

Title of meeting: Governance & Audit & Standards Committee

Date of meeting: 6th November 2015

Subject: Audit Performance Status Report to 6th October 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 2015/16 Audit Plan has been highlighted in this report. Three audits have resulted in "No Assurance" being given, one from the 2014/15 plan and two 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, 68 (57%) have been completed or are in progress as at 6th October 2015. This represents 32 audits (47%) where the report has been finalised, 4 audits (6%) where the report is in draft and 32 audits (47%) 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 6th October 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 6th October 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 6th October 2015

Percentage of the approved plan completed

- 5.1 57% of the annual audit plan has been completed or is in progress as at 6th October 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:

- 14 new reviews (12%) where the report has been issued, 4 in draft form (3%) and 32 (27%) where work is in progress
- 18 planned follow ups (14%) where the report has been issued and 1 (1%) where work is 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) within the Appendix.

Changes to the 2015/16 Audit Plan

- 5.3 One full audit has been removed since the last meeting of the Committee.
- 5.3.1 Empty Properties - Full audit removed as Private Sector Housing are no longer working proactively in this area. The reason for this is that budget constraints have resulted in capital support to owners no longer being offered. Secondly changes to legislation has made it more difficult for the Authority to bring empty properties back into use.
- 5.4 One full audit on Banking has been added to the Audit Plan since the last meeting of the Committee.

Reactive Work

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

- 11 special investigations
- 39 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
- External marketing and presentations
- Contract Issues Adult Social Care

Exceptions

5.6 Of the full audits completed so far this year the number of exceptions within each category have been:

- 1 Critical Risk
- 29 High Risk
- 4 Medium Risk
- 4 Low Risk (Improvements)

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

	2013/14	2014/15	2015/16
% of the audit plan progressed	49%	55%	57%
No. of Critical exceptions	2	3	1
No. of High risk exceptions	89	41	29

Ongoing Areas

5.8

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

- 5.9 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. Housing & Property Service - PAT Testing - Resolved

6.1.1 A critical risk exception had been raised as part of the 2014/15 Audit after testing found that 13 of a sample of 36 electrical items had either not been tested or were past their retest date. Further issues were highlighted in regard to the coverage of PAT testing in restricted areas and external sites. Failure to adequately test electrical equipment increases the risk of death or injury as a result of faulty equipment. Should an accident occur there will also be a financial risk from any litigation that may follow.

6.1.2.1 Agreed Action: A new Health & Safety Audit and Inspection Policy was to be introduced to provide further guidance to staff and managers which will include managing portable electrical equipment. Additionally the Health & Safety Unit were conduct annual compliance reviews in this area.

6.1.2.2 Follow Up Testing Results: The corporate policy was issued on Policy Hub on 2nd April 2015. The policy places a responsibility on site managers and staff to ensure that procedures are in place to monitor and maintain portable electrical equipment. In addition the issue of PAT testing is being regularly raised and discussed at the Health, Safety & Wellbeing forum and is included within the corporate e-newsletter.

6.2 Transport, Environment & Business Support - Home to School Transport - Unresolved

6.2.1 The 2014/15 audit of this area highlighted two critical risk exceptions. These were followed up as part of the 2015/16 Audit Plan.

6.2.2.1 The first critical risk exception related to operators not being asked to prove that they hold the insurance policies specified within the contract. If an accident occurs and the operator was found not to be covered by insurance the Authority could suffer significant reputational damage. Should anyone be injured in an accident the Authority may also be open to litigation on the basis that it failed to take sufficient steps to ensure that its operators had the necessary insurances.

