

Title of meeting: Governance & Audit & Standards Committee

Date of meeting: 30th January 2015

Subject: Audit Performance Status Report to 22nd December 2014 and Audit Strategy for 2014/15

Report by: Chief Internal Auditor

Wards affected: All

Key decision: No

Full Council decision: No

1. Summary

- 1.1 One new critical risk exception has been highlighted in this report. A further three audits have resulted in "No Assurance" being given. Further details can be found under Section 6 of this report
- 1.2 Since the last meeting 3 full audits have been added to the 2014/15 Audit Plan whilst 9 have been removed. This leaves 114 full audits within the 2014/15 Audit Plan as opposed to the original 134. There are now 46 follow up audits within the 2014/15 Audit Plan as 1 follow up audit has been removed since the last meeting. Further details can be found within Section 5
- 1.3 There are now 160 planned audits for 2014/15 made up of 114 new reviews and 46 follow up audits. Of these 115 (72%) have been completed or are in progress as at 22nd December 2014. This represents 66 audits (41%) where the report has been finalised, 11 audits (7%) where the report is in draft and 38 audits (24%) currently in progress.
- 1.4 In addition to the planned audits there are 11 areas of on-going work and 4 continuous audits which contribute to risk assurance.
- 1.5 Areas of Assurance are shown in Appendix A. Results of completed follow up audits can be found within Appendix B.
- 1.6 150 Days of reactive work have been undertaken to 22nd December 2014, with 200 days set aside within the 2014/15 Audit Plan
- 1.7 The proposed Audit Strategy for Audit coverage for 2015/16 is attached as Appendix C to this report.

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 22nd December 2014 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework. The report also contains the proposed Audit Strategy for the 2015/16 Audit Plan

3. Recommendations

- 3.1 That Members note the Audit Performance for 2014/15 to 22nd December 2014
- 3.2 That Members note the highlighted areas of control weakness for the 2014/15 Audit Plan
- 3.3 That Members approve the proposed Audit Strategy for the use of Audit resources for 2015/16

4. Background

- 4.1 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.

5. Audit Plan Status 2014/15 to 22nd December 2014

Percentage of the approved plan completed

- 5.1 72% of the annual audit plan has been completed or is in progress as at 22nd December 2014. 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:

- 44 new reviews (27%) where the report has been issued, 8 in draft form (5%) and 32 (20%) where work is in progress
- 22 planned follow ups (14%) where the report has been issued, 3 in draft form (2%) and 6 (4%) where work is in progress

- 5.3 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) within the Appendix.

Changes to the 2014/15 Audit Plan

- 5.4 Nine full audits and one follow up audit have been removed since the last meeting of the Committee.

- 5.4.1 Young Persons - Children Leaving Care - removed as the Ofsted inspection has already covered the proposed scope in their review.
- 5.4.2 Constitution (Procurement Rules) - removed as the revision of the City Constitution is yet to be started
- 5.4.3 Charges to Leaseholders - removed as a result of additional work being requested by the S.151 Officer.
- 5.4.4 Security of Data - combined with audit of Information Governance.
- 5.4.5 Historic Records - deferred as the records have only recently transferred and it is too early to audit the function at this stage.
- 5.4.6 Education Letting of Contracts (Schools) - deferred to 2015/16
- 5.4.7 Budgeting, Forecasting and Transparency Agenda - combined with the audit of Main Accounting.
- 5.4.8 Northern Quarter - removed as the project has been placed on hold by the Authority
- 5.4.9 Management of Markets - follow up removed as will now be a full audit.
- 5.5 Three audits have been added to the Audit Plan since the last meeting of the Committee. These are Redwood Park Secondary School, Management of Markets (as noted within 5.4.9) and Compliance with Financial Rules

Reactive Work

- 5.6 200 days have been allowed for reactive work and investigations in 2014/15 and 180 have been used to 22nd December 2014.
- 5.7 The 180 reactive days were used for:
 - 22 special investigations
 - 17 items of adviceAs 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 full audits completed so far this year the number of exceptions within each category have been:
 - 4 Critical Risk
 - 79 High Risk

- 27 Medium Risk
- 6 Low Risk (Improvements)

5.9 The table below is a comparison of the audit status figures for December for this financial year and the previous two years.

	2012/13	2013/14	2014/15
% of the audit plan progressed	63%	60%	72%
No. of Critical exceptions	1	15	4
No. of High risk exceptions	62	124	79
No. of reactive days	213	213	180

Ongoing Areas

- 5.10 The following 11 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

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

Updates

6.1. Children's Social Care - Private Foster Carers - In Year Follow Up

6.1.1 A critical risk exception had been raised in August 2014 as testing identified that Disclosure and Barring Service (DBS) Checks had not been requested for 2 (29%) out of 7 arrangements tested.

6.1.2 Agreed Action: The reference number of each DBS check requested will now be recorded within the relevant record of the foster carer. This was followed up by Internal Audit in December 2014. Testing confirmed that the agreed action has been now been implemented. Two new foster placements were checked and in both cases DBS checks had been undertaken and recorded as expected.

6.2 City Development & Cultural Services - Building & Planning Control Follow Up

6.2.1 The 2012/13 Audit of Planning & Building Control audit raised one critical exception as testing identified that work undertaken by the Building Control Surveyor was not being checked. This could result in financial loss to the Authority if discounts are being awarded fraudulently or incorrectly. It could also lead to accusations of favoritism towards certain clients. Initial follow up testing conducted in April 2014 identified that the agreed action had not been implemented. As a result it was agreed that further follow up testing would be conducted in January 2015.

