Internal Audit Progress Report 30ᵗʰ September 2019

Elizabeth Goodwin, Chief Internal Auditor

1. Introduction

Internal Audit is a statutory function for all local authorities.

The requirement for an Internal Audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015 as to:

> *Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2016].

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's 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

This report includes the status against the 2019/20 internal audit plan.

2. Audit Plan Progress as of 16th September 2019

Issued, 14, 18%

Draft Report, 1, 1%

Field Work, 13, 16%

Identified, 52, 65%
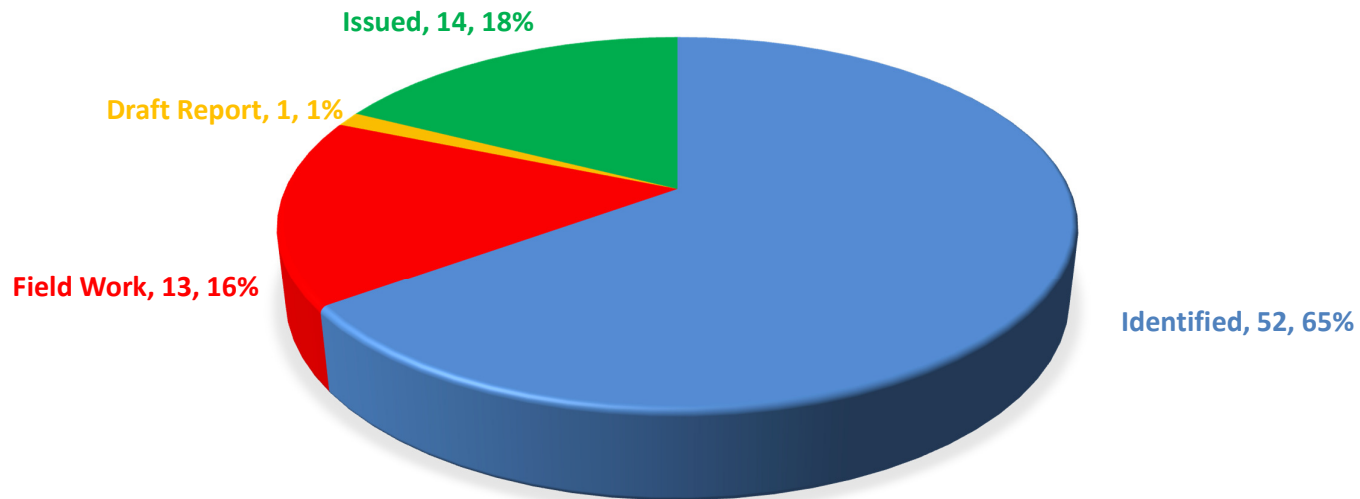
There are a total of 80 reviews in the revised plan 2019/20.

To date, 28 (35%) have been completed or are in progress as at 16th September 2019. This represents 14 (18%) audits where the report has been finalised, 1 (1%) where the report is in draft and 13 (16%) audits currently in progress.

Status	Audits
Identified	52
Fieldwork	13
Draft Report	1
Final Report	14
Total	80

3. Ongoing Internal Audit Involvement

Internal Audit has undertaken work or provided advice in the following areas. (For reference, advice is only recorded when the time taken to provide the advice exceeds one hour):

- Anti-Money Laundering - This includes receipt of instances of large cash payments received and onward reporting if deemed appropriate.
- National Fraud Initiative (NFI) to facilitate national data matching carried out by the Cabinet Office
- Audit Planning and Consultation - This includes regular consultation with Directors and revision of the plan following subsequent research into individual assignments.
- Advice provided - Application of money laundering policy, right to buy refunds, error on commitment report and appointeeship payment procedures.

4. Audit Plan Status/Changes

The following changes have been made to the plan since it was agreed in March 2019.

Audits removed from the Audit Plan:

The following audits have been removed from the plan as high risk exceptions were not identified during 2018/19 audits, and therefore no follow up action is required. These reviews were completed post submission of the 2019/20 audit plan where the results of the reviews was unknown.

- Homelessness and Prevention
- IT License Management
- Business Support
- Stock Condition
- Community Infrastructure Levy
- Solicitor Fees and Court Costs
- Health and Wellbeing Board
- ICU Contract Management
- School – Bassett Green School
- School – St Monica School
- Business Plans – This audit has been deferred to the 2020/21 audit plan to allow for the resource review to be embedded.

