Internal Audit Progress Report

30th May 2019

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Introduction

The Internal Audit function is a statutory function for all Local Authorities. Southampton City Council Internal Audit service has an in-house team and a shared Chief Internal Auditor with Portsmouth City Council (PCC). The in house audit team is supported by audit & counter fraud staff from PCC under a collaborative working arrangement.

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'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].

Purpose of report

The purpose of this report is to update the committee on the progress of the 2018/19 Audit Plan as at 31st March 2019 and to highlight any significant risk exposure and control issues, including fraud and governance risks. 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. Assurance opinions are categorised as follows:

Overall Assurance Levels:	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

NOTE: Where the audit receives an overall level of 'No Assurance' then the exceptions are be reported in their entirety to the Governance Committee along with the Directors comments.

The following table outline the exceptions raised in audit reports and are reported on in priority order.

| Exception 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 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.

NOTE: Any critical exceptions found the exceptions will be reported in their entirety to the Governance Committee along with the Directors comments.

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 have accepted the risk highlighted from the exception
Closed – No Longer Applicable	Risk exposure no longer applicable.

Audit Plan Progress:

AUDIT PLAN PROGRESS TO 30TH MAY 2019

Field Work, 5, 6%

Draft Report, 9, 11%

Issued, 66, 83%
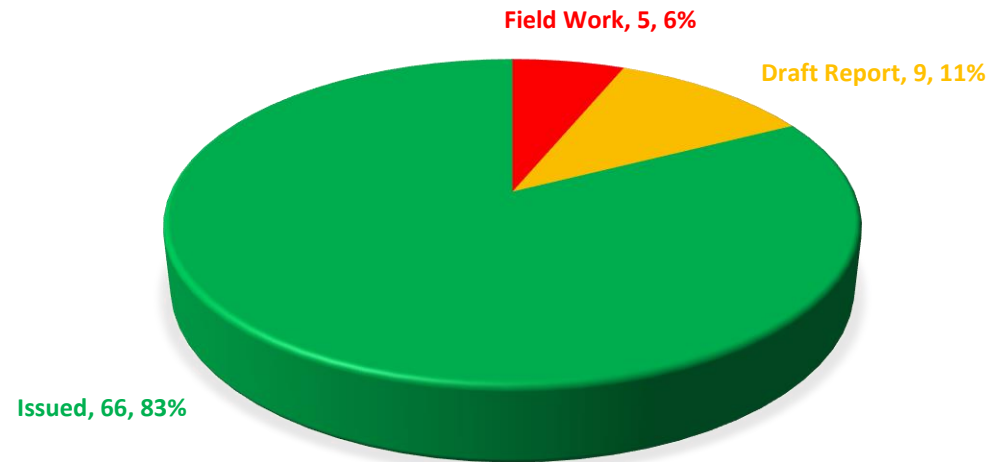
94% of the Audit Plan has been completed or is in draft report stage as at 30th May 2019. This is based on 80 audits, which includes follow up reviews.

Breakdown of Progress:

Status	Number of Audits
Identified	0
Field Work	5
Draft Report	9
Issued Report	66

Unplanned Work:

- No Unplanned work has been undertaken since the last progress report.

Audit Plan Status/Changes:

There have been no changes made to the plan since the last progress report.

Areas of Concern:

1. Mobile Devices – Summarised in the main body of the report, See Appendix 2 for full audit report.

Completed Audits between 1st April to 30th May 2019

Project Name	Hub	Overall Opinion	Total No. of Issues/Exceptions	Critical Risk	High Risk	Medium Risk	Low Risk Improvement
ICU Contract Managment	Strategy (SD Quality & Integration)	**Assurance**	-	-	-	-	-
Scope of Audit:	*Appropriate governance, guidance for the management of contracts, letting of contracts, due diligence for prospective and selected providers, contracts are monitored, self-verification.*						
Testing was conducted on the processes for Integrated Commissioning Unit Contract Management, and a review of one contract. Based on this testing Internal Audit can give assurance that Integrated Commissioning Unit Contract Management is of low risk to the Authority.							
Stock Condition	Operational (SD Growth)	**Assurance**	-	-	-	-	-
Scope of Audit:	*Maintenance of Housing assets, policy & procedures, housing standards, inspection surveys, repairs & maintenance, planned maintenance schedules.*						
Testing was conducted on the processes for the management of Stock Condition within the authority, including Stock Condition Surveys. Based on this testing Internal Audit can give assurance that Stock Condition is of low risk to the Authority.							
Homelessness and Prevention	Operational (SD Adults Housing & Communities)	**Assurance**	-	-	-	-	-
Scope of Audit:	*Homelessness strategy, Homelessness Act 2002 & Reduction Act 2017, free information and advice, assessments for eligible applicants, review of homeless cases in temporary accommodation.*						
From examination of the various documentation and on the cases tested and findings identified Internal Audit can give assurance that Homelessness & Prevention arrangements are of low risk to the authority.							
Health & Wellbeing Board	Strategy (SD Quality & Integration)	**Assurance**	-	-	-	-	-
Scope of Audit:	*Health and Wellbeing governance and terms of reference, strategy is current with roles and responsibilities appropriately agreed, meets are advertised and supported by full documentation.*						
Based on the results of testing, Internal Audit can give assurance that the Health and Wellbeing Board is of low risk to the authority.							
Annual Governance Statement	Strategy (SD Finance & Commercialisation)	**Reasonable Assurance**	-	-	-	-	-
Scope of Audit:	*A review of the Annual Governance Statement responses provided by Service Directors in their AGS Self-Assessment returns, which are used to inform development of the AGS.*						

The results of the audits would indicate that Internal Audit is in agreement with the majority of the Service Directors self-assessments there is evidence from audits undertaken through the year that challenges the assessment of others. Concerns have been raised with the reasonable assurance opinion of internal controls, staff awareness of policies and the 'Gifts and Hospitality Procedure'.							
Community Infrastructure Levy	Operational (SD Growth)	*Reasonable Assurance*	**2**	-	-	**2**	-
Scope of Audit:	*CIL funds are used in line with regulation, planning applications, exemptions awarded, demand notices, subsequent charges, CIL income and expenditure, unpaid demand notices.*						
The first medium risk relates to there being a lack of an audit trail or direct evidence of how Adobe acrobat calculates the CIL chargeable figure from the detailed plans provided. The second medium risk relates to a 24k discrepancy between the main CIL code setup in Agresso and the CIL expenditure listed on the authority's website, it was discovered that this was due to a misallocation from grant funding.							
Solicitor Fees	Strategic (SD Legal & Governance)	*Reasonable Assurance*	**2**	-	-	**2**	-
Scope of Audit:	*SCC Legal Services are contacted in the first instance for external solicitors, clear decision making process as to why external solicitors are used, spend is monitored by Legal Services.*						
The first high risk exception relates to two cases where teams failed to demonstrate adequate procurement procedures initially by contacting Legal Services however in both cases Legal later became involved in the process. The second medium risk relates to one invoice for £8,250 not having been reviewed and signed by Legal Services as per internal authorisation procedures.							
Petty Cash	Strategy (SD Finance & Commercialisation)	*Limited Assurance*	**3**	-	**2**	-	**1**
Scope of Audit:	*Petty cash used for business purposes, VAT receipts obtained and preserved, annual returns, petty cash accounts held securely and regular reconciliations of accounts.*						
The first high risk exception relates to a petty cash transaction for £1,200 rent and deposit fees not having a receipt because the cash had not been utilised and was sitting in a separate safe. The second high risk relates to the annual statement recording an amount of £3,640 in the cash deposit box which was only £972.66 when it was counted. The low risk relates to a lack of up to date documentation regarding what can and cannot be processed via petty cash claims.							
Learning & Development	Strategy (SD HR & OR)	*Limited Assurance*	**4**	**3**	**1**	-	-
Scope of Audit:	*Mandatory training, courses provided are cost effective, in house or external training, feedback is sought on both internal/external courses and courses created or procured fulfil a genuine need.*						
The first high risk exception relates from 3,341 members of staff, 910 had completed the fire safety training in the last year and 470 had completed the general health and safety e-learning. Furthermore, there was no formal monitoring of compliance of staff within Children's and Families having completed a level two course in Safeguarding Children. The second high risk relates to there being no tracking of internal costs for creating and running a course compared too externally to evaluate which is the most cost effective. The third high risk relates to							

there being no structured, consistent documented process in place for consulting Directorates on their training needs ahead of each training year. The medium risk relates to there being an inconsistent approach to recording feedback, therefore training cannot be easily comparable.							
Mobile Devices	Operational (SD Digital & Business Operations)	***No Assurance***	***4***	***3***	***1***	***-***	***-***
Scope of Audit:	***Policy on device usage, user access is restricted to control third party application downloads, monitoring of device usage, invoices are checked for accuracy, inventory of mobile devices is suitably maintained.***						
The first high risk exception relates to 1,271 of the 2,898 mobile devices not being noted within the inventory and 931 devices (costing £10.8k a quarter) not being able to match an employee. Furthermore from the list of 931 devices, 272 had no usage at all (costing £3.2k a quarter), 124 were data only devices which didn't use any data (costing £744 a quarter) and the remaining 535 had some form of usage. The second high risk exception relates to there being no evidence of monitoring or general awareness of the 5 largest mobile devices with the largest amount of additional charges by Line Managers / Service Leads / Directors. The third high risk relates to their being no formal or informal responsibility present amongst departments for verifying that the charges from the network provider remain in line with the contract each quarter. The medium risk relates to the Mobile Phone Policy being due a review in May 2018 which was yet to be completed. **The full "no assurance" mobile devices audit report can be found attached as appendix 2.**							

Completed Follow up Audits between 1st April to 30th May 2019

Project Name	Follow Up Opinion	Original Opinion	Original Number of Issues /Exceptions	Critical Risk	High Risks	Medium Risk	Low Risk Improvement
CCTV	**Reasonable Assurance**	**Limited Assurance**	**2**	**-**	**1**	**0**	**1**
Actions Outstanding:	One high and one low risk remain in progress.			**Percentage Closed:**		**0%**	
Summary of Follow Up:	The initial audit highlighted a high risk due to a mix of 51 locations not having a current Data Protection Impact Assessment (DPIA) in place. A low risk exception was also raised as eight sites and two tower blocks required an increase in signage provisions. Follow up testing showed progress had been made as 83% of sites had completed DPIAs while 14% were in progress and 8% had yet to commence. Following the conclusion of the audit all outstanding DPIAs have been completed.						
Housing Rents & Debt Management	**Reasonable Assurance**	**Limited Assurance**	**7**	**-**	**4**	**3**	**-**
Actions Outstanding:	One high and one medium risk remain in progress. One medium risk remains open.			**Percentage Closed:**		**60%**	
Summary of Follow Up:	Follow up testing was able to close and verify three of the high risk exceptions due to the progress made with current arrears monitoring, casework allocation, direct debit corrections and write off authorisations. However issues remain in reconciling iWorld payments into Northgate, the number of pending write offs and the new arrears recovery processes needing further time to imbed.						
Leisure Contract	**Reasonable Assurance**	**Limited Assurance**	**3**	**-**	**2**	**1**	**-**
Actions Outstanding:	One high risk remains in progress.			**Percentage Closed:**		**67%**	
Summary of Follow Up:	The high risk relating to a lack of monitoring of risk assessment completions has been closed as a full list of risk assessments, by venue, has been included within the quarterly performance report discussed as a standard agenda item. The second high risk relates to the non-completion of urgent building structure works, currently the responsibility for the asset is being investigated. The medium risk relates to the lack of penalty clauses within the contract for under performance, KPI's are now in place however no action will be taken against the contractor.						
Home to School Transport	**Limited Assurance**	**Limited Assurance**	**4**	**-**	**3**	**-**	**1**
Actions Outstanding:	One high and one low risk remain in progress.			**Percentage Closed:**		**50%**	

| Project Name	Follow Up Opinion	Original Opinion	Original Number of Issues /Exceptions	Critical Risk	High Risks	Medium Risk	Low Risk Improvement
Summary of Follow Up:	The two high risk relating to the publishing of a revised transport policy have been completed. A high risk and low risk remain in progress due to there still be an insufficient management and documentation to verify transport decisions were made in line with published guidance.						
Tower Blocks	Limited Assurance	Limited Assurance	3	-	3	-	-
Actions Outstanding:	One high risk remains open.			Percentage Closed:		67%	
Summary of Follow Up:	During the original audit three high risk exceptions were raised as a result of audit testing. The first high risk, now closed and verified related to the fire risk assessment action plans being closed down on the system despite some of them not being adequately completed. The second high risk, now closed and verified, related to gas & electricity statutory checks for tower blocks. One high risk remains open as 8/17 (47%) Tower Blocks have Fire Risk Assessment's that have passed their stipulated review date. The longest overdue FRA is 369 days past the review date.						
Appointeeships	Reasonable Assurance	No Assurance	10	-	8	2	-
Actions Outstanding:	One high and one low risk remain in progress.			Percentage Closed:		70%	
Summary of Follow Up:	During the original audit eight high and two medium risk exceptions were raised. Follow up testing has ascertained that six high risk exceptions and one medium risk has been closed and verified and two are in progress. The first high risk in progress relates to the options appraisal which has been completed however actions identified are in progress. The second high risk relates to the holding of funds for clients who have died, follow up testing found that the clients' accounts had reduced from 45 to 37 illustrating further action is required. The medium risk in progress relates to 45 clients having had more than £16k and therefore should have been transferred to Deputyship, follow up action found that 21 clients still needed to be reviewed.						

Audits in Draft Report Stage

|	Project Name	Hub	Project Status	Draft Since	Projected Reporting Date	Revised Reporting Date	Comments
1.	Accounts Receivable	Strategy (SD Finance & Commercialisation)	Draft Report	27/03/2019	10/06/2019	29/07/2019	*Currently awaiting an agreed action from adult's social care.*
2.	Accounts Payable	Strategy (SD Finance & Commercialisation)	Draft Report	29/05/2019	29/07/2019		
3.	Back up and Disaster Recovery	Operational (SD Digital & Business Operations)	Draft Report	27/05/2019	29/07/2019		
4.	British Gas Contract	Operational (SD Adults Housing & Communities)	Draft Report	28/05/2019	29/07/2019		
5.	Events	Strategy (SD Intelligence & Business Insight)	Draft Report	30/05/2019	29/07/2019		
6.	Housing Depot	Operational (SD Adults Housing & Communities)	Draft Report	29/05/2019	29/07/2019		
7.	Asset Management	Operational (SD Growth)	Draft Report	24/05/2019	29/07/2019		
8.	Procurement	Operational (SD Digital & Business Operations)	Draft Report	01/05/2019	29/07/2019		
9.	Strategic Contract Framework	Operational (SD Digital & Business Operations)	Draft Report	01/05/2019	29/07/2019		

Audits in Progress

	Project Name	Hub	Project Status	Delays	Projected Reporting Date	Revised Reporting Date	Comments
1.	*Asbestos*	Operational (SD Transactional & Universal)	*Work in Progress*				
2.	*Data Management*	Operational (SD Digital & Business Operations)	*Work in Progress*				
3.	*Business Support*	Operational (SD Digital & Business Operations)	*Work in Progress*				
4.	*Independent Fostering Agreements*	Operational (SD Children and Families)	*Work in Progress*				
5.	*IT Licence Management*	Operational (SD Digital & Business Operations)	*Work in Progress*				

Exception Analysis to date
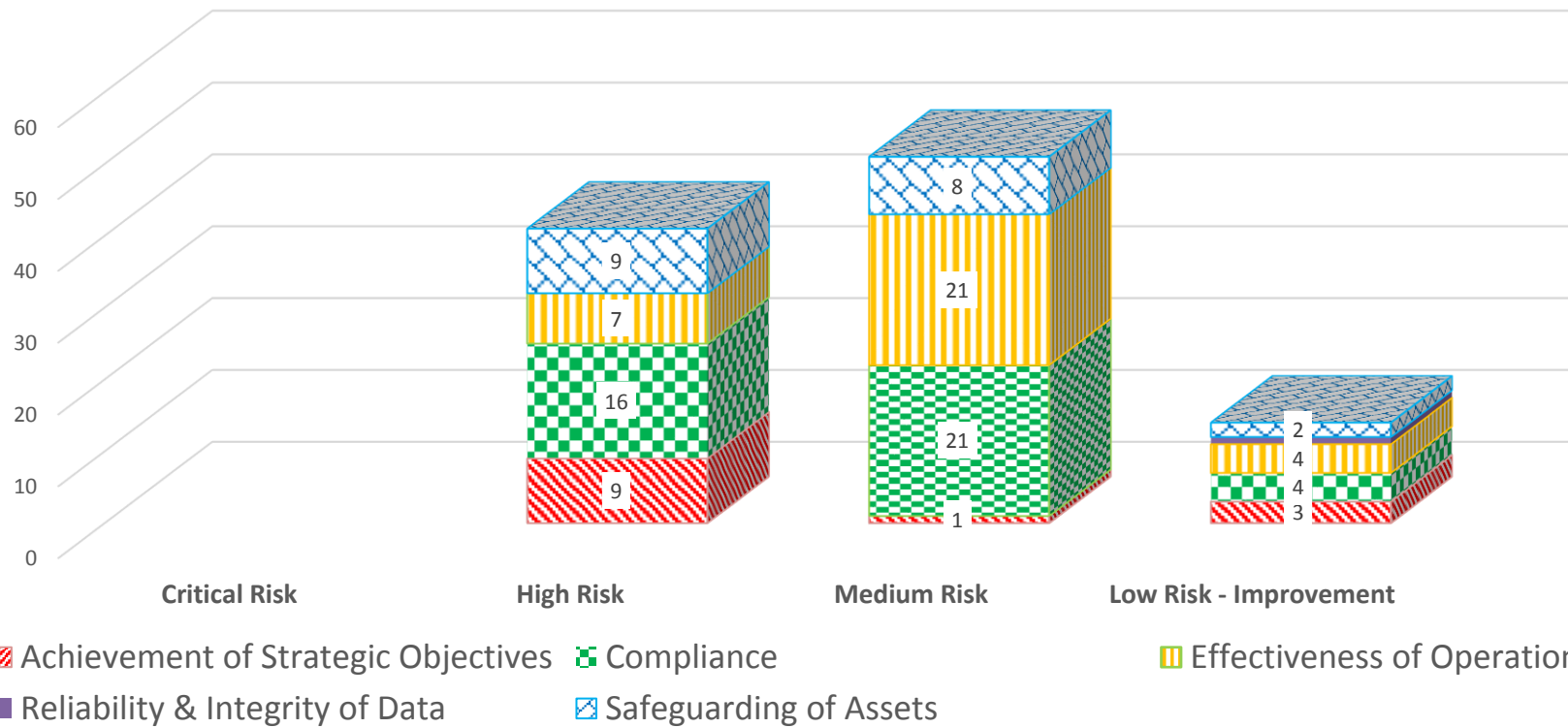
	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						0
High Risk	9	16	7		9	41
Medium Risk	1	21	21		8	51
Low Risk - Improvement	3	4	4	1	2	14
Grand Total	13	41	32	1	19	106

Follow Up Analysis
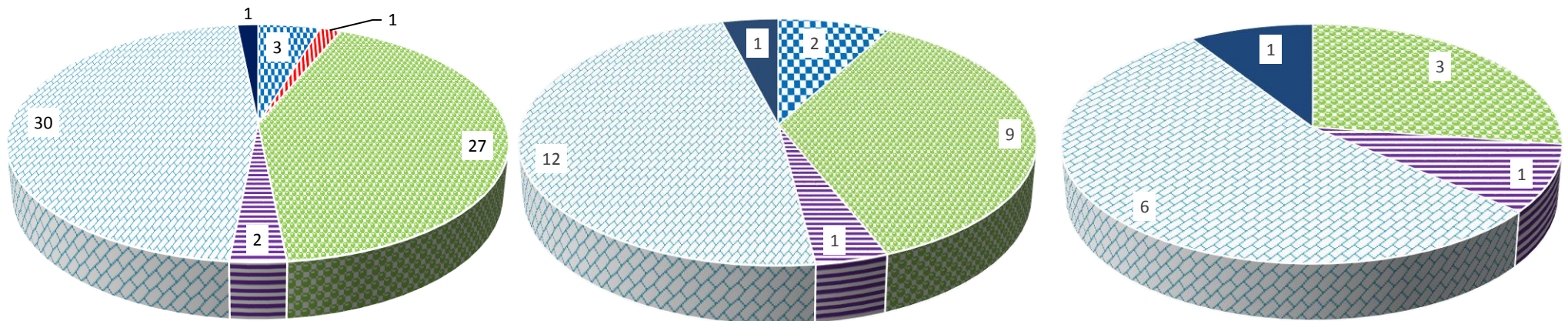
- ✿ Open
- ⦀ Pending
- ▦ In Progress
- ≣ Implemented but not effective
- ✿ Closed – Verified
- ■ Closed – Not Verified/Accepts Risk

	Open	Pending	In Progress	Implemented but not effective	Closed – Verified	Closed – Not Verified	Closed – Management Accepts Risk	Closed – No Longer Applicable
Critical Risk								
High Risk	3	1	27	2	30	1		
Medium Risk	2		9	1	12		1	
Low Risk			3	1	6		1	
Grand Total	5	1	39	4	48	1	2	

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 2018/19 shows that **48%** have been closed and verified by audit, however **52%** remain open and or are in progress.