- 6.2.2.2 Agreed Action: All operators were to be contacted and asked to provide copies of the relevant insurance policies. Moving forward both annual checks and random spot checks were to be implemented
- 6.2.2.3 Follow Up Testing Results: Testing found that all operators except one had provided up to date insurance documents that satisfied the terms of the contract. The Home to School Transport team is working with the operator to provide the insurance documents by the end of September 2015.
- 6.2.3.1 The second critical risk exception related to Disclosure and Barring Service (DBS) checks. The contractual framework requires all drivers to have an enhanced DBS check. Testing found that no checks were being made to ensure that operators and their drivers were fulfilling these criteria.
- 6.2.3.2 Agreed Action: All operators were to be contacted and asked to provide evidence that their drivers had the required DBS checks in place. Moving forward both annual checks and random spot checks were to be implemented
- 6.2.3.3 Follow Up Testing Results: Two operators are based in Portsmouth and as such have provided all of these details to the Licensing department, as such they did not respond to the request from the transport team. The Road Safety & Active Travel Manager is going to work with Licensing to obtain a list of all drivers from those two companies registered with the Authority by the end of September 2015. This will then be cross referenced with a list of drivers undertaking home to school transport routes to ensure all drivers have a valid DBS.
- 6.2.4 A further follow up will be conducted by Internal Audit in October 2015 and the results communicated at the next meeting of the committee.

6.3 **Finance & Information Service - Purchase Cards - Unresolved**

- 6.3.1.1 A critical risk exception was raised during the 2014/15 audit after testing undertaken on 25 purchase card logs containing 179 transactions identified breaches of Financial Rules in the following areas:
- 7 transactions where an adequate VAT receipts were not provided equating to £160.14 of incorrectly claimed VAT
 - 2 transactions which did not have a genuine business need. These were flowers purchased for a Foster Carer (£10.00) and a birthday cake for a member of staff (£9.49)
 - 1 transaction where the collection of loyalty card points had occurred
- 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. The audit was followed up as part of the 2015/16 Audit Plan.
- 6.3.1.2 Agreed Actions:

- Guidance relating to VAT and general purchase card "Dos and Don'ts" to be recirculated to all purchase card holders.
- A targeted communication will be sent to line managers identifying key weaknesses to look out for when signing off transaction logs.
- Education and Children's Social Care managers to receive reminder training on inappropriate expenditure
- Purchase Card Policy to be reviewed in line with the implementation of a purchase card system which is expected during 2015/16

6.3.1.3 Follow Up Testing Results: Testing confirmed that the Purchase Card "Dos and Don'ts" had been produced and circulated to all card holders as well as managers within Education and Children's Social Care. The targeted communication for line managers has been drafted but not yet sent out; a new action date of 31st October 2015 has been agreed. The specification for the new Purchasing Card system has been agreed with the s.151 Officer, the Accounts Payable Team Leader is currently liaising with IS with regard to its implementation. The policy will be revised once it has been launched. Testing also undertook sample testing on 25 purchase card logs from April 2015 within which 5 areas of non compliance were highlighted:

- Financial Rule Q11 - Failure to provide proper receipts on 3 transactions
- Purchase Card Policy S.26 - Failure to claim VAT totalling £38.44 across 7 transactions
- Financial Rule Q10 - Collection of loyalty points for 8 transactions on one purchasing card
- Financial Rule Q12 - Failure to provide a VAT receipt for 4 transactions totalling £92.54
- Purchase Card Policy S.26 - Incorrect calculation of VAT on two transactions resulting in over claiming £0.64 of VAT

As at 15th June 2015 the Authority had 820 purchase card holders. Expenditure between 1st April 2015 - 15th June 2015 was approximately £455,000.

6.4 **External - Highbury Primary School - Resolved**

6.4.1 The full audit of Highbury Primary School resulted in 12 high risk and 2 medium 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. The audit was followed up as part of the 2015/16 Audit Plan

6.4.2.1 The high risk exceptions related to non-compliance with PCC Financial Rules, Policies, the Scheme for Financing Schools or SFVS requirements 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).

6.4.2.2 Agreed Actions: Actions were agreed for the 14 exceptions, further details can be found within the follow up report.

6.4.2.3 Follow Up Testing Results: A site visit was undertaken at the school on 22nd September 2015. Testing confirmed that the actions for all 14 exceptions have been completed as agreed.

6.5 External - Copnor Primary School - Resolved

6.5.1 The full audit of Copnor Primary School resulted in 9 high risk and 3 medium 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 PCC Financial Rules, Policies, the Scheme for Financing Schools or SFVS requirements 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).

6.5.2.2 Agreed Actions: Actions were agreed for the 12 exceptions, further details can be found within the follow up report.

