# Internal Audit Progress Report 11th November 2019

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# 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 30th October 2019

Issued, 21, 27%

Identified, 39, 49%

Draft Report, 3, 4%

Field Work, 16, 20%
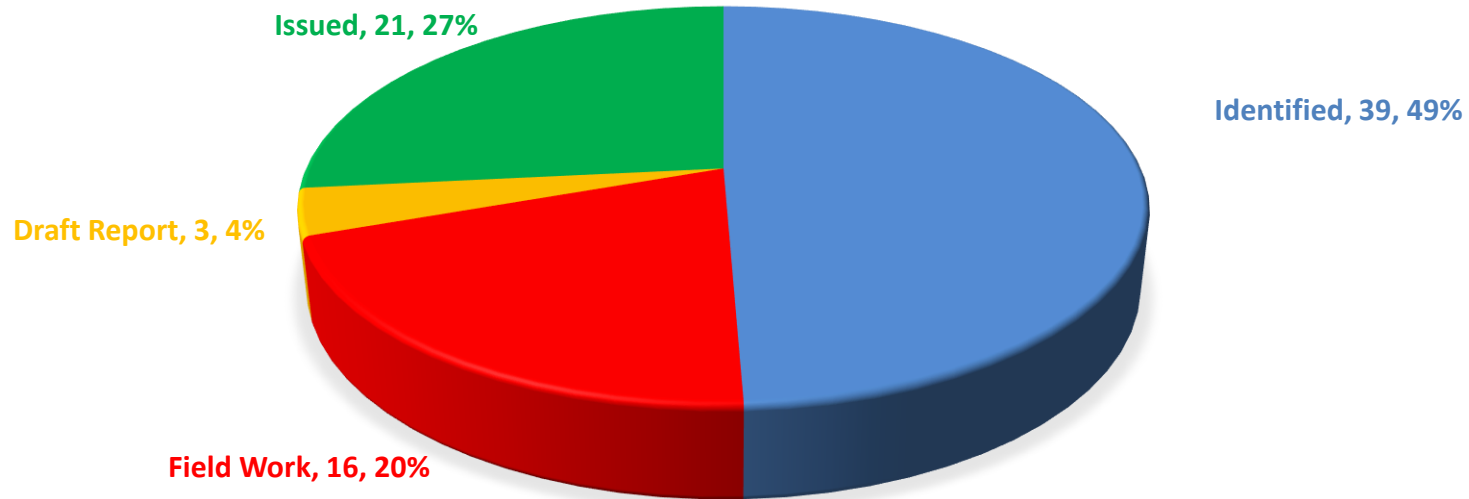
There are a total of 80 reviews in the revised plan 2019/20.

To date, 40 (51%) have been completed or are in progress as at 30th October 2019. This represents 21 (27%) audits where the report has been finalised, 3 (4%) where the report is in draft and 16 (20%) audits currently in progress.

| Status | Audits |
|---|---|
| Identified | 39 |
| Fieldwork | 16 |
| Draft Report | 3 |
| Final Report | 21 |
| Total | 79 |

## 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.
- Routine advice on controls and risk management.

## 4. Audit Plan Status/Changes

The following changes have been made to the plan since the September Governance Committee.

**Audits removed from the Audit Plan:**

- Cloud Storage – This audit has been deferred as there is currently a five year implementation plan for cloud storage which is currently in its first year.
- Substance Misuse Contract – This audit has been deferred to the 2020/21 Audit Plan as it is currently in its full first quarter and therefore it would be more beneficial to undertake the review next year.
- Elections – Due to the prospect of a General Election before the end of the financial year this audit has been deferred until the 2020/21 Audit Plan.
- Partnerships – Strategic Partnership arrangements within the council have reduced, consideration will be given to audit this area as part of the 2020/21 audit plan.

**Audits added into the Audit Plan:**

- School – Bassett Green School
- School – St Monica School
- Disabled Facilities Grant Additional Funding – Due to additional funding being provided a further grant review is required.
- Asbestos (Construction Design & Management regulations) - Added to the plan at the request of the CEO.
- Local Transport Capital Block Funding – 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.

# 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.*

Portsmouth City Council Internal Audit Service is performed in compliance with the Public Sector Internal Audit Standards (PSIAS). Compliance to the standard was externally assessed in May 2018.

# 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*

# 8. 2019/20 Audits completed to date (30ᵗʰ October 2019)

## NHS Digital Submission

**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 | NAT |
| Reliability and Integrity of Data | NAT |

Grant Verification – Based on testing completed there is sufficient evidence to support that the authority is adhering to the Data Protection guidance required to maintain the Data Sharing Agreements.

## Disabled Facilities Grant

**Exceptions Raised**

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 0 | 2 | 0 |

**Overall Assurance Level**

| Reasonable |
|------------|

**Assurance Level by Scope Area**

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

The first medium risk relates to a grant verification not having been signed off or entered onto Uniform and only 2 out of 4 statements of works had been signed by the applicant. The second medium risk relates to 2 properties not having a land charge applied which could result in financial loss. These errors pertain to the authority's own internal processes, testing did find that the authority is complying with the conditions of the grant.

## Woolston Infant School

**Exceptions Raised**

| Critical | High | Medium | Low |
|:--------:|:----:|:------:|:---:|
| 0 | 2 | 2 | 0 |

**Overall Assurance Level**

**Reasonable Assurance**

Agreed actions are scheduled to be implemented by October 2019.

**Assurance Level by Scope Area**

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

The first high risk exception relates to the rental agreement document it has with the Pre-school not being signed by the Pre-school manager and there was no evidence provided that the Pre-school had its own Public Liability Insurance cover. The second high risk relates to ICT hardware inventory not including an adequate description of the assets, no evidence of equipment loaned to staff or authority to 'write off' obsolete or damaged items. The first medium risk relates to there being no stock control system for school uniforms. The final medium risk relates to the petty cash account as having been overdrawn on 12 occasions, a gift (£8 flowers) has been paid for through the account and a £7.32 hand dryer did not have a valid VAT receipt. Although 2 high risk exceptions have been raised a reasonable assurance opinion was given due to the internal control framework working effectively.

## Care Leavers

**Exceptions Raised**

| Critical | High | Medium | Low |
|:--------:|:----:|:------:|:---:|
| 0 | 1 | 3 | 1 |

**Overall Assurance Level**

**Limited Assurance**

Agreed actions are scheduled to be implemented by October 2019

**Assurance Level by Scope Area**

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

The high risk exception was raised in relation to a lack of evidence of supervision reviews from senior management within the last 8 weeks for 4 out of 10 care leavers' supervision case notes. The first medium risk relates to a lack of evidence for 1 out of 10 behaviour risk assessments and 1 out of 6 risk management plans. The second medium risk relates to 2 out of 10 cases not having a current and up-to-date Pathway Plan available for each care leaver. The third medium risk relates to 7 out of 10 cases not having health passports and the other 3 out of 10 cases did not have a list of immunisations attached as per policy requirements. The low risk improvement relates to the Leaving Care Policy requiring a review.

## Parking (Income Collection)

**Exceptions Raised**

| Critical | High | Medium | Low |
|:---:|:---:|:---:|:---:|
| 0 | 3 | 4 | 0 |

**Overall Assurance Level**

| Limited Assurance |
|:---:|

Agreed actions are scheduled to be implemented by June 2020.

**Assurance Level by Scope Area**

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

The first high risk exception relates to there being no formal contract or terms and conditions with the company used for replacement ticket machine parts, online banking and card machines, £4.45 million has been spent with the supplier dating back to 2006. The second high risk relates to there being an inadequate separation of duties regarding the collection of cash and note boxes from ticket machines. The final high risk relates to a lack of monitoring of outstanding permit payments. The medium risks raised cover missing documentation for permit applications, insufficient routine maintenance; annual parking reports not being made publically available and service level agreements with external organisations requiring a review.

## Perinatal Mental Health Grant (Path 2)

Grant Verification – Verification of the financial claim, total eligible expenditure and compliance with the conditions of the grant. Further reviews performed throughout the year.

## Local Transport Capital Funding 2018/19

Grant Verification – To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to the Local Transport Capital Block Funding have been complied with.

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# 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 30th October 2019

**Children in Need – Service Director, Children and Families**

**Original Exceptions Raised**

| Critical | High | Medium | Low |
|----------|------|--------|-----|
| 0 | 2 | 2 | 0 |

**Latest implementation date scheduled during the original audit was in October 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 |
|------|---------|-------------|-------------------------------|------------------|----------------------|----------------------------------|------------------------------|
| 2 (High) 1 (Medium) | 0 | 0 | 0 | 1 (Medium) | 0 | 0 | 0 |

Follow up testing has confirmed that the high risk exception remains open, although some actions have been implemented, the Recruitment and Retention Plan for Social Workers was still in development. The second high risk relates to 3/10 cases still not having a level of supervision that was compliant with the supervision policy manual. The open medium risk relates to 3/5 cases that had exceeded the statutory timescales did not have the reason for the delay recorded.

# 11.   Audits in Draft

| Audit | Directorate | Draft Since | Projected Issue Date | Revised | Comments |
|-------|-------------|-------------|----------------------|---------|----------|
| Short Breaks | Children & Families | 18/10/2019 | November | December | |
| HMO Licensing | Transactions & US | 25/10/2019 | November | December | |
| Petty Cash | Finance & Commercialisation | 25/10/2019 | n/a | December | |

# 12.   Audits in Progress

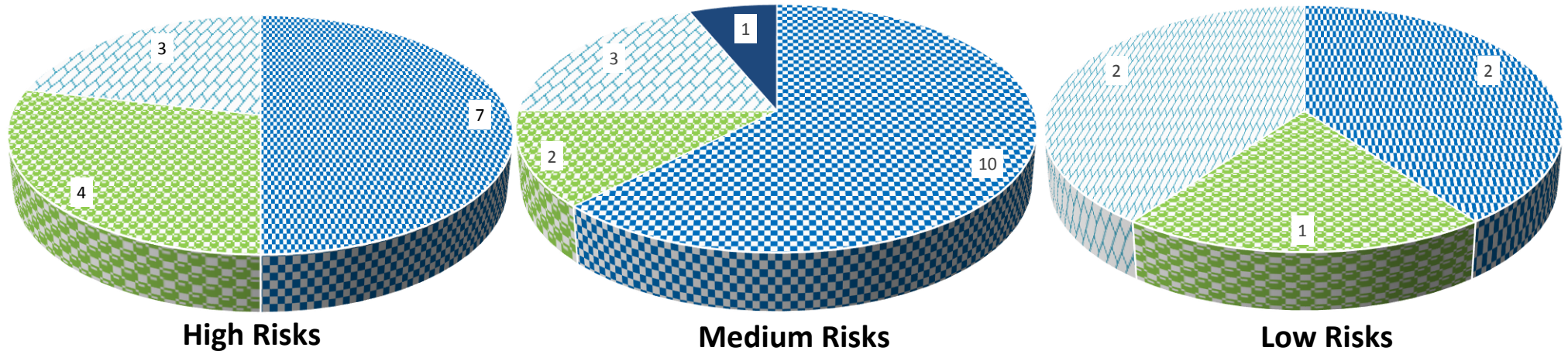| Audit | Directorate | Delayed | Projected Issued Date | Revised Issued Date | Comments |
|---|---|---|---|---|---|
| Direct Payments | Finance & Commercialisation | Yes | November | February | Delayed due to additional testing on Family Matters at short notice and sickness absence |
| Health and Safety | Human Resources & OD | Yes | November | February | Transferred resource to undertake Asbestos CDM review. |
| Asbestos CDM | Corporate | n/a | February | | |
| Bassett Green School | Children & Families | n/a | February | | |
| Better Care Fund | Quality & Integration | n/a | February | | |
| Blue Badge | Adults, Housing & Communities | n/a | February | | |
| Council Tax | Finance & Commercialisation | n/a | February | | |
| Disabled Facilities Grant – Additional Funding | Finance & Commercialisation | n/a | February | | |
| Edge of Care | Children & Families | n/a | February | | |
| Insurance | Finance & Commercialisation | n/a | February | | |
| Museums | Growth | n/a | February | | |
| NNDR | Finance & Commercialisation | n/a | February | | |
| Voids | Adults, Housing & Communities | n/a | February | | |
| 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 | Growth | n/a | March | | Grant is verified throughout the year. |

## 13. Exception Analysis to Date
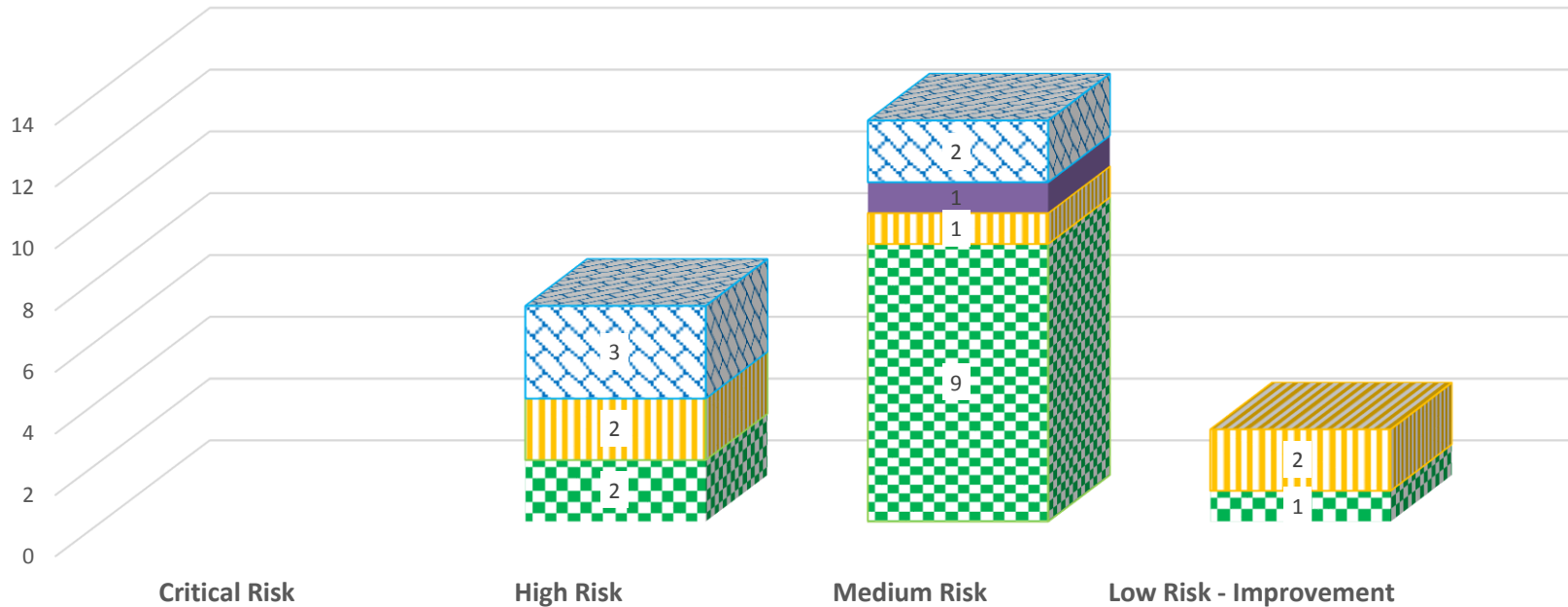


| | Achievement of Strategic Objectives | Compliance | Effectiveness of Operations | Reliability & Integrity | Safeguarding of Assets | Total |
|---|---|---|---|---|---|---|
| Critical Risk | | | | | | 0 |
| High Risk | | 2 | 2 | | 3 | 7 |
| Medium Risk | | 9 | 1 | 1 | 2 | 13 |
| Low Risk - Improvement | | 1 | 2 | | | 3 |
| Grand Total | 0 | 12 | 5 | 1 | 5 | 23 |

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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 | 7 | | 4 | | 3 | | | |
| Medium Risk | 10 | | 2 | | 3 | 1 | | |
| Low Risk | 2 | | 1 | | 2 | | | |
| **Grand Total** | **19** | | **7** | | **8** | **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 **23%** have been closed by audit, however **77%** remain open and or are in progress.

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