



## **Internal Audit Progress Report**

28<sup>th</sup> September 2020

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:

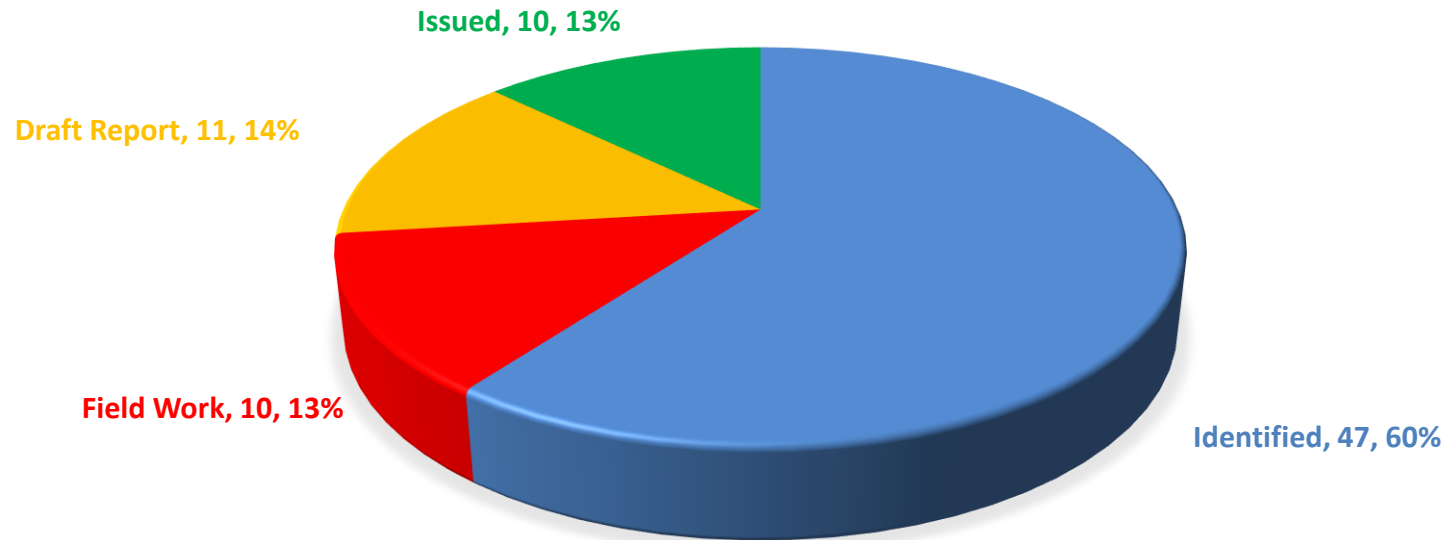
*Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*

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 2020/21 internal audit plan.

## 2. Audit Plan Progress as of 14<sup>th</sup> September 2020



There are a total of 78 reviews in the 2020/21 Audit Plan.

To date, 31 (40%) have been completed or are in progress as at 14<sup>th</sup> September 2020. This represents 10 (13%) audits where the report has been finalised, 11 (14%) where the report is in draft and 10 (13%) audits currently in progress.

Status	Audits
Identified	47
Fieldwork	10
Draft Report	11
Final Report	10
Total	78

### 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. There has been two additional NFI exercises in relation to COVID-19, these relate to mortality and business grants.
- COVID-19 Assurance reporting and grant verification.
- Audit Planning and Consultation - This includes periodical consultation with Directors and revision of the plan following subsequent research into individual assignments.
- Routine advice on controls and risk management.
  - Cash Office Kiosks
  - Credit Note Authorisations
- COVID-19 loss of income analysis and softer approaches to debt recovery data exercise.
- Investigations which are in various stages. A more detailed report of concluded investigations will form part of the annual fraud report which will be presented to the Governance Committee in due course.

### 4. Audit Plan Status/Changes

The Audit Plan will be more flexible this year to take into account the additional work in relation to the COVID-19 pandemic. Since the last reporting period the following should be noted; **Additions, removals and amendments to the 2020/21 Audit Plan:**

- Addition – Bus services revenue grant (COVID-19)
- Addition – Bus support restart grant Period 1 (COVID-19)
- Addition – Bus support restart grant Period 2 (COVID-19)
- Addition – Dedicated home to school and college transport grant (COVID-19)
- Addition – COVID-19 Income loss claim
- Addition – Capital programme review added at the request of the Executive Director, Place
- Amendment – Housing Rents and Debt Management (no longer a full audit, will follow up on previously identified issues)
- Removal – Information Governance (deferred until the 2021/22 Audit Plan)
- Removal – Waste Operations (deferred until the 2021/22 Audit Plan)

## 5. Areas of Concern

There are no 'no assurance' opinion audits being reported on this period, all other findings are noted below.

## 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
<b>Assurance</b>	<i>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</i>
<b>Reasonable Assurance</b>	<i>Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority</i>
<b>Limited Assurance</b>	<i>Control weaknesses or risks were identified which pose a more significant risk to the Authority</i>
<b>No Assurance</b>	<i>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</i>
<b>NAT</b>	<i>No areas tested</i>

*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
<b>Low Risk (Improvement)</b>	<i>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.</i>
<b>Medium Risk</b>	<i>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.</i>
<b>High Risk</b>	<i>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.</i>
<b>Critical Risk</b>	<i>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.</i>

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

## 8. 2020/21 Audits completed to 14<sup>th</sup> September 2020

### Partnership for South Hampshire (PfSH)

**Exceptions Raised**

Critical	High	Medium	Low
0	0	0	0

**Overall Assurance Level**

<b>Assurance</b>
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**Assurance Level by Scope Area**

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Assurance
Safeguarding of Assets	No Areas Tested
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 PfSH accounts.

### Customer Services

**Exceptions Raised**

Critical	High	Medium	Low
0	0	1	0

**Overall Assurance Level**

<b>Reasonable</b>
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Agreed actions were scheduled to be implemented by x

**Assurance Level by Scope Area**

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

The medium risk relates to 1/5 service areas telephone lines tested not matching the publicised number, it was evidenced that the publicised number is 'call forwarded' and answered by an automated message.

### Schools Financial Value Standard (SFVS)

**Exceptions Raised**

Critical	High	Medium	Low
0	0	2	0

**Overall Assurance Level**

Reasonable

Agreed actions were scheduled to be implemented by September 2021

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	No Areas Tested
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	Reasonable

The first medium risk relates to 11 SFVS returns not being signed by correct parties (i.e. chair of the governing body) and 6 being delayed with 5 being due to COVID-19 related reasons. The second medium risk relates to a lack of evidence to support declarations made in the SFVS i.e. benchmarking and inventory.

### Bank Account

**Exceptions Raised**

Critical	High	Medium	Low
0	1	1	0

**Overall Assurance Level**

Reasonable

Agreed actions were scheduled to be implemented by September 2021

**Assurance Level by Scope Area**

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	Assurance
Effectiveness and Efficiency of Operations	Limited
Reliability and Integrity of Data	No Areas Tested

The high risk relates to a review of the suspense account where £630,195.23 remained uncoded. This covers 2017/18 (£56,229.72), 2018/19 (£125,654.53) and 2019/20 (£448,310.98). The medium risk relates to a lack of formal monitoring of the banking contract.

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

**Grant Outcome:**

Assurance

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. 2019/20 Follow-up Audits completed to 14<sup>th</sup> September 2020

### Port Health

#### Original Exceptions Raised

Critical	High	Medium	Low
0	0	1	2

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

#### Original Assurance Level

Reasonable
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#### Follow-up Assurance Level

Assurance
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#### 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 (Medium) 1 (Low)	1 (Low)	0	0

Follow up testing has confirmed that agreed actions relating to system access permissions, data retention and suspense account transactions have been closed. A low risk has been closed without verification, as a physical review was not possible due to COVID-19 restrictions.

### Sexual Health Contract – 2<sup>nd</sup> Follow Up Report

#### Original Exceptions Raised

Critical	High	Medium	Low
0	1	0	1

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

#### Original Assurance Level

Reasonable
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#### Follow-up Assurance Level

Assurance
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#### 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 (Low)	0	1 (High)	0	0	0

Follow up testing has confirmed that the high risk exception has been closed and verified. The low risk remains in progress as although the authority has renewed its licence for Pathway Analytics uploads did not start in April 2020 due to the COVID-19 pandemic.

### Right to Buy – 2<sup>nd</sup> Follow Up Report

#### Original Exceptions Raised

Critical	High	Medium	Low
0	1	1	0

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

#### Original Assurance Level

Limited
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#### Follow-up Assurance Level

Assurance
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#### 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) 1 (Medium)	0	0	0

One high, one medium risk and one low risk exception were raised as a result of the initial audit. The low risk exception was closed and verified in the first follow up review. This subsequent second follow-up review has closed and verified the remaining exceptions.

### Public Health (Community) Funerals – 2<sup>nd</sup> Follow Up Report

#### Original Exceptions Raised

Critical	High	Medium	Low
0	1	1	1

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

#### Original Assurance Level

Limited
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#### Follow-up Assurance Level

Reasonable
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#### 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)	0		0	1 (Low)	0

Follow up testing identified that one high risk remains in progress as 1/8 cases with property searches tested did not contain the signed property search checklist (down from 2 noted in previous follow up). The medium risk remains open as 2/10 case balances (funds held below £500) tested, did not match that of finance records (down from 3 noted in previous follow up). New actions have been agreed for these risks and are expected to be completed immediately. The low risk exception has been closed with the Service Manager confirming they are not looking to implement a formal policy and will continue to follow legislation and departmental procedure document in place.

**Care Leavers**
**Original Exceptions Raised**

Critical	High	Medium	Low
0	1	3	1

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

**Original Assurance Level**

Limited
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**Follow-up Assurance Level**

Reasonable
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**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	1 (High) 2 (Medium)	1 (Medium) 1 (Low)	0	0	0

Follow up testing has confirmed that the high risk exception remains open as although the agreed actions have been implemented only 5/10 cases had timely 8 week supervision from senior management. 3/5 of these were interrupted due to COVID-19. Similarly two medium risks remain open, for the first medium risk only 90% of the sample had a current Health Care Plan along with a 'Health Passport' report. The second risk testing identified only 7/10 cases had a pathway plan review conducted over the statutory six month period from the previous review. New actions have been agreed for these risks and are expected to be completed by December 2020. Two risks have been closed and verified.

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

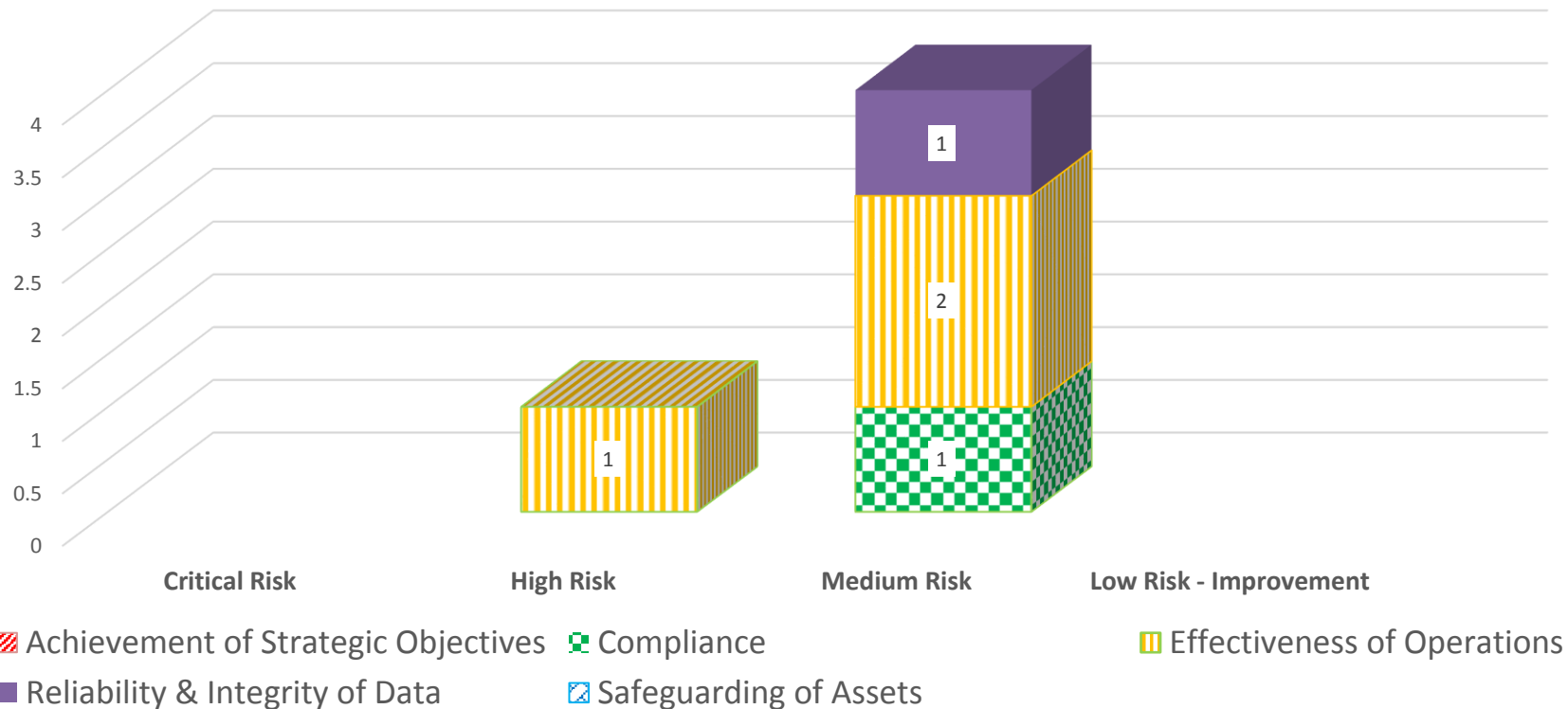
## 11. Audits in Draft

Audit	Directorate	Projected Reporting	Revised	Comments
Appointeeship	Wellbeing (Health & Adults) / Finance	November 2020		
Asbestos	Communities, Culture & Homes	November 2020		
Ethics	Business Services	November 2020		
IT Procurement & Disposal	Business Services	November 2020		
IT Project (Paris)	Business Services	November 2020		
Mobile Devices	Business Services	November 2020		
Procurement	Finance	November 2020		
Public Protection Notices	Wellbeing (Children & Learning)	November 2020		
Regeneration Projects	Place	November 2020		
Short Breaks	Wellbeing (Children & Learning)	November 2020		
Water Quality	Place	November 2020		

## 12. Audits in Progress

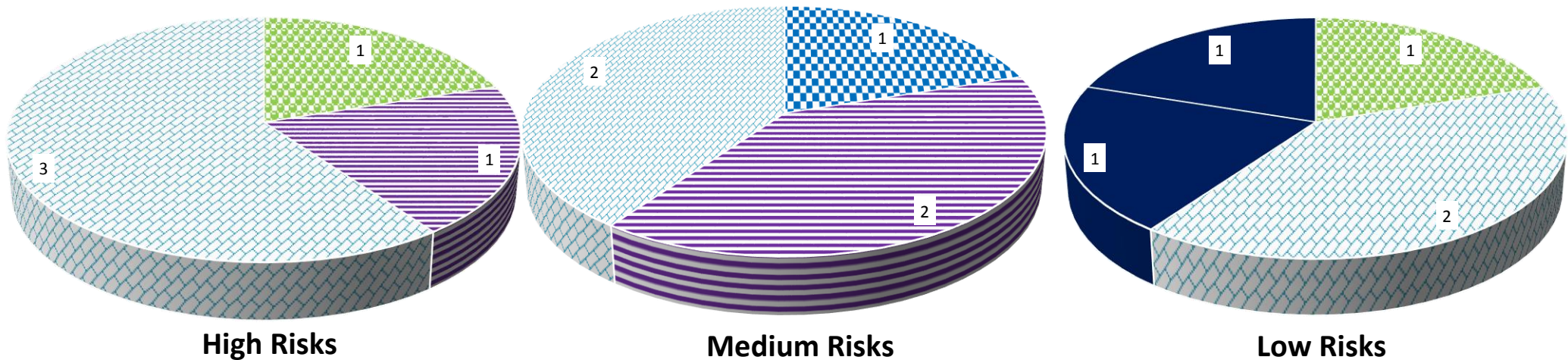
Audit	Directorate	Comments
Education Psychologists	Wellbeing (Children & Learning)	
Children in Need	Wellbeing (Children & Learning)	
Families Matters Grant	Wellbeing (Children & Learning)	
Fleet Management	Place	
Grounds Maintenance	Place	
Infection Control Grant	Finance	
Local Transport Capital Grant	Finance	
Looked After Children	Wellbeing (Children & Learning)	
Purchasing Cards	Finance	
Voids	Community, Culture & Homes / Finance	

## 13. Exception Analysis to Date



	Achievement of Strategic Objectives	Compliance	Effectiveness of Operations	Reliability & Integrity	Safeguarding of Assets	Total
Critical Risk						
High Risk			1			1
Medium Risk		1	2	1		4
Low Risk - Improvement						
Grand Total	0	1	3	1	0	5

## 14. Follow Up Analysis



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			1	1	3			
Medium Risk	1			2	2			
Low Risk			1		2	1	1	
<b>Grand Total</b>	<b>1</b>		<b>2</b>	<b>3</b>	<b>7</b>	<b>1</b>	<b>1</b>	

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 **60%** have been closed by audit, however **40%** remain open and or are in progress.



## 15. Remaining 2019/20 Audits issued (14<sup>th</sup> September 2020)

### Accounts Receivable (AR)

#### Exceptions Raised

Critical	High	Medium	Low
0	0	3	0

#### Overall Assurance Level

**Reasonable**

Agreed actions were scheduled to be implemented by March 2021

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	Reasonable
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The first medium risk relates to testing where in 6/20 cases sampled no recovery action had been undertaken with the outstanding invoices being between 103 and 286 days old (average 195 days). Overall arrears had reduced by £773,443.20 at the end of the 2019/20 financial year when compared to 2018/19. The second medium risk relates to the lack of timely write-offs with 70 awaiting authorisation at time of testing. The final medium risk relates to 3 Business World users with AR access not requiring it as part of their roles.

### Project Governance

#### Exceptions Raised

Critical	High	Medium	Low
0	0	5	0

#### Overall Assurance Level

**Reasonable**

Agreed actions were scheduled to be implemented by September 2021

#### Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The first medium risk relates to the change in project management approach to work under the Association for Project Management (APM) guidance not reaching all areas of the organisation. The second medium risk relates to areas within the organisation not delivering projects to the APM approach and in a way in which provides consistent corporate oversight. The third medium risk relates to the standard set of templates not being used in all instances due to them being on Sharepoint. The fourth medium risk relates to a lack of defined roles and responsibilities within projects causing officers to complete tasks outside their remit. The final medium risk relates to a lack of project completion evaluations.

## Payables

### Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

### Overall Assurance Level

Limited
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Agreed actions were scheduled to be implemented by March 2021

### Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	No Areas Tested
Safeguarding of Assets	Reasonable
Effectiveness and Efficiency of Operations	Limited
Reliability and Integrity of Data	Limited

The first medium risk relates to £1.73 million worth of outstanding transactions awaiting authorisation for over 30 days from budget holders which is a trend upwards from 2018/19 (£1.45M) and 2017/18 (£859k). If these payments are past their payment terms and they are not disputed there is a risk that the authority will have to pay statutory interest as set out in the Late Payment of Commercial Debts Act 1998. The second high risk relates to audit identifying, using IDEA Data Analysis Software, 17 duplicate suppliers from the 60 highlighted in a duplicate supplier report. The final medium risk relates to 7 Business World users with AP access not requiring it as part of their roles.

## Voids

### Exceptions Raised

Critical	High	Medium	Low
0	3	0	0

### Overall Assurance Level

Limited
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Agreed actions were scheduled to be implemented by July 2020

### Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Limited
Safeguarding of Assets	Limited
Effectiveness and Efficiency of Operations	Reasonable
Reliability and Integrity of Data	No Areas Tested

The first high risk relates to inadequate record keeping with 6/23 files not including a "Notice to Quit/Vacate", 21/23 did not have a Notice to Quit acceptance letter and 13/23 did not include a return key receipt. For repairs, 8/14 files did not contain evidence of the original state of the property. The second high risk relates to the cost of repairing damaged caused by tenants and clearing the property of abandoned possessions is not being reclaimed from the vacating tenant. The final high risk relates to 5/23 routine voids being over the 10 day timescale by between 12 and 86 days and 9/10 major works in relation to voids not being turned around within the 65 day timeframe. They were between 78 and 253 days.