6.2.2 Follow up testing evidenced that there had been three cases between November 2014 and January 2015 where estimates had been provided by the Building Control Surveyor. Two out of the three cases (66%) had been reviewed by the City Development Manager as agreed.

6.2.3 Further testing was undertaken on 12 building control applications. All 12 files contained a building control charge sheet with additional space to record partnership discounts as previously agreed. The charge sheets are now to be countersigned by the Building Control Surveyor's when they have reviewed the applications.

6.2.4 As a result of the follow up testing conducted the critical risk exception has now been closed. Separate audits of both Planning, and Building Control will form part of the 2015/16 Audit Plan.

New Areas of Concern

6.3 Housing & Property - PAT Testing

6.3.1 A critical risk exception was raised after 12 electrical items (33%) of a sample of 36 were found to have either not had a PAT test or to be past their PAT retest

date. The Electricity at Work Regulations 1989 states that any electrical equipment that has the potential to cause injury is maintained in a safe condition. However, the Regulations do not specify what needs to be done, by whom or how frequently. PAT testing is not a legal requirement and legislation states equipment needs to be maintained to prevent danger.

- 6.3.2 Agreed Action: The Health and Safety Unit will include a need for individuals to manage portable electrical equipment in the Health + Safety Audit and Inspection Policy which is due to be placed on Policy Hub in January 2015. The aim of the policy is to increase staff awareness of PAT testing and the risks involved as well as helping them identify potentially dangerous equipment. The guidance within the policy helps the Authority demonstrate that it has taken reasonable measures to provide a safe working environment thereby reducing the risk of litigation should an electrical related incident occur.
- 6.3.3 This will be followed up by Internal Audit in March 2015
- 6.4 **Children's Social Care - Looked After Children's Funds**
- 6.4.1 This audit received no assurance after 4 high risk exceptions were raised.
- 6.4.2 The first exception was raised as testing identified that there was no documented process for the processing of savings payments on the behalf of looked after children.
- 6.4.3 Agreed Action: Formal process to be documented by the Finance Team and held electronically within the team's procedures folder.
- 6.4.5 A second exception was raised as testing highlighted a lack of monitoring of how the finances of looked after children were being administered by fostering agencies
- 6.4.6 Agreed Actions: A number of actions will be implemented including:
- Confirming the balances on children's savings accounts are as expected
 - Confirming the correct savings rates are being applied
 - A move to incorporate savings rate expectations into new placement contracts
- 6.4.7 This will be followed up as part of the 2015/16 Audit Plan
- 6.5 **Finance - Cash Collection**
- 6.5.1 This audit received no assurance after 5 high risk exceptions were raised. As part of the audit unannounced cash ups took place at Portsmouth Dog Kennels, Weacock Farm Housing Office and Somerstown Hub Housing Office.
- 6.5.2 Three high risk exceptions resulted as part of the visit to the Somerstown Hub as testing found that staff had not signed the PCC Cash Handling Instructions, there was no spot checking of cashier's floats and because the safe contained

items which should not have been there (a gift from a tenant's relative and a tenant's bank card).

- 6.5.3 Agreed Actions: The Customer Service Manager has now ensured that staff have signed the Cash Handling Instructions and a system to spot check cashier's floats has also been implemented. The gift from a tenant's relative is to be donated to the Lord Mayors Appeal and the bank card has been destroyed.
- 6.5.4 The final two exceptions related to a lack of separation of duties in the cash ups at the kennels and a failure of staff throughout the Authority to comply with the Anti-Money Laundering Policy (3 of 21 payments over £2000 had not been reported)
- 6.5.5 Agreed Actions: The Built Contracts Team Leader will now carry out spot checks on money held at the Kennels and a reminder is to be sent to staff as to their responsibilities under the Anti-Money Laundering Policy.
- 6.5.6 To be followed up as part of the 2015/16 audit of Cash Collection

6.6 External - Manor Infant School

- 6.6.1 A full school audit of an Manor Infant School resulted in 13 high risk exceptions being raised, as such Internal Audit were unable to give any assurance as to the effectiveness of the financial management controls at the school.
- 6.6.2 The high risk exceptions related to non-compliance with the following PCC policies which has resulted in an audit opinion that the Governor's self-assessment of the financial management of the School is not in line with our findings as per the Schools Financial Value Standard (SFVS):
- Scheme for Financing Schools (Head Teacher spending limits)
 - Financial Rules (location of safe keys, income trail from receipt to banking, administration and stock control of uniforms, administration of purchase cards, poor inventory management, breaching safe limits and petty cash administration)
 - HR Policy (no evidence of references being sought for new employees)
 - H&S Policy (lack of a Business Continuity Plan)
 - CCTV Policy (lack of a CCTV policy)
- 6.6.3 Actions have been agreed and will be followed up in April 2015 as part of the 2015/16 Audit Plan.

7. Comments on the plan to date

- 7.1 The revised plan is on target to be achieved by 31st March 2015. A total of 6 critical exceptions have been reported to date for this financial year (2 from the

2013/14 Plan and 4 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 - 2015/16 Audit Strategy

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	http://www.legislation.gov.uk/uksi/2011/817/contents/made

Regulations		
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?Committeed=148

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by: