

Title of meeting: Governance & Audit & Standards Committee

Date of meeting: 25th September 2015

Subject: Audit Performance Status Report to 24th August 2015

Report by: Chief Internal Auditor

Wards affected: All

Key decision: No

Full Council decision: No

1. Summary

- 1.1 One new critical risk exception from the 2014/15 Audit Plan has been highlighted in this report. A further two audits have resulted in "No Assurance" being given, one from the 2014/15 plan and one from the 2015/16 plan. Further details can be found under Section 6 of this report
- 1.2 There are now 119 planned audits for 2015/16 made up of 88 new reviews and 31 follow up audits. Of these, 56 (47%) have been completed or are in progress as at 24th August 2015. This represents 14 audits (26%) where the report has been finalised, 9 audits (16%) where the report is in draft and 33 audits (58%) currently in progress.
- 1.3 In addition to the planned audits there are 11 areas of on-going work and 4 continuous audits which contribute to risk assurance.
- 1.4 Areas of Assurance are shown in Appendix A. Results of completed follow up audits can be found within Appendix B.

2. Purpose of report

- 2.1 This report is to update the Governance and Audit and Standards Committee on the Internal Audit Performance for 2015/16 to 24th August 2015 against the Annual Audit Plan, highlight areas of concern and areas where assurance can be given on the internal control framework.

3. Recommendations

- 3.1 That Members note the Audit Performance for 2015/16 to 24th August 2015

- 3.2 That Members note the highlighted areas of control weakness for the 2015/16 Audit Plan

4. Background

- 4.1 The Annual Audit Plan for 2015/16 has been drawn up in accordance with the agreed Audit Strategy approved by this Committee on 30th January 2015 following consultation with Heads of Services, Strategic Directors and the Chair of this Committee.

5. Audit Plan Status 2015/16 to 24th August 2015

Percentage of the approved plan completed

- 5.1 47% of the annual audit plan has been completed or is in progress as at 24th August 2015. Appendix A shows the completed audits for 2015/16. Appendix B shows the completed follow up audits for 2015/16

The overall percentage figure is made up as follows:

- 5 new reviews (4%) where the report has been issued, 5 in draft form (4%) and 30 (26%) where work is in progress
- 9 planned follow ups (8%) where the report has been issued, 4 in draft form (3%) and 3 (2%) 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 2015/16 Audit Plan

- 5.4 Three full audits and one follow up audit have been removed since the last meeting of the Committee.
- 5.4.1 Building Control Fees - Full audit removed as the service has become a partnership with Fareham Borough Council and they will be auditing the majority of the process and providing assurance.
- 5.4.2 Emergency Planning - Full audit removed as this area is inspected by external parties, but will be reconsidered for the 2016/17 audit plan.
- 5.4.3 Business Continuity - Full audit removed as due to the recent restructuring, departments are reviewing their Business Continuity Plans to incorporate service movement. Once complete these revised plans will be collated centrally. The Audit will now be undertaken in quarter 1, of 2016/17

- 5.4.4 Private Foster Carers - Follow up removed as the exceptions raised in the 2014/15 audit were followed up as part of the 2014/15 Audit Plan
- 5.5 One full audit on Supported Living has been added to the Audit Plan since the last meeting of the Committee. There have been 8 follow up audits added to the Audit Plan which are Purchase Cards, Safer Recruitment, Data Archiving, Tipner Regeneration, School Sufficiency Programme, Port Finance, Port Maintenance and Domiciliary Care.

Reactive Work

- 5.6 Reactive work completed by Internal Audit in 2015/16 includes:

- 9 special investigations
- 32 items of advice

As well as the following unplanned reviews/work:

- Channel Shift Programme
- Disposal of goods found within abandoned garages
- Community Capacity Grant
- Contract Procedure Rules update
- Cash Handling Instructions update
- Solent NHS Trust Business Presentation

Exceptions

- 5.7 Of the full audits completed so far this year the number of exceptions within each category have been:
- 0 Critical Risk
 - 15 High Risk
 - 0 Medium Risk
 - 1 Low Risk (Improvements)
- 5.8 The table below is a comparison of the audit status figures for December for this financial year and the previous two years.

	2013/14	2014/15	2015/16
% of the audit plan progressed	32%	47%	47%
No. of Critical exceptions	2	1	0
No. of High risk exceptions	58	17	15

Ongoing Areas

5.9

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

5.10

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

Updates

6.1. HR Legal & Procurement - Safer Recruitment - Unresolved

- 6.1.1 A critical risk exception had been raised as part of the 2014/15 Audit with regard to the storage of Disclosure & Barring Service (DBS) checks on a central HR database. Of a sample of 82 staff that would have required a DBS check 4 (5%) could not be found within the database. Further discussions identified that in 2014 of the 408 DBS requests sent out only 211 (52%) had been received back by the recruitment team. However this is not indicative that the DBS checks have not been carried out, just that there is no evidence to support this. By failing to adequately maintain and monitor a current DBS database the Authority may appoint an employee with a positive disclosure or relevant conviction. Should this occur the Authority may be in breach of legislation and could face

significant reputational damage. A follow up audit of this area was undertaken in July 2015.

Short Term Agreed Action

- 6.1.2.1 Recruitment managers and assistants to be reminded to follow up with managers and candidates currently undergoing a recruitment exercise to ensure DBS details are captured within the central record
- 6.1.2.2 Follow Up Testing Results: Recruitment managers have been reminded as agreed to follow up with managers currently undertaking recruitments to ensure DBS data is captured on the Single Central Record.

Medium Term Agreed Action

- 6.1.3.1 Individuals without a record within the central record are to be contacted to obtain their DBS number and expiry date. HR plan to implement a new HR Tracker Data Base which will automatically alert managers when a DBS response has not been achieved. Finally the Intranet will be updated to remind managers to contact recruitment once DBS certificates have been sighted
- 6.1.3.2 Follow Up Testing Results: The task relating to contacting staff without a DBS record should have been completed by June 2015. Due to the team dealing with other priorities this was not completed within the original time frame, a new completion date of 18th September has been agreed. The HR Tracker data base has been built and was due to be rolled out in July 2015. The Intralink pages had not been updated at the time of follow up testing; a new implementation date of 31st August 2015 has been agreed.

Long Term Agreed Action

- 6.1.4.1 HR was going to consider the implementation of the e-bulk service which would allow customers to submit and receive back multiple applications electronically.
- 6.1.4.2 Follow Up Testing Results: This agreed action is currently ongoing and reliant on attracting external clients to strengthen the business case.

Follow Up

- 6.1.5 A further follow up audit is due to take place in October 2015 to ensure the medium term agreed actions have been completed.

6.2 Finance & Information Service - Concessionary Travel Passes - Resolved

- 6.2.1 The 2014/15 audit of this area resulted in one critical risk exception being raised with regard to there being insufficient controls and record keeping surrounding parking scratch cards held by PCC. Failure to maintain adequate control over stock held could lead to scratch cards being misappropriated. This would result in a financial loss to the Authority and the potential damage to its reputation.
- 6.2.2.1 Agreed Action: The number of scratch card books held would be reduced from 1014 to 250. The remaining books would be sequentially numbered and entered into a control book which would be reconciled on a monthly basis.

- 6.2.2.2 Follow Up Testing Results: Follow up testing confirmed that the excess scratch card books had been disposed of with the authorisation of the S.151 Officer. The books have been sequentially numbered and stock records were reconciled to the control book. As a result the critical risk exception has been closed.

6.3 **Children's Social Care - Direct Payments - Unresolved**

- 6.3.1 The 2014/15 audit of this area highlighted two critical risk exceptions. These were followed up in year with the follow up report being issued in June 2015.

- 6.3.2.1 Agreed Action: The first critical risk exception related to financial returns for direct payments being incomplete or overdue. If financial returns are not submitted or returned incomplete the Authority is unable to determine if the payments are being used for their intended purpose. This could lead to fraudulent use going undetected and could place the young person at risk as their needs are not being met. In order to mitigate this risk it was agreed that a list of outstanding returns would be provided to the Children with Disabilities Team Manager on a monthly basis. Any outstanding returns would then be passed onto the relevant Social Worker to chase up

- 6.3.2.2 Follow Up Testing Results: Follow up testing confirmed that the actions have been implemented as agreed.

- 6.3.3.1 Agreed Action: The second critical risk exception related to non compliant expenditure being recorded with Direct Payments returns and as above returns not being received on time. Failure to monitor direct payment expenditure could result in an inability to detect fraudulent activity and recover the relevant funds resulting in a financial loss to the Authority. A number of actions were agreed including:

- Implementation of a new process whereby payments would be suspended should returns not be submitted
- Letters sent to parents/carers who have not submitted returns within the last 6 months
- A review of the return processing procedure
- A review of the method by which direct payments are made.

- 6.3.3.2 Follow Up Testing Results: Follow up testing confirmed the following results:
- The process for stopping payments where returns are not made has been implemented
 - Letters are now being sent to those who have not submitted a return for 6 months or more
 - Changes to the processing of client returns is currently on hold until the new system is up and running

- A review on the method of payment has been implemented and a pilot system using pre-paid cards was due to go live in the summer of 2015

6.3.4 The outstanding issues will be followed up during the 2015/16 audit of this area.

6.4 **Transport Environment & Business Support - Homecheck Telecare - Resolved**

6.4.1 The 2014/15 audit of this area was given no assurance after 5 high risk exceptions were raised.

6.4.2.1 Four high risk exceptions related to breaches of PCC Financial Rules in the following areas:

- Cash Handling Instructions being unsigned and not being followed with respect to countersigning receipts when cash is transferred.
- Compilation of paying in sheets and the frequency at which money is paid into cashiers.
- The key to a lockable safety deposit box was held in a cupboard accessible by non Telecare staff.
- Lack of formal process for stock control and inventory management

Financial rules provide a comprehensive control framework to ensure the Authority's financial transactions and records are lawful, accurate and consistent. Non compliance with financial rules increases the risk of fraud, theft and financial loss to the Authority.

6.4.2.2 Agreed Actions: The following actions were agreed to mitigate the risks highlighted above:

- All relevant staff have signed the Cash Handling Instructions and have been instructed to ensure all receipts acknowledging the transfer of cash are now countersigned
- Job numbers are now to be included within paying in sheets. All cash now paid in on at least a weekly basis
- The key to the safety deposit box be moved to a secure location
- A process for monitoring inventory was implemented during the audit which involves staff having to sign in and out stock.

6.4.2.3 Follow Up Testing Results: Testing confirmed that three of the four actions detailed above have been completed as agreed. The final agreed action relating to monitoring inventory was found to be in progress. Stock is now signed out by operatives and random stock checks are undertaken by the Team Leader. These are to continue but stock control checks are to be expanded to verify that items signed out match the needs of the job in hand.

6.4.3.1 The final exception was raised as testing found that not all of the Homecheck Telecare staff had undertaken the Authority's manual handling training. If staff have not undertaken the training and are injured whilst carrying out their duties the Authority may be subject to litigation claims.

6.4.3.2 Agreed Action: The remaining staff were to undertake the required training immediately

6.4.3.3 Follow Up Testing Results: Testing confirmed that 100% of Homecheck Telecare staff had completed the manual handling training.

6.5 **External - Manor Infant School - Resolved**

6.5.1 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.

6.5.2.1 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) - Without agreed spending limits the Head may be unable to react to emergency situations that could affect business continuity.
- 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). Financial rules provide a comprehensive control framework to ensure the Authority's financial transactions and records are lawful, accurate and consistent. Non compliance with financial rules increases the risk of fraud, theft and financial loss to the Authority.
- HR Policy (no evidence of references being sought for new employees). Failure to check references may see the school appoint someone who does not have the appropriate skills or abilities for the job.
- H&S Policy (lack of a Business Continuity Plan). Lack of a suitable business continuity plan could affect the ability of the school to remain operational in the event of an emergency.
- CCTV Policy (lack of a CCTV policy). The Information Commissioners Office CCTV Code of Practice dictates that schools must have a CCTV policy adopted by the governors. Failure to comply with this requirement could lead to a potential fine and reputational damage for the school.

6.5.2.2 Agreed Actions: Actions were agreed for the 13 exceptions, further details can be found within the follow up report.

6.5.2.3 Follow Up Testing Results: A site visit was undertaken at the school on 27th April 2015. Testing confirmed that the actions for all 13 high risk exceptions have been completed as agreed.

6.6 Finance & Information Service - Debt Recovery - Unresolved

- 6.6.1 The 2014/15 audit of Debt Recovery was given no assurance as the auditor was unable to undertake any testing regarding the effectiveness of the quality checking and performance management framework.
- 6.6.2.1 At the time of the initial audit it was explained that due to a change in team management quality checking processes were still in their infancy and therefore it was not possible to produce the data required to test against the processes. The reporting from the newly implemented W2 document management system did not provide enough detail to be used as a management tool. If work produced by debt recovery staff is not subject to quality checking there is an operational risk that processes are not being followed which in turn could result in a financial loss to the Authority as debts are not collected efficiently.
- 6.6.2.2 Agreed Action: To continue to develop a functional quality checking and performance monitoring framework
- 6.6.2.3 Follow Up Testing Results: As requested by Members of the committee a follow up audit was completed in September 2015. It was still not possible to carry out testing as the current quality checking does not provide useful information and the performance monitoring spreadsheet did not hold all the information that management require. Management have accepted that the performance management information required to monitor progress and quality of work requires improvement. The new document management system was not installed with pre written management reports and as such will require management resources to develop. Current capacity has been diverted to cover higher priority and more immediate needs such as the Revenues & Benefits transformation programme and monitoring of the in year collection rate.

New Areas of Concern

- 6.7 **2014/15 Audit - Transport Environment & Business Support - Maintenance of roads outside of the Colas PFI contract**
- 6.7.1 The Authority currently has 49 roads which are outside of the current highways PFI contract. The roads are the responsibility of a number of different directorates. The 2014/15 audit of this area resulted in 5 high risk exceptions being raised.
- 6.7.2.1 The five high risks exceptions related to:
- A lack of documented information as to the condition of the roads.
 - Differing levels of monitoring throughout the directorates
 - Inadequate budget provisions for maintenance of the roads
 - Inadequate reporting of works required and carried out
 - Failures in the above areas could see defects in the roads go unnoticed leading to a need for more major repairs in the future. Defective roads

also increase the possibility of accidents or damage to road users, both of which could leave the Authority open to litigation and insurance claims.

- A lack of corporate oversight. Until a corporate review of the management of roads outside of the contract takes place the Authority is unable to determine whether the current arrangement is achieving value for money.

6.7.2.2 Agreed Actions: The five exceptions were discussed with the relevant staff in each directorate and actions agreed to improve the various areas of weakness identified above. For the final exception it has been recommended that the Assistant Director of Contracts, Procurement & Commercial undertake a corporate review as to whether value for money could be obtained by moving all or some of the 49 roads into the Highways PFI contract.

6.7.3 This area is due to be followed up as part of the 2015/16 Audit Plan.

6.8 **2014/15 Audit - Property & Housing - Legionella**

6.8.1 A critical risk exception was raised during this audit as the Legionella Risk Assessment carried out at Springfield School in 2014 highlighted 68 areas of risk and at the time of the audit discussions were still ongoing as to how to rectify the issues. Whilst the school has responsibility for the maintenance the Authority has a duty of care to ensure the work is undertaken in a timely manner. An outbreak of Legionella could lead to the hospitalisation of an individual and ultimately their death. If the Authority were found to be negligent in respect of its duties, officers could be liable to fines and or imprisonment with the Authority suffering serious reputational damage.

6.8.2 Agreed Action: A comprehensive capital investment project is to be prepared to address the issues highlighted; this will be taken to Members for approval in September 2015. A number of other actions have been agreed to minimise the highlighted risks in the short and medium term and further details can be found within the audit report.

6.8.3 The exception will be followed up as part of the 2015/16 Audit of Legionella

6.9 **2015/16 Audit - Culture & City Development - Hillside and Wymering Community Centre**

6.9.1 The initial audit was completed in April 2015 and resulted in 8 high risk exceptions being raised; as such no assurance was given over the financial controls in place at the community centre.

6.9.2.1 The 8 high risk exceptions were breaches of the Authority's Financial Rules in the following areas:

- Failure to sign cash handling instructions
- Insufficient income trail from receipt to banking
- Incorrect storage of safe keys
- Failure to bank intact

- Exceeding safe limits
- Failure to authorise petty cash expenditure
- Non compliance with Purchase Card rules
- Lack of inventory

Financial rules provide a comprehensive control framework to ensure the Authority's financial transactions and records are lawful, accurate and consistent. Non compliance with financial rules increases the risk of fraud, theft and financial loss to the Authority.

- 6.9.2.2 Agreed Actions: The exceptions were discussed with the Centre Manager and the Community Services Manager and actions agreed to ensure the centre was compliant with Financial Rules moving forward.
- 6.9.2.3 Follow Up Testing Results: A follow up audit of this area took place in July 2015. Testing confirmed that the agreed actions for each exception had been implemented.

7. Comments on the plan to date

- 7.1 The 2015/16 Audit Plan is on course to be completed by 31st March 2016. The 47% of audits either completed or in progress matches the 2014/15 figure. No critical risk exceptions have been raised under the 2015/16 plan whilst the number of high risks (15) remains consistent with the 2014/15 figure (17).

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 Legal Services have considered the report and are 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. Director of Finance's 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 2015/16 Audit Plan

Appendix B - Completed follow up audits from 2015/16 Plan

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 2015/16	http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CId=148&MId=3065&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: