

Title of meeting: Governance & Audit & Standards Committee

Date of meeting: 29th January 2016

Subject: Audit Performance Status Report to 16th December 2015 and Audit Strategy for 2016/17

Report by: Chief Internal Auditor

Wards affected: All

Key decision: No

Full Council decision: No

1. Summary

- 1.1 No new critical risk exception are highlighted in this report however four 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 7 full audits have been added to the 2015/16 Audit Plan whilst 6 have been removed. This leaves 89 full audits within the 2015/16 Audit Plan. There are now 37 follow up audits within the 2015/16 Audit Plan as 4 follow up audits have been added since the last meeting. Further details can be found within Section 5
- 1.3 There are now 126 planned audits for 2015/16 made up of 89 new reviews and 37 follow up audits. Of these 102 (81%) have been completed or are in progress as at 16th December 2015. This represents 54 audits (43%) where the report has been finalised, 7 audits (6%) where the report is in draft and 41 audits (33%) 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 The proposed Audit and Counter Fraud Strategy for coverage for 2016/17 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 2015/16 to 16th December 2015 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 and Counter Fraud Strategy for the 2016/17 Audit Plan

3. Recommendations

- 3.1 That Members note the Audit Performance for 2015/16 to 16th December 2015
- 3.2 That Members note the highlighted areas of control weakness for the 2015/16 Audit Plan
- 3.3 That Members approve the proposed Audit and Counter Fraud Strategy for the use of Audit resources for 2016/17

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 Directors and the Chair of this Committee.

5. Audit Plan Status 2015/16 to 16th December 2015

Percentage of the approved plan completed

- 5.1 81% of the annual audit plan has been completed or is in progress as at 16th December 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:

- 29 new reviews (23%) where the report has been issued, 4 in draft form (3%) and 38 (30%) where work is in progress
- 25 planned follow ups (21%) where the report has been issued, 3 in draft form (2%) and 3 (2%) where work is in progress

- 5.2 As requested by Members of the Committee a breakdown of the assurance levels on completed audits since the last meeting are 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 Six full audits have been removed since the last meeting of the Committee.
- 5.3.1 Asylum Seekers - removed as the proposed scope will be covered as part of the testing in the Through Care Team audit.

- 5.3.2 Gifts and Hospitality - removed from this year's plan due to the pending system registration changes and review of the current policy. This audit will be reconsidered for inclusion in future years as part of the overall annual risk assessment
- 5.3.3 Electoral Roll - removed due to work being undertaken by the service on the preparation for the combined local Council and Police Commissioner elections and the current electoral registration canvassing. This audit will be reconsidered for inclusion in future years as part of the overall annual risk assessment.
- 5.3.4 Sports Contract Monitoring - removed as previously audited and the recently commissioned independent benchmarking report was found to have adequately covered the operational and financial aspects of contract monitoring.
- 5.3.5 Harbour School Budget - removed as the school has a deficit recovery plan agreed by the s.151 officer which is being monitored in conjunction with Education Finance.
- 5.3.6 Guildhall - audit deferred until 2016/17 pending review of budget support from PCC.
- 5.4 Seven audits have been added to the Audit Plan since the last meeting of the Committee. These are Local Sustainable Transport Fund, Young People's Support, King Richard Secondary, Cottage Grove, Solent Junior and two audits at MMD.

Reactive Work

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

- 14 special investigations
- 55 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
 - 53 High Risk
 - 15 Medium Risk
 - 4 Low Risk (Improvements)

5.7 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	60%	72%	81%
No. of Critical exceptions	15	4	1
No. of High risk exceptions	124	79	53

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

6.1 Children's Social Care - Looked After Children's Funds - Unresolved

- 6.1.1 The 2014/15 Audit of Looked After Children's Funds was given no assurance after four high risk exceptions were raised.

- 6.1.2.1 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.
- 6.1.2.2 Agreed Action: Formal process to be documented by the Finance Team and held electronically within the team's procedures folder.
- 6.1.2.3 Follow Up Results: The procedure has been put into place by the Senior Finance Assistant, however this yet to be fully finalised.
- 6.1.3.1 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.
- 6.1.3.2 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
- 6.1.3.3 Follow Up Results: A review was undertaken on the savings accounts which did find some variations between what PCC would have saved and what had been saved by the independent fostering agency. PCC is unable to amend the way savings are made without amending the framework which is currently being used by 10 Authorities. Social workers are now to take a direct role in monitoring the savings going forward.
- 6.1.4.1 The third exception was raised as testing found that supervision notes were not adequately recording how the child's Disabled Living Allowance (DLA) was being spent.
- 6.1.4.2 Agreed Action: Monitoring of DLA was to be added to the monthly supervision template
- 6.1.4.3 Follow Up Results: A sample of 2 cases were reviewed and 1 showed no clear notes as to whether the DLA expenditure had been reviewed.
- 6.1.5.1 The final exception was raised after a sample of 60 payments made to Foster Carers was tested to ensure the correct amounts had been paid. This highlighted that overpayments of approximately £4,250 had been made in 2014/15.
- 6.1.5.2 Agreed Action: Allowance rates were to be fully verified prior to being notified to the service and paid.
- 6.1.5.3 Follow Up Results: A sample of 30 payments made in 2015/16 was tested and no issued were found.

6.2 **External - Wimborne Infant - majority resolved**

6.2.1 The full school audit of Wimborne Infant School resulted in 12 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.

6.2.2.1 The high risk exceptions related to non-compliance with the following PCC policies 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):

- SFVS (No clear framework of the relative responsibilities of the Head teacher, Finance Officer and Governors to ensure that effective financial management standards are in place and operating)
- Financial Rules (no income trail from receipt to banking, poor inventory management, poor petty cash administration, cash handling instructions not signed by Finance Officer, no evidence staff are aware of the Whistleblowing Policy and no current IT Acceptable Use Policy)
- HR Policy (no evidence of references being sought for some employees, retention of DBS documentation and incomplete Single Central Record)
- H&S Policy (incomplete Business Continuity Plan)
- PCC Scheme for Financing Schools (PTA Account - No audited statement of account)

6.2.2.2 Agreed Actions: Various actions were agreed to mitigate the risks highlighted above.

6.2.2.3 Follow Up Results: 10 of the 12 exceptions were found to have had their agreed actions completed and the risks mitigated. Two exceptions remain outstanding, the first relates to there being no clear framework of the relative responsibilities of the Head teacher, Finance Officer and Governors to ensure that effective financial management standards are in place and operating. Follow up testing found that an update to the relevant Terms of Reference had been agreed at a meeting but that the document itself had not been updated to reflect the agreed changes. The second exception related to the Inventory as 1 of 3 item sample could not be located during the initial audit and was not security marked. During the follow up audit the same item (Laptop) was not available for inspection therefore whether it had since been security marked could not be evidenced.

6.2.3 No further follow up will be conducted in this area.

New Areas of Concern

6.3 **Culture & City Development - Coroner's Office**

6.3.1 The review was carried out in relation to the administration, storage, security, back up and transport of the Coroner's Records for the Portsmouth / South East

Region. This audit was given "No Assurance" after 6 high risk exceptions were raised.

6.3.2.1 The six high risks exceptions related to:

- Three of the six members of staff (50%) had not completed the mandatory training in relation to PCC Financial Rules and Information Governance
- There are no written Policies and Procedures for the administration and control of both active and archived records
- Non-compliance with the Data Protection Act in relation to the storage and security of records
- Non-compliance with the Data Protection Act in relation to sending sensitive / confidential data via insecure networks
- Failure to ensure there is a contract in place with the private carrier who transports unsecured inquest data to Hampshire County Council for archiving.
- Failure to comply with the Data Protection Act and Coroner's Code of Conduct in relation to best practice for managing personal data.

Non-compliance with the Data Protection Act could lead to a fine and reputational damage for the Authority.

6.3.2.2 Agreed Actions: The six exceptions were discussed with the Superintendent Registrar and the Coroner. The following actions were agreed to mitigate the identified risks.

- All outstanding training will be completed by November 2015
- Written policies and procedures will be put in place for the administration of Coroner's records
- A review of the security arrangements for 3rd party access will be carried out for both the Guildhall and the new location within the Civic Offices
- GCSX accounts will be requested for the Coroner's team
- A review of the current arrangements will be undertaken and consideration given to ensure secure carrier arrangements are in place if records need to be transported
- The service will consider voluntarily registering with the Information Commissioners Office as a Data Controller

6.3.3 This area will be subject to an in year follow up audit due to take place in Q4 2015/16

6.4 **Adult Social Care/Integrated Commissioning Unit - Individual Service Contracts**

6.4.1 An audit of the effectiveness of the use of Individual Service Contracts (ISC's) by Adult Social Care was carried out in 2015/16. No assurance was given as a result of two high risks being raised during this review

