 1-4	Regeneration	Final	Assurance	
Additional Dedicated H2S & College Transport No 31/5137 Tranche 5	Regeneration	Final	Assurance	
Bus Subsidy	Regeneration	Final	Assurance	
COVID Income Loss Claim Grant	Finance and Resources	Final	Assurance	
Culture Recovery Grant	Culture, Leisure and Regulatory Services	Final	Assurance	
Disabled Facilities	Housing Neighbourhood and Building Services	Final	Assurance	
Green Homes Grant 1	Regeneration	Final	Assurance	
Homelessness Prevention Grant 2021-22	Housing Neighbourhood and Building Services	Final	Assurance	
Local Transport Capital	Regeneration	Final	Assurance	



Orpheus Grant Claim 2	Children, Families and Education	Final	Assurance	
Orpheus Grant Claim 1	Children, Families and Education	Final	Assurance	
Port Grant	Port	Final	Assurance	
Rough Sleeping Initiative Q1 2021-22 and Rough Sleeping uplift	Housing Neighbourhood and Building Services	Final	Assurance	
Local Growth Deal	SLEP	Final	Assurance	
Troubled Families Grant	Children, Families and Education	Final	Assurance	
Emergency Active Travel Grant	Regeneration	Final	Assurance	
City of Stories Culture Grant	Culture, Leisure and Regulatory Services	Final	Assurance	
Additional Home to School Transport Survey	Regeneration	Final	Assurance	
Bus Service Support Grant - Restart	Regeneration	Final	Assurance	
Protect and Vaccinate 31/5913	Housing Neighbourhood and Building Services	Final	Assurance	



## 10. Data Analytics / Continuous Auditing

**10.1** IDEA data analytics was used extensively throughout the 2021/22 financial year in order to aid Internal Audit & Counter Fraud in using resources efficiently. These include:

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

**10.2** Across all audits, including external clients, IDEA is considered and where appropriate utilised for random & stratified sampling. Examples of where IDEA was used include:

- Accounts Payable - Data Analytic Review, Analysis on contract data - i.e. price and dates, Comparison of training records to current employees.
- Purchase Cards - To highlight (Split transactions / transactions over the limit / and transactions non-compliant with the purchasing cards policy)
- Payroll - Analytic review on employee data/ national insurance number's / bank details.
- Multiple PDF reports converted to excel
- Random Sampling
- Additional Restrictions Grant - duplicate payment checks along with data matching against other grants to ensure businesses only received the grants they were entitled to.



## 11. Counter Fraud & Audit Unplanned Reactive Work

**11.1** A summary has been provided of Counter Fraud and Audit reactive work conducted during the 2021/22 year.

### 11.2 Referrals

The Counter Fraud team receive a number of fraud referrals which are risk assessed to determine if a full investigation is needed. For 2021/22 86 cases were investigated. This is an increase from the previous year as a result of concerns raised from officers in relation to housing tenancy fraud and abandoned properties potentially as a result from the Covid-19 pandemic. The level of overall fraud work increased due to the Covid Pandemic and issuing of grants across multiple areas and impacting all clients. The ability to progress some cases has been hampered by the Council's inability to conduct Interviews under Caution, due to social distancing restrictions as well as relaxing non-critical services. The main areas covered this year are outlined below:

### 11.3 Test & Trace - £500 Isolation Payments.

101 of the Test & Trace Applications were verified in accordance with the terms and conditions of Central Government's request that a minimum of 10% be checked. These required NHS isolation system confirmation and Inland Revenue income checks. For the 101 tested it has been determined that 11 did not meet the criteria and there is a process underway to recover these as invoices will be raised to recover the amounts paid (£5,500).

### 11.4 Ongoing NFI

PCC Counter Fraud and Audit are responsible for the management and admin of the Authority's participation in the National Fraud Initiative (NFI) which is a mandatory scheme in which multiple data sets are uploaded and analysed. The results are then presented back to the council for investigation. NFI does not run-in financial years but spans a period of 18 months. The next run is due to be conducted in September 2022.

