



Title of meeting: Governance & Audit & Standards Committee

Date of meeting: 7th November 2014

Subject: Audit Performance Status Report to 6th October 2014 for Audit Plan 2013/14

Report by: Chief Internal Auditor

Wards affected: All

Key decision (over £250k) No

Full Council decision: No

1. Summary

- 1.1 There are two new critical exceptions highlighted in this report for the 2013/14 Audit Plan. Further details are provided under Section 6 of this report.
- 1.2 Since the last meeting one follow up Audit has been added to the 2014/15 Audit Plan. Further details are reported in Section 5.4.
- 1.3 There are now 167 planned Audits for 2014/15 made up of 120 new reviews and 47 follow up audits. Of these 92 (55%) have been completed or are in progress as at 6th October 2014. This represents 43 audits (26%) where the report has been finalised, 5 audits (3%) where the report is in draft form and 44 audits (26%) currently in progress.
- 1.4 In addition to the planned audits there are 12 areas of on-going work and 4 continuous audits which contribute to risk assurance.
- 1.5 Areas of Assurance are shown in Appendix A.
- 1.6 134 days of reactive work have been undertaken to 6th October 2014, with 200 days set aside in the 2014/15 Audit Plan.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2014/15 to 6th October 2014 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

3. Background

- 3.1 The Annual Audit Plan for 2014/15 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 30th January 2014 following consultation with Heads of Services, Strategic Directors and the Chair of this Committee.

4. Recommendations

- 4.1 That Members note the Audit Performance for 2014/15 to 6th October 2014.
- 4.2 That Members note the highlighted areas of control weakness for the 2014/15 Audit Plan.
- 4.3 That Members note the changes in the Audit Plan.

5. Audit Plan Status 2014/15 to 6th October 2014

Percentage of approved plan completed

- 5.1 55% of the annual audit plan has been completed or is in progress as at 6th October 2014, slightly above the equivalent period last year and the Audit Plan should be achieved. However this will be dependent upon the amount of reactive work that is undertaken.
Appendix A shows the completed audits for 2014/15. Appendix B shows the completed follow up audits for 2014/15

The overall percentage figure is made up as follows;

- 27 new reviews (16%) where the report is finalised, 4 (2%) in draft form and 39 (23%) currently in progress.
 - 16 planned follow ups (10%) where the report is finalised, 1 (1%) in draft form and 5 (3%) work in progress.
- 5.2 As requested by Members of the Committee a breakdown of the assurance levels on completed audits is contained in Appendix A. Where specific parts of the control framework have not been tested on an area (because it has been assessed as low risk for example) it is recorded as NAT (No Areas Tested) on the Appendix.
- 5.3 A record of completed follow up audits can be found in Appendix B. This Appendix also breaks down the number of exceptions followed up for each audit and is separated by risk level. An explanation has been provided where agreed actions on high risk exceptions have not yet been completed.

Changes to the Audit Plan

- 5.4 In total there are now 167 Audits in the Plan as opposed to 182 originally. The changes and the reasons for them, were reported to Members at their September meeting.
- 5.5 An additional follow up of Data Quality Checks within HR, Legal and Performance has been added to the 2014/15 Audit Plan.

Reactive Work

5.6 200 days have been allowed for reactive work and investigations in 2014/15 and 134 days have been used to 6th October 2014.

5.7 The 134 reactive days were used for:

- 15 special investigations
- 11 items of advice

As well as the following unplanned reviews:

- Adoption Reform Grant
- Pilots National Pension Fund verification of contributions
- Personal Travel Budgets
- Parking Cash Office

Exceptions

5.8 Of the programmed reviews completed so far this year the number of exceptions in each category have been:

- 3 Critical
- 41 High Risk
- 22 Medium Risk
- 5 Low Risk (improvements)

5.9 The table below is a comparison of the audit status figures, up to October 2014 for this financial year and the previous two years.

	2012/2013	2013/2014	2014/15
% of the audit plan progressed	53%	49%	55%
No. of Critical exceptions	1	2	3
No. of High risk exceptions	48	89	41
No. of reactive days	171	166	134

On-going Areas

- 5.10 The following 12 areas are on-going areas of work carried out by Internal Audit;
- Regulation of Investigatory Powers Act (RIPA)- authorisations and training
 - Anti-Money Laundering review of Policy and training
 - Investigations (included in the 200 days of reactive work)
 - Financial Rules waivers
 - National Fraud Initiative (NFI) to facilitate national data matching carried out by the Audit Commission
 - National Anti-Fraud Network (NAFN) bulletins and intelligence follow up

- Counter Fraud Programme
- Policy Hub project to ensure that all Council policies are held in one place and staff are notified of the policies relevant to them
- G&A&S Committee reporting and attendance and Governance,
- Audit Planning and Consultation
- Risk Management
- Compliance with Financial Rules monitoring

Continuous Audit Areas

5.11 The following 4 areas are subject to continuous audit (i.e. regular check to controls) and feed into overall assurance;

- Legionella Management
- Asbestos Management
- Key risks management in services
- Performance Management

6. Areas of Concern

Concerns identified since the last meeting

6.1 There are two new areas of concern (critical risk exceptions) highlighted in finalised reports to services since the previous status report to this Committee from this year's Audit Plan. There is also a further audit where "No assurance" has been given.