- 6.4.2.1 The first exception related to the fact that no officer either within Adult Social Care or the Integrated Commissioning Unit has formal responsibility for maintaining and making decisions around the Individual Service Contracts. The risk of this is that if they become obsolete or no longer meet the needs of the Authority then no-one will ensure that action is taken to address this. This could result in ineffective operational practices and waste both financial and staff resources
- 6.4.2.2 Agreed Action: It was agreed by the Assistant Head of Adult Social Care that Adult Social Care will own the ISC's
- 6.4.3.1 The second exception related to inefficient processes as domiciliary care information is e-mailed to the providers as well as the ISC's being posted to care providers. The risk of this is that effort is being duplicated and both staff and financial resources are being wasted and more cost effective means could be used to distribute the ISC's.
- 6.4.4 Agreed Actions: A review of the processes will take place by the end of January 2016
- 6.4.5 This will be followed up in March/April 2016
- 6.5 **Culture & City Development - Events**
- 6.5.1 The audit of the administration of events organised or where infrastructure has been provided in Portsmouth was given "No Assurance" as 7 high risk exceptions were raised.
- 6.5.2.1 The first exception related to a lack of clear procedures for processing event applications. Without these there is a risk to the authority that health and safety requirements may be overlooked and potential risks may not be included in assessments and insurance requirements.
- 6.5.2.2 Agreed Action: The event application process is being reviewed to move to online applications. This will require a change to processing applications that are received and procedures will be revised to reflect this.
- 6.5.3.1 Four exceptions were raised under Compliance relating to:
- Inconsistency in the event application process and information provided. This could lead to health and safety oversights which may damage the Authority's reputation and see a reduction of number of events subsequently held in the city
 - A lack of clear audit trail regarding fees and charges. This could result in a financial loss to the authority if fees are being undercharged.
 - Risk assessments not being carried out or being undertaken after the event. Failure to undertake adequate risk assessments could lead to people attending the event being put at risk of injury. This could result in significant reputational damage for the Authority

- Failure to comply with insurance requirements. Testing was unable to evidence that the £5m public liability cover required, was in place for 13 of 25 events sampled. As a result the Authority would be liable for any injury or claim that occurred at these events.

6.5.3.2 Agreed Actions: The following was agreed for the four exceptions detailed above:

- Event application form to be reviewed with consideration given to online applications which will force applicants to provide the required information regarding insurances and risk assessments in order to proceed with their application
- The above review will also include the collection of fees. Any decision to waive fees will need to be discussed and approved by a nominated Member.
- The Events team will liaise with Legal Services with a view to minimising the Authority's liability and ensure it rests with the organiser. The application form is to be amended to reflect any guidance provided.

6.5.4.1 Two exceptions were raised under Effectiveness of Operations relating to:

- Security arrangements, testing found that the same company was being used without a corporate contract or waiver being in place. This is a breach of PCC's contract procedure rules and risks the Authority not receiving value for money on the service.
- Lack of monitoring at events for example confirming food stalls hold a valid hygiene certificate or inflatables comply with the relevant standards. Failure to undertake these checks could put members of the public at risk of injury.

6.5.4.2 Agreed Actions: The following was agreed for the two exceptions detailed above:

- A waiver was obtained to allow the Events team to continue to use the security firm until December 2015. Procurement are currently working on a security framework for the whole organisation
- Spot checks will be carried out at events to ensure stalls/attractions are compliant. Large events will continue to be attended by staff.

6.5.5 This audit will be followed up as part of the 2016/17 Audit Plan

6.6 **Property & Housing - CCTV**

6.6.1 The 2015/16 audit of CCTV was given "No Assurance" as 4 high risk and 2 medium risk exceptions were raised.

6.6.2.1 The 4 high risk exceptions were all raised under compliance in relation to the following:

- The Authority's CCTV policy did not include all CCTV in use by PCC
- A breach of the Data Protection Act, Human Rights Act and European Convention on Human Rights by allowing housing tenants access to CCTV images

- Non-compliance with the relevant codes of practice around defining a pressing need/privacy impact assessment
- Non-compliance with the Protection of Freedoms Act Code of Practice regarding regular oversight of CCTV usage

Breaching of the laws and codes of practice noted above could result in fines for the Authority as well as reputational damage.

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

- Update the CCTV policy to include Authority wide CCTV usage
- Withdraw tenants access to CCTV images
- Full review of usage within services to cover areas such as training, signage, viewing, forensic integrity and pressing needs assessments
- Conduct annual reviews on CCTV to ensure services are compliant with the relevant legislation

6.6.3 A follow up audit in this area will be undertaken as part of the 2016/17 Audit Plan.

7. Comments on the plan to date

7.1 The plan is on target to be achieved by 31st March 2015. A total of 1 critical exception has been reported to date 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: 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
- Appendix C - 2016/17 Audit and Counter Fraud 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 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=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

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

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 Signed by: