

Internal Audit Progress Report

December 2014

Southampton City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

‘Undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Purpose of report

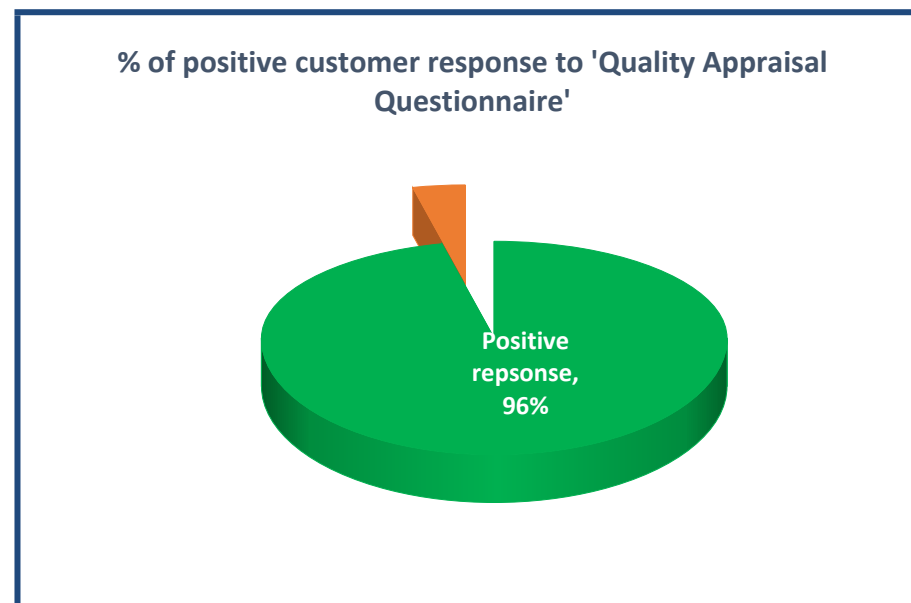
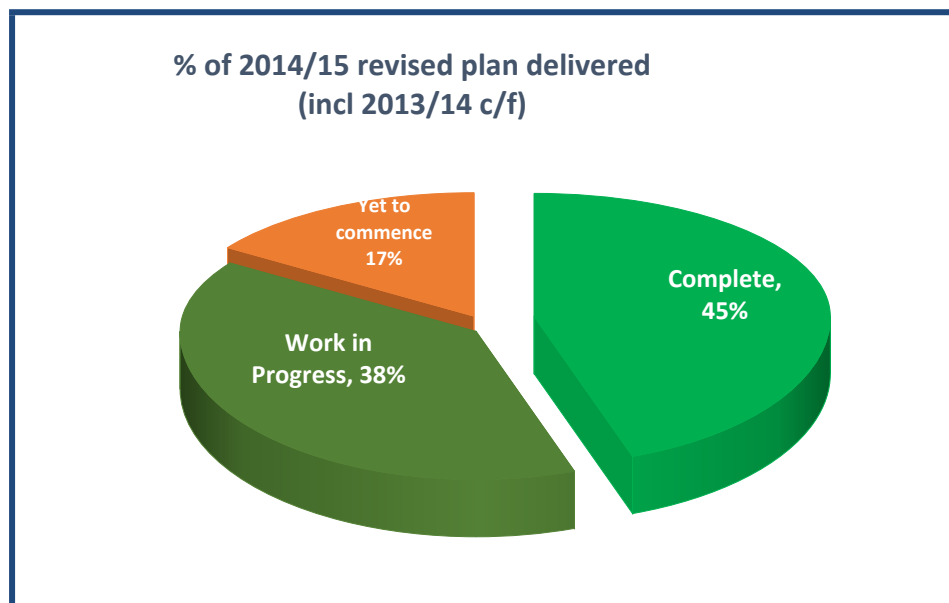
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary a significant issues that impact on the Chief Internal Auditor's annual opinion

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
No	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

3. Performance dashboard



Compliance with Public Sector Internal Audit Standards / Local Government Application Note



During 2013 – 14 The Head of the Southern Internal Audit Partnership undertook a self-assessment concluding overall compliance against the Standards and the LGAN. To provide independence to the process the self –assessment was reviewed by Hampshire County Council’s Monitoring Officer to ensure it presented a true and fair view.


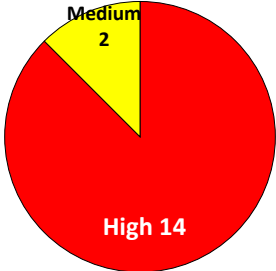
Independent analysis confirmed that the self-assessment provided *‘a fair assessment of the internal audit activity’*


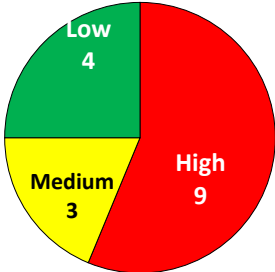
4. Status of 'Live' Reports


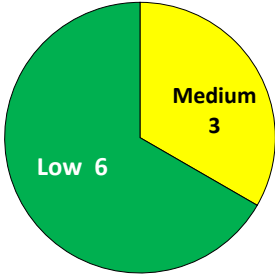
Audit title	Report date	Directorate Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Cash Collection & Banking	21/01/13	Corporate Services	Limited	Adequate	12 (5)	0 (0)	9 (5)	3 (0)
Development Management	26/04/13	Place	Limited	Adequate	7 (4)	0 (0)	5 (4)	2 (0)
Quality Assurance	18/07/13	People	Adequate	Adequate	15 (9)	0 (0)	12 (6)	3 (3)
Neighbourhood wardens	22/10/13	People	Adequate	Adequate	7 (2)	0 (0)	6 (2)	1 (0)
Sholing Technology College	13/03/14	People	Adequate	Adequate	17 (4)	0 (0)	3 (1)	14 (3)
Highways	04/03/14	Place	Adequate	Adequate	4 (0)	0 (0)	1 (0)	3 (0)
Payroll	04/04/14	Corporate Services	Adequate	Adequate	11 (4)	0 (0)	5 (2)	6 (2)
Bevois Town Primary School	02/05/14	People	Limited	Adequate	20 (17)	0 (0)	18 (17)	2 (0)
St Monica Junior School	08/05/14	People	Limited	Adequate	28 (23)	0 (0)	20 (15)	8 (8)
Income Collection and Transactions	09/05/14	Corporate Services	Adequate	Adequate	6 (0)	0 (0)	4 (0)	2 (0)
Business Continuity & Emergency Planning	09/07/14	Place	Limited	Limited	11 (5)	3 (0)	3 (3)	5 (2)
Data Centre Security	16/07/14	Corporate Services	Limited	Limited	2 (0)	0 (0)	0 (0)	2 (0)
Information Governance	17/07/14	Corporate Services	Limited	Limited	21 (15)	6 (4)	13 (10)	2 (1)
Integrated Assessment–Data Performance	30/07/14	People	Adequate	Adequate	3 (3)	1 (1)	2 (2)	0 (0)
Itchen Bridge	31/07/14	Place	Adequate	Adequate	10 (5)	0 (0)	4 (3)	6 (2)

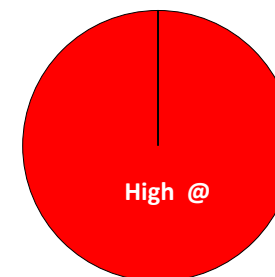
Audit title	Report date	Directorate Sponsor	Audit Assurance		Management Actions (of which are 'high' priority)			
			Original	Current	Reported	Pending	Cleared	Overdue
Partnership arrangements	01/08/14	Corporate Services	Adequate	Adequate	6 (0)	1 (0)	1 (0)	4 (0)
Learning and Development	05/09/14	People	Adequate	Adequate	5 (0)	0 (0)	3 (0)	2 (0)
Health and Safety	22/09/14	Corporate Services	Limited	Limited	16 (14)	4 (3)	2 (2)	10 (9)
Building Control	07/10/14	Place	Adequate	Adequate	3 (1)	0 (0)	1 (0)	2 (1)
Housing Office Security/Cash Handling	23/10/14	People	No	No	16 (9)	1 (0)	13 (8)	2 (1)
Across Schools Thematic Review (Payroll)	12/11/14	People	Limited	Limited	9 (0)	0 (0)	8 (0)	1 (0)
Maytree Infant and Nursery School	12/11/14	People	Limited	Adequate	23 (23)	1 (1)	18 (18)	4 (4)
Schools Thematic - Procurement Cards	12/11/14	People	Adequate	Adequate	6 (0)	1 (0)	0 (0)	5 (0)
Local Safeguarding Children's Board	13/11/14	People	Adequate	Adequate	2 (0)	0 (0)	0 (0)	2 (0)
Public Health Contracts	20/11/14	People	Adequate	Adequate	2 (0)	0 (0)	0 (0)	2 (0)
Fostering	09/01/15	People	Adequate	Adequate	10 (0)	3 (0)	7 (0)	0 (0)

5. Executive Summaries of new reports published concluding a ‘Limited’ or ‘No’ assurance opinion

<p>Health and Safety 2014/15</p>		
<p>Directorate Sponsor: Corporate Services</p> <p>Key Contacts: Mark Heath, Director of Corporate Services; John Spiers, Head of Property, Procurement and Health & Safety; Graham Armstrong, Health & Safety Manager</p> <p>Final Report Issued: 18 September 14</p>	<p>Assurance opinion:</p> 	<p>Management Actions:</p> 
<p>Summary of key observations:</p> <p>Health and safety guidance, procedures, reporting and self assessment tools are all available on the intranet. The majority of staff contacted (98.6%) were aware of where information could be found, however, testing identified navigation of the intranet and links embedded within documentation / guidance relating to health and safety require review and update to ensure a clear pathway to required information</p> <p>There are elements of health and safety training that are required to be carried out on a cyclical basis, however testing highlighted that this was not always achieved. Whilst reports on attendance are produced, no work is undertaken to identify and challenge staff that have not completed courses in the required timeframe. Further, concerns were raised by staff interviewed that training did not accommodate key aspects of their work (manual handling was raised on more than on occasion). It should be noted that there remains an onus on the employee to raise concerns with their manager should they feel there is an absence of health and safety training.</p> <p>Health & safety risk assessments were found to be inconsistent in their format and regularity of review. Sample testing also highlighted instances in which assessments were incomplete. There are further requirements for all sections of the Council to undertake an annual, management-led self-audit of health and safety. There was found to be no consistent approach to the completion of self audits and subsequently action plans to correct any omissions across the council.</p> <p>The Council maintain a database of asbestos conditions surveys & staff appeared to be aware of the requirements for the management of asbestos however, despite this awareness, an investigation is on-going into the remodelling of Council premises that includes non-compliance with HSE regulations.</p>		

Fraud Thematic Review - Housing office security and cash handling 2014/15		
<p>Directorate Sponsor: People</p> <p>Key Contacts: Nick Cross, Head of Housing Services; Mike Carey, Income Services Manager; David Little, Income manager</p> <p>Final Report Issued: 23 October 14</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  </div>	<p>Management Actions:</p> <div style="text-align: center;">  </div>
<p>Summary of key observations:</p> <p>There were a number of weaknesses observed in respect of buildings security within the housing offices visited. Additionally incomplete inventories of keys holders increased the risk of loss and reduced accountability as a result of ineffective record keeping.</p> <p>Insurance limits for the cash held in safes were regularly exceeded and half of the offices kept safe keys on site overnight which could invalidate any insurance claim in the event of loss.</p> <p>The four offices which do not undertake their banking directly take income to the remaining two housing offices for banking however the amounts transferred are not signed over as agreed or kept in tamper proof bags, weakening the management trail and increasing the vulnerability of those staff involved in cash transfers .</p>		

School Thematic Review – Payroll 2013/14		
<p>Directorate Sponsor: People</p> <p>Key Contacts: Edward Harris, Principal Officer – Education and Early Years; Dave Cuerden, Finance Manager; Gary Wooldridge, Senior Accounting Technician</p> <p>Final Report Issued: 12 November 2014</p>	<p>Assurance opinion:</p> <div style="text-align: center;">  <p>Limited</p> </div>	<p>Management Actions:</p> <div style="text-align: center;">  <p>Low 6 Medium 3</p> </div>
<p>Summary of key observations:</p> <p>Financial guidance is available to schools, however, review of central policies and procedures on the Council’s intranet site identified that some of the information requires review and update to ensure current practices and requirements are appropriately communicated (financial guidance, governors induction etc.).</p> <p>Testing of payroll amendments concentrated on overtime payments and found issues at half of the school visited including incomplete / unauthorised claim forms and anomalies in overtime rates being claimed.</p> <p>In the absence of relevant documentation we were unable to confirm the review of monthly payroll reports and in a majority of the schools visited there was no evidence of independent review by the Headteacher.</p>		

Maytree Infant and Nursery School 2014/15**Directorate Sponsor:** People**Key Contacts:** Jan Goatley, Head teacher; Meenu Grewal, School Business Manager, Edward Harris, Principal Officer – Education and Early Years; Dave Cuerden, Finance Manager;**Final Report Issued:** 12 November 14**Assurance opinion:****Management Actions:****Summary of key observations:**

Imprest purchases were not routinely authorised or supported by receipts placing the finance officer in a vulnerable position as it is they that administer the account and are often the recipient of reimbursement. One transaction sampled (£150) was in relation to an advance / loan to a member of staff.

The school retains two purchasing cards, from sample testing there were occasions where VAT had not been accounted for correctly, receipts were not provided and expenditure had not been correctly coded.

Whilst the school maintains a contract register (albeit at the time of the audit visit was not up to date), review of a sample of purchases exceeding £10,000 found that Contract Procedure Rules were not routinely complied with.

The breakfast club budget was not being monitored, expenditure was not being authorised and receipts were not retained. The club receives grant funding, however, the grant conditions were not being met.

6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2014 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2014	01.04.14 – 31.12.14
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	2 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	3 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	112 days*
Total number of fraud cases investigated	5**

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers, housing benefits etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

Fraud Grant Funding

The DCLG have made available £16m to assist Councils in developing innovative and holistic initiatives to tackle the fight against fraud.

During the summer local authorities were invited to submit proposals for funding that would result in real financial savings through effective counter fraud activities. A successful bid from the Southern Internal Audit Partnership (one of only 59 approved from 164 applications) has resulted in funding of £72,000 being awarded to support initiatives in respect of fraud detection and prevention.

Funding acquired will contribute to the development of a generic fraud risk assessment framework to inform and educate of key fraud risks. This assessment will inform a programme of proactive fraud initiatives moving forward, targeting demonstrably high risk areas.

This will be supported by the use of data analytics to more strategically analyse higher risk areas in the identification and investigation of data giving rise to irregular activity or conflicts with other sources of information.

The legacy from funding will strengthen measures for both fraud detection and prevention through provision of a clear understanding and assessment of fraud threats and the establishment of data analytics as preventative measures to combat fraud through the real time sharing and matching of data and fraud intelligence.

7. Planning & Resourcing

The internal audit plan for 2014/15 was approved by the Council's Management Team and the Governance Committee in April 2014.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 8

8. Rolling Work Programme

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
2013-14 Carry Forward Reviews					
Partnership arrangements	✓	✓	✓	✓	01/08/14
Information Governance	✓	✓	✓	✓	17/07/14
Business Continuity & Emergency Planning	✓	✓	✓	✓	09/07/14
Change control	✓	✓	✓	✓	27/05/14
Across Schools Thematic Review 1 (payroll)	✓	✓	✓	✓	12/11/14
Data and performance management – Support Services	✓	✓	✓	✓	30/07/14
Itchen Bridge	✓	✓	✓	✓	31/07/14
Delivery of statutory functions - Family Centres and children centres	✓	✓	✓	✓	27/06/14
Client Monies Services	✓	✓	✓	✓	
Reablement	✓	✓	✓	✓	30/07/14
Learning and Development	✓	✓	✓	✓	05/09/14

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Fostering	✓	✓	✓	✓	09/01/15
Public Health Contracts	✓	✓	✓	✓	20/11/14
Public Health	✓	✓	✓	✓	06/06/14
2014-15 Reviews					
Corporate Cross Cutting					
Transformation	✓	✓	✓		
Health and Safety	✓	✓	✓	✓	22/09/14
Human Resources					
Procurement	✓	✓	✓		
Corporate Governance					
Annual Governance Statement	✓	✓	✓	✓	N/A
Fraud Thematic Review – Housing Office Security/Cash Handling	✓	✓	✓	✓	23/10/14
Precautions against fraud	N/A	✓			
Reactive Fraud	N/A	✓	N/A	N/A	N/A

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
National Fraud Initiative	N/A	✓	N/A	N/A	N/A
Effectiveness of the Role of Internal Audit	✓	✓	✓	✓	14/07/14
Financial Management					
Teachers Pensions - annual claim (TR17)	✓	✓	✓		
Council Tax (including council tax support)	✓	✓	✓		
Income Collection and Transactions	✓	✓			
Accounts Receivable	✓				
Financial Management (budget monitoring)					
Treasury Management					
Value Added Tax	✓	✓	✓		
Bank account change/control					
ICT					
Capacity Planning and Management	✓	✓	✓	✓	
Capita development days / Capita Contract Management					

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Data Centre Security	✓	✓	✓	✓	16/07/14
Corporate Priorities					
Building control	✓	✓	✓	✓	07/10/14
General school reviews – Maytree Infant and Nursery School	✓	✓	✓	✓	12/11/14
General school reviews – Redbridge Community School	✓	✓	✓		
Across Schools Thematic Review - Procurement Cards 14/15	✓	✓	✓	✓	12/11/14
Across Schools Thematic Review – Governance 14/15					
Transport	✓	✓	✓	✓	
Integrated Commissioning Unit					
Contact scheme	✓	✓	✓		
MASH - Multi Agency Safeguarding Hub	✓	✓			
MARP - Multi Agency Resource Panel	✓	✓	✓		
SFVS - School Financial Value Standards	✓	✓	✓	N/A	N/A
School Capital programme	✓	✓	✓		

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Street Lighting PFI	✓	✓	✓	✓	27/10/14
Housing - stock control	✓				
Housing allocation policy	✓				
City Deal					
Adoption					
Better Care Fund					
Delivery of statutory functions - LADO – Local Authority Duty Officer	✓	✓			
Families Matters Governance	✓	✓			
Families Matters grant claims	N/A	✓	✓	N/A	N/A
Financial Assessment Process	✓	✓	✓	✓	
Contribution and charging policies	✓	✓	✓	✓	
Direct payments	✓	✓	✓	✓	
PARIS (Advice role)	✓	✓	✓	N/A	N/A
Local Safeguarding Children's Board	✓	✓	✓	✓	13/11/14

Audit title	Audit Progress				
	TOR issued	Fieldwork commenced	Fieldwork complete	Draft report issued	Final report issued
Delivery of statutory functions - EDT – Emergency Duty team	✓	✓			
Public Health					
Miscellaneous Reviews					
BEEMS	✓	✓	✓	N/A	N/A
PUSH	✓	✓	✓	✓	11/07/14