



# **Internal Audit Progress Report**

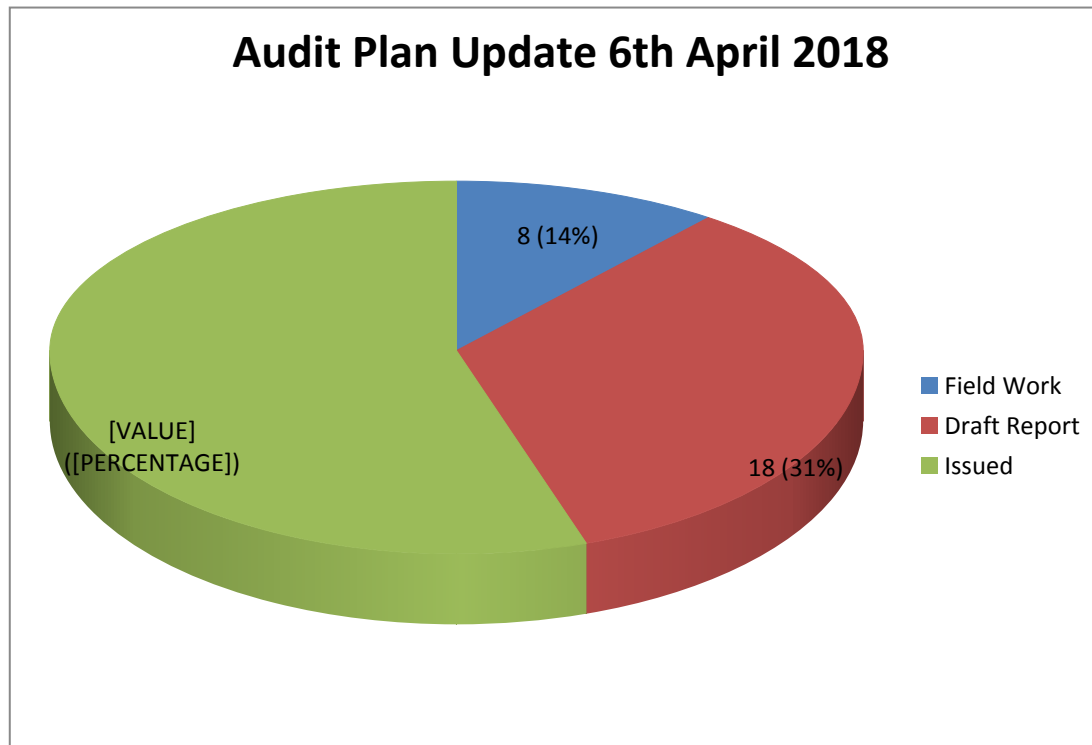
## **23<sup>rd</sup> April 2018 Governance Committee**

**Elizabeth Goodwin - Chief Internal Auditor**

**Introduction:** The internal audit function is a statutory function for all Local Authorities. Southampton City Council currently has a shared Chief Internal Auditor and an in house team of three members of staff, supported under a partnership agreement with Portsmouth City Council.

**Purpose of report:** The purpose of this report is to update the committee on the progress of the 2017/18 Audit Plan for the period 26<sup>th</sup> January 2018 to 6<sup>th</sup> April 2018 and highlight any areas of concern that may have arisen during the completed audits. In addition, changes to the audit plan and other unplanned pieces of work are also brought to the attention of the committee.

**Audit Plan Progress:**



86% of the Audit Plan has been completed as at 6<sup>th</sup> April 2018. 14% of the Audit Plan is in progress with an expected completion date of the end of April 2018. This is based on 58 audits.