Audits added into the Audit Plan:

- Appointeeships - Review added to the plan following request by the service and due to significant historic issues.
- EU Perinatal Mental Health Grant – This audit has been added to ensure the grant conditions are being complied with. This grant had not been identified prior to the submission of the 2019/20 plan.

Amendments made to the Audit Plan:

- Schools - The audit title of 'School' had been amended to Woolston Infant School

5. Areas of Concern

There are no new areas of concerns for this reporting period.

6. Assurance Levels

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 for the area under review.

Assurance Level	Description / Examples
Assurance	*No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority*
Reasonable Assurance	*Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority*
Limited Assurance	*Control weaknesses or risks were identified which pose a more significant risk to the Authority*
No Assurance	*Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit*
NAT	*No areas tested*

Audits rated No Assurance are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

7. Exception Risk Ranking

The following table outline the exceptions raised in audit reports, reported in priority order and are broadly equivalent to those previously used.

Priority Level	Description
Low Risk (Improvement)	*Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.*
Medium Risk	*These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.*
High Risk	*Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not 'show stopping' but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.*
Critical Risk	*Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the Council's objectives in relation to: The efficient and effective use of resources, The safeguarding of assets, The preparation of reliable financial and operational information, Compliance with laws and regulations and corrective action needs to be taken immediately.*

Any critical exceptions found the will be reported in their entirety to the Governance Committee along with Director's comments

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8. 2019/20 Audits completed to date (16ᵗʰ September 2019)

PUSH (Partnership for Urban South Hampshire) – Service Director, Finance & Commercialisation

Exceptions Raised

Critical	High	Medium	Low
0	0	0	0

Overall Assurance Level

Assurance

Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	Assurance

Overall based on the testing conducted, Internal Audit can give assurance that adequate financial systems and controls are in place for the administration of the PUSH accounts.

SFVS (School Financial Value Statement) – Service Director, Finance & Commercialisation

Exceptions Raised

Critical	High	Medium	Low
0	0	2	0

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented on an Ongoing basis.

Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	NAT
Effectiveness and Efficiency of Operations	Reasonable Assurance
Reliability and Integrity of Data	Reasonable Assurance

Two medium risk exceptions were raised in relation to 1/44 SFVS returns not having been signed by the Chair of Governors or Management Committee and the accuracy of the returns not being verified by Finance against intelligence held internally and acquired over the course of the year.

Port Health (Finance) – Service Director, Transactions & Universal Services

Exceptions Raised

Critical	High	Medium	Low
0	1	0	2

Overall Assurance Level

Reasonable Assurance

Agreed actions are scheduled to be implemented by October 2019

Assurance Level by Scope Area

Achievement of Strategic Objectives	NAT
Compliance with Policies, Laws & Regulations	NAT
Safeguarding of Assets	Limited Assurance
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	Assurance

The high risk exception was raised in relation to the port health system (PHILIS) allowing one member of staff to process a payment, issue a refund and release a job, potentially allowing a consignment to be processed free of charge. The two low risk exceptions were raised in relation to physical and electronic files of business enquiries being stored since 2016 and 11/25 port health payments dropping into the suspense account which needed to be manually adjusted centrally.

Local Authority Bus Subsidy Ring-Fenced (Revenue) Grant Determination

Grant Verification - Testing was able to evidence sufficient capital expenditure to allow the Chief Internal Auditor to sign the declaration confirming the grant conditions had been complied with.

9. Follow-up Action Categorisation

The following table outlines the follow up categories used to describe the outcome of follow up testing completed.

Follow Up Categories	Description
Open	*No action has been taken on agreed action.*
Pending	*Actions cannot be taken at the current time but steps have been taken to prepare.*
In Progress	*Progress has been made on the agreed action however they have not been completed.*
Implemented but not Effective	*Agreed action implemented but not effective in mitigating the risk.*
Closed: *Verified*	*Agreed action implemented and risk mitigated, verified by follow up testing.*
Closed: *Not Verified*	*Client has stated action has been completed but unable to verify via testing.*
Closed: *Management Accepts Risk*	*Management has accepted the risk highlighted from the exception.*
Closed: *No Longer Applicable*	*Risk exposure no longer applicable.*

10. 2019/20 Follow-up Audits completed to 16th September 2019

Agency & Temporary Staff – Service Director, Human Resources & Organisational Development

Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	1

Latest implementation date scheduled during the original audit was in October 2018

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High) 1 (Low)	0	0	0	0	0	0	0

Follow up testing has confirmed that the high risk exception remains open in relation to agency spend with recruitment agencies other than Hays who are contractually responsible for providing all temporary agency workers. The low risk exception that remains open relates to a lack of accessible guidance provided to staff on the appointment of temporary positions. The new furthest revised implementation date is September 2019.

Ethics – Service Director, Human Resources & Organisational Development

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled during the original audit was in May 2019

Original Assurance Level

Limited Assurance

Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High) 1 (Medium)	0	1 (High)	0	0	0	0	0

Follow up testing has confirmed that one high exception remains open relating to the Gifts and Hospitality policy requiring updating. The high risk in progress relates to staff awareness of the Registration of Outside Interest and Gift and Hospitality polices. The open medium risk exception relates to copies of declaration of interests not being retained/stored correctly. The new furthest revised implementation date is December 2019.

Public Health (Community) Funerals – Service Director, Transactions and Universal Services

Original Exceptions Raised

Critical	High	Medium	Low
0	1	2	1

Latest implementation date scheduled during the original audit was in December 2018

Original Assurance Level

Limited Assurance

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Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (Medium) 1 (Low)	0	1 (High)	0	1 (Medium)	0	0	0

Follow up testing has confirmed that one high exception remains in progress relating to checklists detailing property searches not being signed off to confirm accuracy. The open medium risk relates to the Public Health Index spreadsheet not reconciling with Agresso in 3/10 instances. The open low risk relates to there being no policy in place. The new furthest revised implementation date is September 2019.

Regeneration Projects – Service Director, Growth

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	1

Latest implementation date scheduled during the original audit was in April 2019

Original Assurance Level

Limited Assurance

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Follow-up Assurance Level

Reasonable Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High) 1 (Medium)	0	0	1 (High) 1 (Low)	0	0

Follow up testing has confirmed that one high and one low risk has been closed and verified. A high risk remains in progress while risk registers for the Townhill Park Regeneration project are completed. A medium risk remains in progress relating to budget mapping where costs are not being broken down under different categories to better understand expenditure. The new revised implementation date is April 2020 (new budget year).

Expenses, Travel & Subsistence – Service Director, Human Resources & Organisational Development

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled during the original audit was in January 2019

Original Assurance Level

Limited Assurance

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Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
2 (High) 1 (Medium)	0	0	0	0	0	0	0

Follow up testing has confirmed that two high risk and one medium risk exception remain open. The exceptions relate to a lack of claim information and receipts for expense claims, a lack of monitoring of the Contractual Car User scheme and the expense policies requiring updating and authorising. The new revised implementation date is November 2019.

Right to Buy – Service Director, Adults, Housing & Communities

Original Exceptions Raised

Critical	High	Medium	Low
0	1	1	1

Latest implementation date scheduled during the original audit was in June 2019

Original Assurance Level

Reasonable Assurance

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Follow-up Assurance Level

Reasonable Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (High) 1 (Medium)	0	0	0	1 (Low)	0	0	0

Follow up testing has confirmed that one low risk exception has been closed and verified. A high risk remains open relating to the lack of robust anti-fraud application checks and a medium risk remains opens due to material credits on rent accounts not being refunded back to tenants in all instances. The new revised implementation date is the end of December 2019.

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Looked After Children – Service Director, Children & Families

Original Exceptions Raised

Critical	High	Medium	Low
0	1	5	0

Latest implementation date scheduled during the original audit was in December 2018

Original Assurance Level

Reasonable Assurance ➜ **Follow-up Assurance Level** Reasonable Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
5 (Medium)	0	0	0	1 (High)	0	0	0

Follow up testing has confirmed that the high risk exception has been closed and verified. The five medium risks remain open and relate to a lack of care plan management oversight, Paris records not including personal education plans, a lack of recorded supervision for looked after children cases, health care assessments being overdue and a lack of management reportable information. The new revised implementation date is the end of October 2019.

Sexual Health Contract – Service Director, Public Health

Original Exceptions Raised

Critical	High	Medium	Low
0	1	1	1

Latest implementation date scheduled during the original audit was in May 2019

Original Assurance Level

Reasonable Assurance ➜ **Follow-up Assurance Level** Reasonable Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	1 (High) 1 (Low)	0	1 (Medium)	0	0	0

Follow up testing has confirmed that the medium risk exception has been closed and verified. The high risk exception that remains in progress relates to the invoice amounts from suppliers not reflecting the costings detailed within the 2018/19 activity plan. The low risk exception that remains in progress due to a reconciliation of activity data provided by the supplier not being undertaken. The new revised implementation date is September 2019.

Child Sexual Exploitation & Missing Persons – Service Director, Children & Families

Original Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

Latest implementation date scheduled during the original audit was in May 2019

Original Assurance Level

Limited Assurance → **Follow-up Assurance Level** Limited Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
1 (Medium)	0	1 (High) 1 (Medium)	0	0	0	0	0

Follow up testing has confirmed that the high risk remains in progress due to return to home interviews for missing children not always being completed within the timeframe set out in Department for Education guidance, however action is currently being taken to address this. The medium risk that remains in progress relates to there being no internal reports produced to track and monitor persistent missing children (3 missing episodes in 90 days). The medium risk that remains open relates to the lack of specialist training provided to meet the demands of upcoming legislation and/or trends with missing exploitation and trafficking issues. The new revised implementation date is October 2019.

Apprenticeships – Service Director, Human Resources & Organisational Development

Original Exceptions Raised

Critical	High	Medium	Low
0	1	2	0

Latest implementation date scheduled during the original audit was in March 2019

Original Assurance Level

Reasonable Assurance → **Follow-up Assurance Level** Assurance

Follow Up Action

Open	Pending	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	0	0	0	1 (High) 2 (Medium)	0	0	0

Follow up testing has confirmed that all agreed actions have been completed and the exceptions have been closed and verified.

11.   Audits in Draft

Audit	Directorate	Draft Since	Projected Issue Date	Revised	Comments
NHS Digital Submission	Digital & Business Ops	10/09/2019	November		N/A

12.   Audits in Progress

Audit	Directorate	Delayed	Projected Issued Date	Revised Issued Date	Comments
Better Care Fund	Quality & Integration	n/a	December		
Business World	Finance & Commercialisation	n/a	March		Work will be ongoing throughout the year.
Family Matters Grant	Children & Families	n/a	March		Grant is verified on a quarterly basis.
Perinatal Mental Health Grant	Growth	n/a	March		Grant is verified on a rolling six month basis.
Care Leavers	Children & Families	n/a	November		
Children in Need	Children & Families	n/a	November		
Direct Payments	Finance & Commercialisation	n/a	November		
Disabled Facilities Grant	Finance & Commercialisation	n/a	November		
Health and Safety	Human Resources & OD	n/a	November		
HMO Licensing	Transactions & US	n/a	November		
Parking (Income Collection)	Transactions & US	n/a	November		
Woolston Infant School	Children & Families	n/a	November		
Short Breaks	Children & Families	n/a	November		

13. Exception Analysis to Date
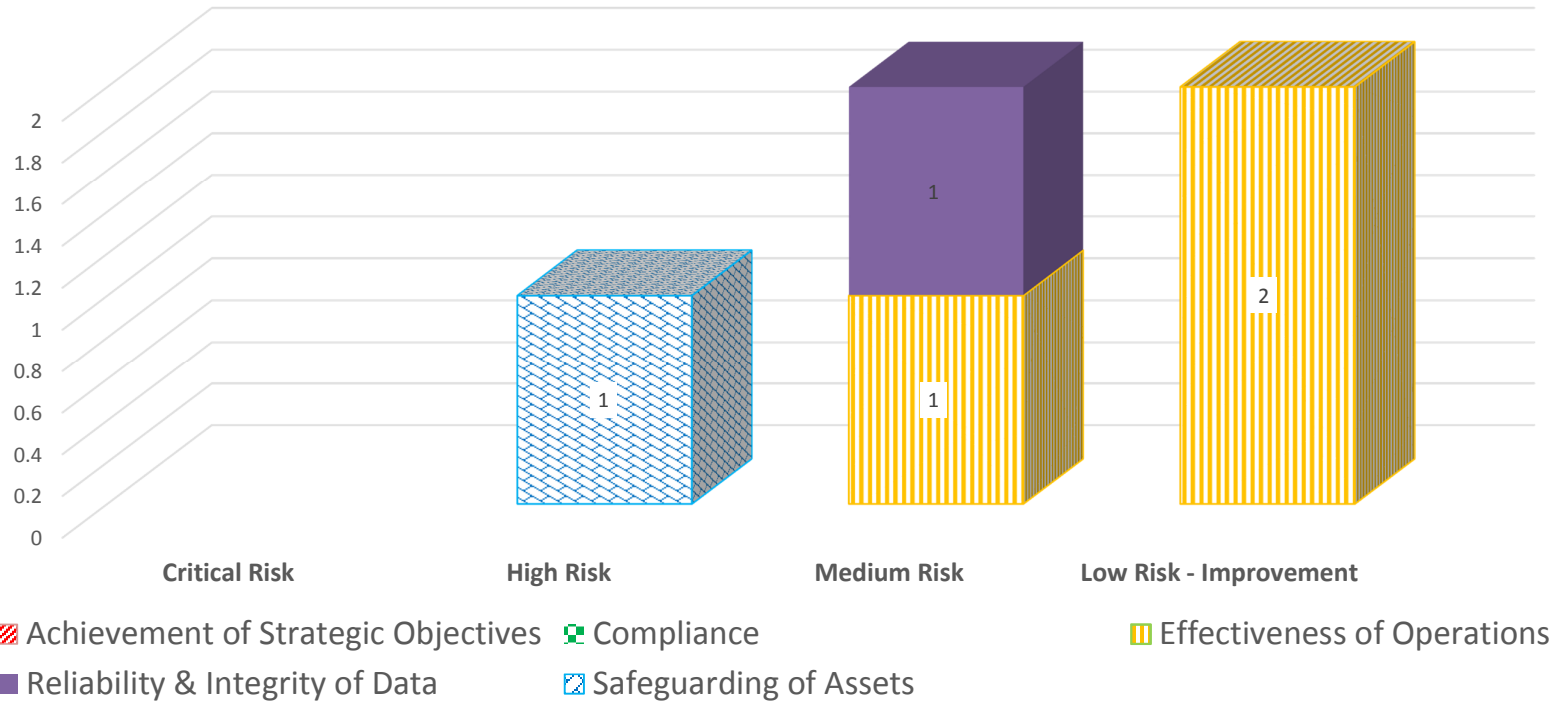
	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						0
High Risk					1	1
Medium Risk			1	1		2
Low Risk - Improvement			2			2
Grand Total	0	0	3	1	1	5

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14.   Follow Up Analysis

High Risks   **Medium Risks**   **Low Risks**
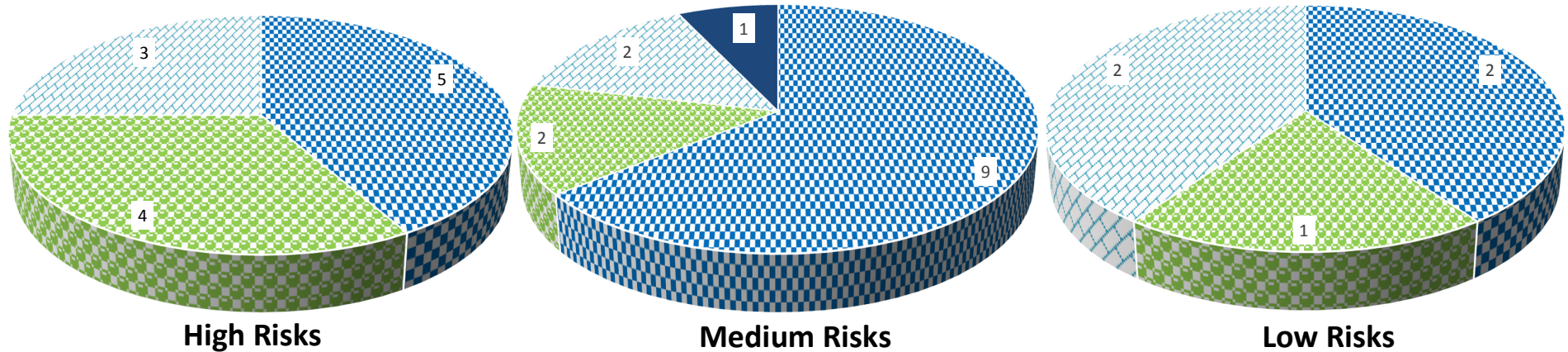
- Open
- In Progress
- Closed – Verified

- Pending
- Implemented but not effective
- Closed – Not Verified/Accepts Risk

	Open	Pending	In Progress	Implemented but not effective	Closed – Verified	Closed – Not Verified	Closed – Management Accepts Risk	Closed – No Longer Applicable
High Risk	5		4		3			
Medium Risk	9		2		2	1		
Low Risk	2		1		2			
Grand Total	16		7		7	1		

The Internal Audit Service follows up all audits where at least 1 high risk exception has been raised. These audits are followed up in the next financial year to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within 3 months due to the potential severity of the risks identified. The overall position of the exceptions followed up currently through 2019/20 shows that **26%** have been closed by audit, however **74%** remain open and or are in progress.