6.2 Children's Social Care - Direct Payments Audit 2014/15

6.2.1 The Direct Payments Audit has highlighted two critical risk exceptions.

6.2.2 The first critical risk exception relates to insufficient monitoring being undertaken on whether Direct Payment Returns are being received from parents/guardians. This could result in the Authority failing to recover balances due to it. Further risks include that the Authority cannot currently prevent or protect against fraud as they cannot demonstrate how funds are being spent.

6.2.3 The second critical risk relates to checks undertaken on returns received from 10 Direct Payments clients. Testing identified a number of irregularities within the results including failing to provide returns, overdraft fees being incurred, unsigned invoices and incorrect use of payments.

6.2.4 The risks related to both exceptions are that:

- The Authority is failing to recover balances due to it
- The Authority is unable to prevent or detect fraudulent activity as it cannot demonstrate how funds are being spent by clients
- Without the evidence of how payments are being spent the Authority cannot be sure that the needs of the child are being adequately met

6.3 Agreed Actions

- 6.3.1 For the first exception an action has been agreed whereby Financial Services will now provide a monthly listing of returns received and outstanding to the Children with Disabilities Team who will use the report to take any action deemed necessary.
- 6.3.2 For the second exception the following actions have been agreed with the Team Manager/Group Account (Children with Disabilities):
- A new policy to be introduced whereby payments will be suspended if returns are outstanding for longer than two months. In the interim letters are to be sent to those parents who have not submitted returns for 6 months or more
 - A new process is to be designed in relation to the processing of client returns
 - Clearly defined roles and responsibilities for the processing of payments within each team are to be created
 - Current method of making direct payments to be reviewed

The agreed actions are due to be followed up in January 2015 and will be reported on at the March 2015 meeting.

6.4 Update on Secondary School reported January 2014

- 6.4.1 In July 2013 Internal Audit carried out an investigation into alleged financial irregularities at a Secondary School and as a result of the overall findings the School was issued with a 'Notice of Concern' under the scheme for Financing Schools Section 2.15 jointly by the Section 151 Officer and Director of Children's Services.
- 6.4.2 The Notice of Concern set out specific actions required by the City Council to be implemented by the Governing Body and the School's senior management team to address concerns raised. A second visit has been carried out by Internal Audit the purpose of which was to ascertain the progress made in relation to those actions and to perform a full audit on the remaining financial activities that were not covered during the initial investigation.
- 6.4.3 It was identified during this second visit that the majority of actions agreed in the school's action plan were evidenced as having been resolved by resignation, retirement, or implementation; for example significant progress has been made to resolve the concerns relating to safeguarding of assets, including physical verification and disposal authorisation and obtaining value for money for purchases of IT equipment and general supplies.
- 6.4.4 The full audit has now been completed and the report finalised. 14 high risk and 1 medium risk exception have arisen as a result of this review. Redacted versions of the 2014/15 Audit report and the 2013/14 Investigation report have been included as appendices C & D.
- 6.4.5 Internal Audit intends to return to the school in January 2015 to carry out a follow up at the request of the section 151 officer to track progress against their agreed action plan.

6.5 Independent Fostering Agreements 2013/14 Audit - Follow Up of Critical Exceptions

- 6.5.1 During the 2013/14 Audit of this area two critical risk exceptions were raised in February 2014. Both related to a lack of adequate contract monitoring in ensuring that independent fostering providers had valid Data Barring Service (DBS) checks and the insurance policies detailed as a requirement of their contracts

6.5.2 The agreed action for both exceptions was that more staff capacity was to be made available specifically for confirming compliance in the areas highlighted. The exceptions were followed up by Internal Audit in October 2014. Audit testing has confirmed that the actions have now been implemented as agreed.

7. Comments on Plan 2014/15 to date

7.1 The revised plan is on target to be achieved by 31st March 2015. A total of 5 critical exceptions have been reported to date for this financial year (2 from the 2013/14 Plan and 3 from the 2014/15 Plan) and the number of high risk exceptions found has decreased compared to previous years.

8. Equality impact assessment (EIA)

8.1 The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

9. Legal Implications

9.1 The City Solicitor has considered the report and is satisfied that the recommendations are in accordance with the Council's legal requirements and the Council is fully empowered to make the decisions in this matter.

9.2 Where system weaknesses have been identified he is satisfied that the appropriate steps are being taken to have these addressed.

10. Finance Comments:

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

10.2 The S151 Officer is content that the progress against the Annual Audit Plan and the agreed actions are sufficient to comply with his statutory obligations to ensure that the Authority maintains an adequate and effective system of internal audit of its accounting records and its system of internal control.

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Signed by: Lyn Graham, Chief Internal Auditor

Appendices:

Appendix A – Completed audits from 2014/15 Audit Plan

Appendix B - Completed follow up audits from 2014/15 Plan

Appendix C - Redacted 2014/15 Secondary School Audit Report

Appendix D - Redacted 2013/14 Secondary School Investigation Report

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Accounts and Audit Regulations	http://www.legislation.gov.uk/ukxi/2011/817/contents/made
2 Audit Strategy 2014/15	http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&MId=2375&Ver=4
3 Previous Audit Performance Status and other Audit Reports	Refer to Governance and Audit and Standard meetings – reports published online http://democracy.portsmouth.gov.uk/ieListMeetings.aspx?Committeeld=148