**Completed Audits between 26<sup>th</sup> January 2018 and 6<sup>th</sup> April 2018:**

Project Name	Hub	Opinion	Direction	No. Critical Risk	No. High Risk	No. Medium Risk	No. Low Risk	Summary
F&C - Housing Rents and Debt Management	Strategy	Limited Assurance	No previous audit	-	4	3	-	4 High risk exceptions arose. These relate to a lack of management information, circumvention of write off controls, lack of progression on former tenant debts and an error relating to collection of direct debits
F&C - Bank Account	Strategy	Limited Assurance	No previous audit	-	4	-	-	4 High risk exceptions arose. These relate to a lack of timely bank reconciliations, a lack of monitoring of suspense accounts, no clear procedures for undertaking reconciliations and insufficient separation of duties in relation to cash handling and reconciliation
F&C - Purchase Cards	Strategy	Limited Assurance	No previous audit	-	4	-	-	4 High risk exceptions arose. These relate to a lack of supporting evidence for purchases made, purchases being made by cardholders for other services, a lack of monthly reconciliations and authoriser monitoring. Lastly, card transaction limits were being exceeded in the sample tested.
C&F - Fostering Arrangements	Operations	Reasonable Assurance	No previous audit	-	1	2	-	1 high risk exception arose which related to a lack of clarity of the payment amounts to foster carers.
C&F - Home to School Transport	Operations	Limited Assurance	No previous audit	-	3	-	1	3 high risk exceptions arose. These related to policies being out of date and not fit for purpose. In addition, there was a lack of

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								sufficient evidence to justify a sample of transport decisions.
HR - Recruitment	Strategy	Reasonable Assurance	No previous audit	-	-	1	1	No high risk exceptions
HAC - DOLs Deprivation of Liberty	Operations	Limited Assurance	No previous audit	-	2	-	-	2 high risk exceptions arose. These related to the non-compliance with statutory timescales for processing new and reviewed DOLs cases.
COR - Project Governance	Strategy	Limited Assurance	No previous audit	-	-	-	-	Testing established that no corporate approach was in place relating to project governance. The agreed actions devised from the Studio 144 audit are being used to design a corporate project governance framework.
GRTH - Studio 144	Operations	No Assurance	No previous audit	-	5	-	-	See main body of the report
ICU - Quality Assurance	Strategy	Assurance	2015/16 Reasonable Assurance	-	-	-	-	No exceptions arose
F&C - Annual Governance Statement 17/18	Strategy	Reasonable Assurance	2017/18 Assurance	-	-	1	-	No high risk exceptions
GRTH - Property Investments	Operations	Assurance	No previous	-	-	-	-	No exceptions arose

**Audits in Draft Report Stage:**

<b>Project Name</b>	<b>Hub</b>	<b>Project Status</b>	<b>Projected Reporting Date</b>
DBO - CCTV	Operations	Draft Report	April 2018
DBO - Procurement	Strategy	Draft Report	April 2018
HR - Health & Safety	Strategy	Draft Report	April 2018
C&F - Adoption	Operations	Draft Report	April 2018
HAC - Adults Safeguarding	Operations	Draft Report	April 2018
F&C - Accounts Receivable and Debt Management	Strategy	Draft Report	April 2018
P&H - Public Health	Strategy	Draft Report	April 2018
L&G - Social Media	Strategy	Draft Report	April 2018
F&C - Accounts Payable	Strategy	Draft Report	April 2018
T&U - TranMan	Operations	Draft Report	April 2018
T&U - Water Quality	Operations	Draft Report	April 2018
T&U - Asbestos	Operations	Draft Report	April 2018
F&C - Income and Collection Sites	Strategy	Draft Report	April 2018
HAC - Residential Care Homes SCC run	Operations	Draft Report	April 2018
HAC - Continuing Health Care	Operations	Draft Report	April 2018
DBO - British Gas	Operations	Draft Report	April 2018
DBO - Contract Strategic Framework	Operations	Draft Report	April 2018
DBO - Leisure Contract	Operations	Draft Report	April 2018

**Audits in progress:**

Project Name	Hub	Project Status	Projected Reporting Date
F&C - Financial Management	Strategy	Field Work	April 2018
DBO - Partnership Arrangements	Operations	Field Work	April 2018
DBO - Mobile Devices	Operations	Field Work	April 2018
C&F - Out of City Placements Special Education Needs	Operations	Field Work	April 2018
C&F - Family Matters Grant	Operations	Field Work	April 2018
DBO - IT Telecommunications	Strategy	Field Work	April 2018
DBO - Disaster Recovery Business Continuity	Operations	Field Work	April 2018
C&F – Children’s Safeguarding (Protection & Court Teams)	Operations	Field Work	April 2018

**Additional Audit Plan Information:**

Three of the audits included in the 2017-18 audit plan resulted in consultative work being undertaken in place of an audit review, these areas are noted below for information.

**Direct Payments:** Following receipt of a 'No assurance' audit and service known concerns, Southampton City Council instigated a complete review of the DP process; this has included engagement with service users and support services under an intensive care assessment. Whilst progress has been made the new system is yet to be implemented with further work to be undertaken. An audit was scheduled to be undertaken in Q3/4 as the new system was anticipated to be in place by November, however due to the aforementioned delay no audit review has been carried out. An Audit of new system for Direct Payments will therefore be carried out during 2018/19 as part of the annual plan of audit activities.

**Local Authority Trading Company:** Internal Audit was invited to a number of forums and has held discussions with key individuals regarding the development of LATC. As there are no areas currently to review, it has been agreed that Internal Audit will, as part of the 2018/19 annual

plan, carry out system reviews on all activities due to be transferred and prior to them moving across in order to provide assurances that the processes in operation are working efficiently.

**Short Breaks:** A review of the short breaks process was due to be conducted as part of the 2017/18 audit plan. Short Breaks provide children and young people with disabilities or additional needs an opportunity to spend time away from their parents, engage in fun activities and enjoy time with their friends. However discussion with the SEND Manager identified that processes were due to be changing.

"The current approach does not provide effective support based on need, has eligibility criteria that are unfair and inequitable and does not meet the legal requirements of delivering social care assessments and access to services based on need. The proposals are to introduce new eligibility criteria based on 4 levels, applying a needs based approach, introduce a new Short Breaks offer linked to the 4 levels and procure services for a 5 year period so that services can be delivered over the medium term with a degree of security."

Based on the above information, Internal Audit were consulted on the proposed process moving forward and it was agreed a full audit will then be completed in 2018/19 plan.

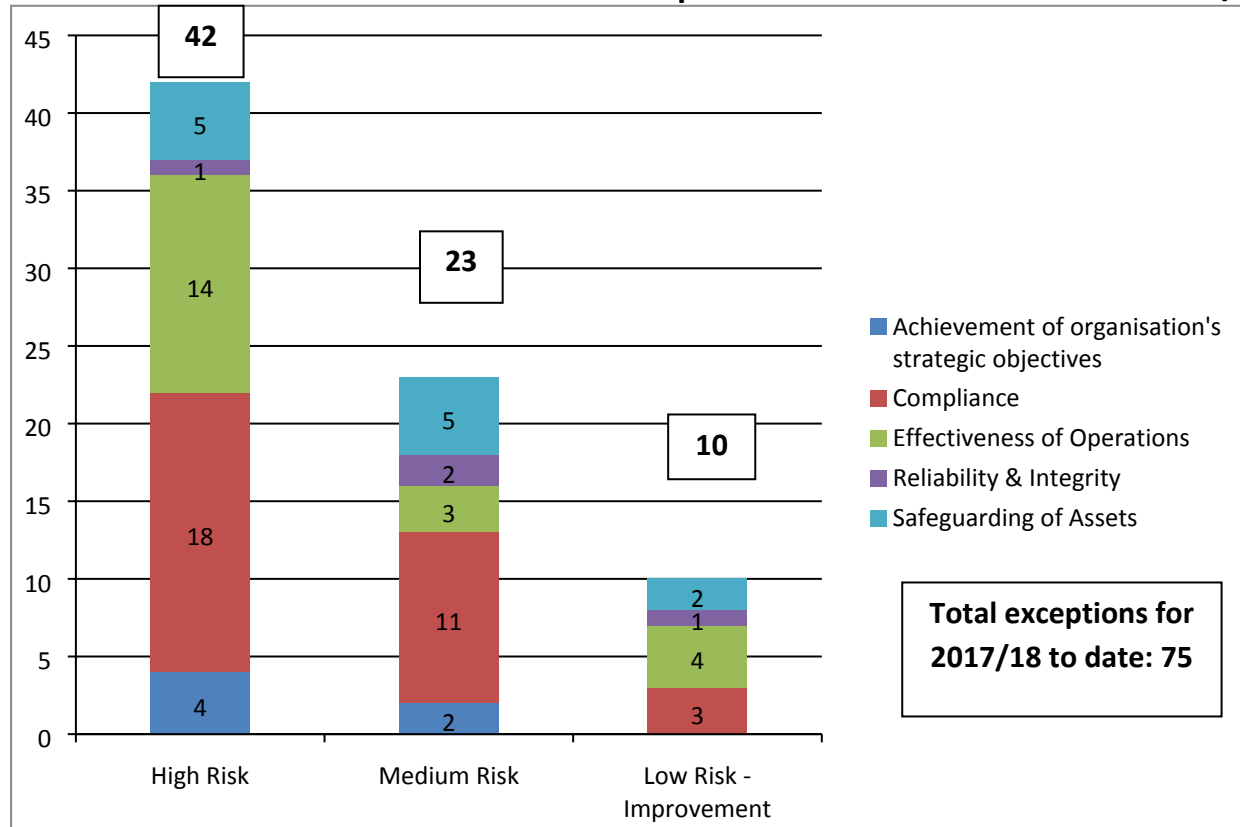
In addition to the areas noted above, Internal Audit included in the 2017/18 Audit Plan the verification of the '**Local Transport Capital Block Funding Grant**', as at the date of this report no submission has been presented for verification.

### **Unplanned Work:**

Since 26<sup>th</sup> January 2018 to 6<sup>th</sup> April 2018, Internal Audit has provided advice in the following area. (For reference, Advice is only recorded when the time taken to provide the advice exceeds 1 hour.

- Direct Payments - The Audit Manager is attending regular meetings to discuss the progress of the improvements made in the direct payment process following attendance at the workshops.
- Direct Payments – The Audit Manager is now a member of the Direct Payment Board overseeing the implementation of the new direct payment process.

### Exceptions Raised in Issued Audits 2017/18



Category	Example
Achievement of Organisational Objectives (AO)	Policy is out of date and not in line with current process
Compliance with Laws, Regulation and Policy (CMP)	Authority process /action is breaching legislation
Safeguarding of Assets (SOA)	Inventory of assets is not being maintained
Effectiveness of Operations (EOO)	Duplicate authorisation within a process
Reliability and Integrity of Data (R&I)	Reports used for decision making are inaccurate

The above table shows the number of exceptions raised based on the risk level and the category in which they were tested. At the current time, no significant trends are present in the data.

#### Audit Plan Status/Changes:

There have been no changes to the Audit Plan since the last update.



## Areas of Concern:

### Studio 144

An audit review of the Studio 144 project formed part of the audit plan. The review resulted in 5 high risk exceptions and no assurance that the project was managed in a way to minimise risk to the Authority. The key issues highlighted were:

- Project Feasibility - Insufficient reviews were undertaken throughout the lifetime of the project to verify that the project remained feasible both financially and logistically.
- Project Setup - the project was setup so that the 3 main areas, Design, Build, Fit out were procured separately which resulted in managing 3 large contractors. No business case could be evidenced to ascertain how this decision was made. The resulting delays of the project compounded the impact of this decision as each delay subsequently delayed the following contractor, thus creating financial penalties.
- Project Lifespan - The project spanned a total of 17 years from initial idea through to completion. Throughout that timeframe there were significant changes in both the political administration and key officers. A lack of adequate information management also meant that no robust timeline of events could be found to aid in the understanding of progress and decision making.
- Financial Changes - The project budget has significantly increased over the lifetime of the project from £13.5m to £30m.
- Residual Issues - At the time of the audit, there was substantial contractual issues outstanding with the contract administrator. Once reconciled, a post project review will outline what caused the deviations from the scope to determine where lessons could be learnt for future projects.

In conclusion, whilst there have been numerous issues all creating a domino effect, the main contributing factor is the length of time of this project from conception to completion. Conversely, while some external factors could not be predicted i.e the Economic Crisis, had further information been collected and analysed at the relevant times, a greater level of information would have been available to aid in any decision making which occurred. However, throughout the review it has not been possible to evidence the decision making processes and the parties involved in them. In addition, continuity of key staff and a detailed project timeline could have mitigated issues caused by the time delays

KEY:

Overall Assurance Levels:	Description / Examples
<b>Assurance</b>	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
<b>Reasonable Assurance</b>	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
<b>Limited Assurance</b>	Control weaknesses or risks were identified which pose a more significant risk to the Authority
<b>No Assurance</b>	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

Exception Priority Level	Description
<b>Low Risk - Improvement</b>	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.
<b>Medium Risk</b>	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.
<b>High Risk</b>	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.
<b>Critical Risk</b>	Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation’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.