### 11.5 Right to Buy (RTB)

During 2021/22, PCC Counter Fraud increased its involvement in the fraud checks associated with Right to Buy applications. The right to buy scheme allows long standing council tenants to purchase their council property at a discounted price of up to 70%. Due to the significant discounts involved, fraudulent applications for RTB have become more prevalent in recent years. To combat this risk, PCC Counter Fraud now review all applications for a fraud risk and conduct relevant enquires with the applications.

During 2021/22 Counter Fraud aided in the following:

- 9 Right to Buy enquiry and due diligence checks. There was no evidence that the Right to Buy could not proceed for the 9 queried with Counter Fraud.





Central government guidelines state that each property recovered is a financial benefit to the Authority of £18,000 per property recovered. However it also should be noted the Council has retained the asset without needing to sell at the discounted price.

### 11.6 Social Media Surveillance

Use of social media as a means of carrying out surveillance is not permitted unless a Regulations Investigatory Powers Act 2000 (RIPA) application has been successful. Counter Fraud and Audit maintain oversight and are responsible for monitoring the arrangements in place in this area. Checks have been carried out on all services with the agreed ability to perform initial checks on social media to ensure that they are operating within the legislative boundaries.

### 11.7 Money Laundering

Counter Fraud are responsible for the monitoring and investigation of any suspected money laundering cases presented to the council. PCC policy outlines that any cash payment received over £5000 will be investigated. During 2021/22, 1 money laundering investigation was undertaken however there were no cases that were deemed to require further investigation.

### 11.8 Advice

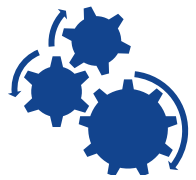
Internal Audit gave 24 items of advice across varying council services on risk and control throughout the financial year 2021/22. Advice is recorded if the time spent to conduct the required work exceeds 1 hour of officer time.

### 11.9 Independent investigations

In addition to the above Counter Fraud and Audit performed investigations into:

- Two cases relating to alleged failure to comply with either contract procedure rules or purchase card requirements. Both cases were substantiated.
- Two additional cases relating to failure to effectively monitor the provision of agency costs.

All whistleblowing cases are reported under a separate report, submitted earlier this year.



## 12. External Client Analysis and Performance

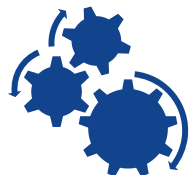
**12.1** The Internal Audit & Counter Fraud service at Portsmouth City Council have maintained the contracts in place for the provision of Internal Audit & Counter Fraud duties with a number of external clients as noted below. These arrangements cover some or all of the following; audits, investigations, NFI administration, anti-money laundering and where applicable the role of the Chief Internal Auditor.

**12.2** External Client Base for 2021/22

- Southampton City Council
- Fareham Borough Council
- Solent Local Enterprise Partnership
- Gosport Borough Council
- Various PCC Schools
- Isle of Wight Council
- Rushmore Borough Council
- Portico (MMD)
- Medina Primary School (IOW)

**12.3** 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
- Portico (MMD)

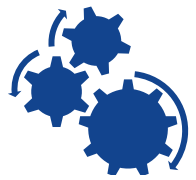


## 13. Quality Assurance

**13.1** 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.

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

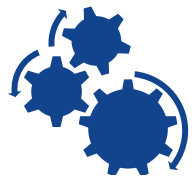
- Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- Weekly or bi-weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- 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.
- 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.
- 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 (13.2).
- All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- Feedback has been received during 2021/22 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



## Skills Gap Analysis for 2021/22

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

- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service (Partnership) 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.
- *Counter Fraud skills:* whilst there are three officers qualified in Counter Fraud (CF) and investigative practice these resources are limited. The vacant post for a fourth officer has been successfully filled. There has been a significant increase in investigating and counter fraud work which has placed this area of the service under extreme pressure.
- *Qualified Accountants:* the final area to note is in relation to the level of qualified auditors, specifically 'accountancy qualified'. Following the retirement of three officers within the partnership a gap has emerged representing a shortfall in this area. One implication is the ability to verify certain grant work, where the accounting qualification is restricted. Recruitment is in the process of taking place and further discussions will be held with the s151 officer to review the arrangements moving forward relating to both the accountancy qualifications and counter fraud skills.



## 14. Public Sector Internal Audit Standards

- 14.1** 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.
- 14.2** *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. A second external assessment is planned for the financial year 2022/23.