6.5.2.3 A site visit was undertaken at the school on 14th September 2015. Testing confirmed that the actions for all 12 exceptions have been completed as agreed.

New Areas of Concern

6.6 2014/15 Audit - Portsmouth International Port - Income Dues

6.6.1 When a commercial ferry uses Portsmouth International Port (PIP) the ferry company are required to pay Harbour Dues to the Port based on a variety of factors including the size of the vessel, the number of passengers, vehicles and freight. Two high risk exceptions arose from the 2014/15 Audit, as a result the audit was given a no assurance rating as reliance could not be placed upon the accuracy of the Harbour Dues information provided to the Port by the ferry company.

6.6.2.1 Through the course of audit testing it was identified that the Harbour Dues reports submitted between April 2014 - January 2015 did not accurately reflect the number of passengers, vehicles and freight that travelled to and from the PIP. For the period April 2014-January 2015 and an underpayment was calculated as being £21,693.75. Furthermore testing identified that a number of chargeable freight codes were not being picked up and included within the Harbour Dues report. For the period April 2014 - January 2015 these undeclared items equated to an under declaration of Harbour dues totalling approximately £62,000. If PIP are unable to place reliance on the accuracy of the figures provided by the ferry company there is a financial risk that the PIP are not receiving the correct level of income.

6.6.2.2 After the completion of onsite testing the ferry company and PIP have agreed that after netting the over and under payments discovered a sum of £104,438.13 was due to PIP for undeclared dues for the extended period April 2013 - January 2015. This figure has since been paid in full to PIP.

6.6.2.3 Agreed Actions: The key actions agreed as a result of audit testing were:

- Spot checking will be undertaken by PIP on a number of sailings each month to ensure the accuracy of the information received from the ferry company
- The calculations contained within the monthly report will be checked for arithmetical accuracy
- The coding of the ferry company's software was altered to ensure the chargeable freight codes are included moving forward. Monthly reports are to be manually checked by the ferry company before submission.

6.6.3 A follow up audit will be undertaken in January 2016 as part of the 2015/16 Audit Plan.

6.7 **2015/16 Audit - Finance & Information Service - Application Archiving**

6.7.1 The audit of Application Archiving was given no assurance because as previously reported in the Modern Records & Data Archiving Audit the Authority does not have a current and accurate Corporate Retention Schedule. As a result testing found that all data held in four of the Authority's main applications (Oracle EBS, Northgate Housing, Northgate Revs & Bens and W2 Document Management System) is being retained, the oldest of which dates back to 2002. By holding all this information indefinitely there is a risk that the Authority is in breach of the Data Protection Act 1998 by retaining personal data for longer than is necessary. There are also financial implications involved with regard to the hard disk space required to house data that is potentially redundant.

6.7.2 Agreed Action: A project is being drafted to acquire a professional archivist to review the Corporate Retention Schedule. Once the new schedule is complete Data Owners will be responsible for managing, archiving or purging data as necessary. The overall project timescale has been set at 2 years from October 2015.

6.7.3 Internal Audit will review the progress of this project in Quarter of the 2016/17 financial year.

6.8 **2015/16 Audit - Transport, Environment & Business Support - PCMI Manufacturing**

6.8.1 PCMI is a business owned by the Authority which seeks to provide employment opportunities and skills training. Its primary income stream is the production of signs and banners for both internal and external customers. The audit focus was on the manufacturing element of the business. The audit resulted in 5 high risk exceptions being raised and an overall level of no assurance.

- 6.8.2.1 Two of the high risk exceptions were breaches of the Authority's Financial Rules with regard to inadequate stock controls and a failure to sign Cash Handling Instructions. A further exception was raised as not all staff had completed the required PCC Mandatory Training courses. 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. If staff have not completed their mandatory training they may not be fully aware of their responsibilities and duties which could result in operational inefficiencies.
- 6.8.2.2 Agreed Actions: Stock records are now to be updated on a weekly basis as part of the production planning process, in addition quarterly spot checks will be undertaken to ensure recorded levels are accurate. All staff have been made aware of the need to sign Cash Handling Instructions and undertake mandatory training
- 6.8.3.1 The fourth high risk exception relates to the transparency of job pricing. Of a sample of 25 completed jobs 50% contained at least one element where materials had been priced without evidence to support the figure quoted.
- 6.8.3.2 Agreed Action: Any future prices that are entered manually are to be supported by supporting calculations which justify the price quoted.
- 6.8.4.1 The final high risk exception was raised as testing found that PCMI's terms and conditions did not contain any reference to the Copyright, Design & Patent Act 1998. PCMI as the manufacturer of goods has a responsibility to verify that they and the customer have permission to produce an item with the specified design. Failure to do so could result in PCMI producing a design which breaches a Copyright, this could result in a fine and potential damage their reputation which in turn could affect future trade
- 6.8.4.2 Agreed Action: PCMI's terms and conditions are to be updated to include reference to the responsibilities of all parties with regard to Copyright. Both Legal Services and Trading Standards are to be consulted to ensure the wording minimises the risk of Copyright breach at PCMI
- 6.8.5 This audit will be followed up as part of the 2016/17 Audit Plan.
- 6.9 **2015/16 Information Governance Security Sweeps - Interim Update**
- 6.9.1 Each year as part of the Information Governance Audit out of hours security sweeps are conducted within the Civic Offices to identify any unsecure data or PCC assets. The first of two security sweeps was conducted on Saturday 26th September 2015.
- 6.9.2 The sweep covered the entire Civic Offices and Chaucer House. Overall there were 24 instances where potentially sensitive data was found to be unsecured along with 52 unsecured laptops.

- 6.9.3 Where data was found to be unsecured photographs were taken and a red sticker left to make staff in that area aware. Details of all 24 instances along with the photographs have been forwarded to the Deputy Chief Executive who will be meeting with the relevant Directors to discuss the issues. Should a breach of the Data Protection Act 1998 occur the Authority could be liable to a fine and significant reputational damage.
- 6.9.4 Any unsecured laptops were seized by Internal Audit and stored securely over the weekend. Staff whose laptops were seized were left a letter which they had to return to Internal Audit in order to reclaim their laptop. When collecting their laptop staff were reminded of the Keep IT Secure & Legal Policy. All staff whose laptops were seized are to receive a letter from the Deputy Chief Executive warning that should their laptop be found unsecured on a future security sweep formal action may be taken. PCC laptops are encrypted so if a laptop were to be stolen the data on it should be protected, however there would be the financial cost to the Authority as a new laptop would need to be purchased as well as operational risk if an immediate replacement could not be sourced from IS.
- 6.9.5 A further security sweep is to be conducted by Internal Audit during Quarter 4 after which time a full audit report will be issued.

6.10 2015/16 Audit - Community & Communication - Ground Floor Security & Reception Arrangements

- 6.10.1 One critical risk exception was raised as during 4 observations totalling 8.5 hours the Auditor noted 5 instances where conversations containing highly sensitive personal data occurred within the public area of the Civic Offices Ground Floor. During 4 of the 5 instances ground floor meeting rooms were available for use. Holding sensitive conversations in a public space could result in a breach of the Data Protection Act 1998. Any breach could result in fines for the Authority as well as reputational damage.
- 6.10.2 Agreed Action: A corporate communication is to be sent to all staff notifying them of the results of the audit along with the associated risks to the clients and the Authority. Security and City Help Desk staff are now going to report any instances where they overhear personal information being disclosed within the reception area. The findings of the Audit have been shared with the Caldicott Guardian in Children's Social Care and all staff in that service are to be reminded about data protection and privacy protocols.
- 6.10.3 A follow up audit will be conducted in December 2015.

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 57% of audits either completed or in progress is a slight improvement on the 2014/15 figure. One critical risk exception has been raised under the 2015/16 plan whilst the number of high risks (29) is lower than the 2014/15 figure (41).

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. 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: Elizabeth Goodwin, 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/uksi/2011/817/contents/made
2 Audit	http://democracy.portsmouth.gov.uk/ieListDocuments.aspx?CIId=148

Strategy 2015/16	&Mid=3065&Ver=4
3 Previous Audit Performanc e 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: