

Report

Audit Committee



Part 1

Date: 23 January 2018

Item No: 9

Subject Internal Audit – Progress against audit plan 2017/18 Quarter 3

Purpose To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2017/18 agreed audit plan for the first nine months of the year and for information on audit opinions given to date and progress against key performance targets.

Author Chief Internal Auditor

Ward General

Summary The attached report identifies that the Internal Audit Section is making good progress against the 2017/18 audit plan and internal performance indicators.

Proposal 1) The report be noted by the Council's Audit Committee

Action by The Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

Signed

Background

1. This report aims to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed audit plan. Progress against the audit plan for the first nine months of the year will be reported.
2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q3.

Internal Audit Staffing

3. The team currently operates with an establishment of 8 audit staff. At the start of the year there were 7 audit staff with 1 vacancy in the team. One Auditor left and one Auditor was appointed and started in the team during quarter 1. The remaining vacant post was recently filled and the Auditor started in October. Although the Audit Manager's maternity is being back filled by one of the Principal Auditors in the team, we haven't yet back filled cover for the Principal Auditor so the team is not running on full capacity.
4. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured.
5. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

Audit Plan

6. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 which the team will need to ensure it is compliant with as it carries out work in line with the Audit Plan. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).
7. A requirement of the PSIAS is for the Internal Audit team to be externally assessed once every five years to ensure compliance with these Standards. The Welsh Chief Auditors' Group proposed an option of a peer review in order to meet the requirements of this external assessment, which has been agreed by respective S 151 Officers of local authorities in Wales. Newport's peer review will take place before April 2018.
8. The 2017/18 Audit Plan was agreed by the Audit Committee on 30th May 2017.

Performance

9. The Audit Section's performance is measured against planned work, which incorporates externalities like special investigations, financial advice and financial regulations training. Where actual time taken for the review exceeds planned time there will be an impact on the audit plan. Ad-hoc reviews requested by management cannot be planned for but will have an immediate impact on the achievement of the audit plan; we will endeavour to minimise these throughout the year. The section has been involved with minimal special investigations so far this year but if this increases significantly it could have an impact on this year's achievement of the audit plan; so far there have been no unplanned reviews.

10. The section's performance is measured against performance indicators set and agreed by the Welsh Chief Auditors' Group. Performance against these indicators is reported to the Audit Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.
11. The performance for Quarter 3 2017/18 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix A**) are cumulative and show that:
 - a. 54% (50%) of the audit plan has been achieved so far which is above last year's performance and higher than the profiled target of 50%;
 - b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 16 days which is above the target time of 10 days;
 - c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 4 days (1 day) which is within the target time of 5 days.
12. Coverage of the plan at this stage of the year is above expectations; the target being 50% for Quarter 3. Although there has been a reduced audit resource in the team we have had very little involvement with special investigations. Although performance may dip throughout the year, historically things have picked up in the final quarter; this year will depend on sufficient audit resources being available to complete the audit plan. All key financial systems will be reviewed by the year end.
13. 16 (40) days have been spent finalising 14 (18) 2016/17 audit reviews; all of which have now been finalised.
14. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire, and two Auditor posts.
15. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year, but there has been a significant improvement in this over previous years.
16. From time to time the team does get involved with non-planned audit work which often results in special investigations. The team has been involved with one such issue for a number of months relating to an allegation of a senior manager colluding with a contractor; this matter has subsequently been referred to the police.

Quality Control

17. On completion of all audit reviews, an evaluation questionnaire is sent out to the service manager with the final report. This gives the manager who has been audited an opportunity to comment on the audit review itself, confirming (or not) that it was of benefit to their service and that the main risks had been covered; the staff, their approach, constructiveness and helpfulness; the report, covering the benefits of discussing the draft report, whether the balance was right via the inclusion of strengths and weaknesses, whether management comments were correctly reflected and if the report format was easy to follow. These questionnaires are returned in confidence to the Chief Internal Auditor who will assess the comments and address any criticisms. Generally, there has been positive feedback from service managers via these questionnaires; this will continue to be collated throughout the year and fed into the annual audit report for 2017/18.

Financial Training

18. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders is offered to all service areas. An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self-nomination basis, quarterly, as part of the Corporate Training Programme. Feedback from staff who have attended courses has been positive. During this year the financial training is continuing to be targeted to areas of previous poor performance, in line with the agreed protocol for dissemination of good practice.
19. The training programmes will continue throughout the year; 6 sessions have been delivered up to the end of Q3 to 89 delegates.

Audit Opinions 2017/18

20. Audit opinions issued so far in 2017/18 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix D**.
21. 27 jobs completed to at least draft report stage by 31 December 2017 warranted an audit opinion: 5 x *Good*; 16 x *Reasonable*, 6 x *Unsatisfactory and no Unsounds*. 5 grant claims have been undertaken during the year; 3 opinions were *Unqualified*, 2 were *Qualified*. Other reports have been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, provision of financial advice and external clients (**Appendix C**).
22. The audit opinion relates to the adequacy of internal controls within the system or establishment being reviewed. The opinion is derived from the balance of strengths and weaknesses identified from evidence obtained, and testing undertaken, during the audit. Where the auditor believes that any issues identified are the result of a deliberate action and may be in breach of the Disciplinary Code or Employee Code of Conduct, further investigations will be carried out and action taken as appropriate.

Service Management Responsibilities

23. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by incorporating their agreed actions into the audit reports. When management sign off the reports they are accepting responsibility for addressing the issues identified within the agreed timescales.
24. Although Heads of Service are responsible for implementing and maintaining adequate internal controls within service areas, operational managers are responsible for working within those controls and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Heads of Service for information and appropriate action where necessary.

Follow up audit reviews

25. Where unsatisfactory and unsound opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved. These are reported separately to this Audit Committee on a six-monthly basis.

Financial Summary

26. There are no financial issues related to this report.

Risks

27.

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Audit Plan not completed	M	M	Passed potential management issues back to management	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

28. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens.

- To make our city a better place to live for all our citizens
- To be good at what we do
- To work hard to provide what our citizens tell us they need

Options Available

29. This is a factual progress report and therefore there are no specific options, as such. The quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.

30. The Audit Committee is asked to note progress on delivery of the audit plan and audit opinions given to date and ask questions, make observations and recommendations, as necessary.

Preferred Option and Why

31. N/A

Comments of Chief Financial Officer

32. I can confirm that I have been consulted and have no additional comments.

Comments of Monitoring Officer

33. There are no legal implications. The Report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework. The progress made to date in delivering the objectives set out in the approved Audit Plan highlights the effectiveness of

the work undertaken by this service area in ensuring that adequate and effective internal financial controls are in place.

Staffing Implications: Comments of Head of People and Business Change

34. The report highlights a specific resourcing issue that has arisen as a result of maternity leave and the knock on effect of backfilling, which needs to be managed. In terms of Corporate Policy & Performance, the report presents a review of audit activity during the period concerned and is set out in the context of performance framework. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures. It is also critical in ensuring that the organisation meets its statutory responsibilities under the Well-being of Future Generations Act (2015).

Comments of Cabinet Member

35. N/A

Local issues

36. N/A

Consultation

37. N/A

Background Papers

38. N/A

Dated:

Appendix A

Newport City Council Internal Audit Service Performance Indicators

2016/17	2016/17 Target	1 st Qtr 16/17	2 nd Qtr 16/17	3 rd Qtr 16/17	4 th Qtr 16/17	Comments
Proportion of planned audits complete	77%	16%	35%	50%	89%	[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	90%	74%	72%	Cumulative figures
Directly chargeable time against total time available	50%	52%	54%	57%	60%	Quarterly performance
Directly chargeable time against planned	84%	62%	66%	72%	83%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	6	7	9	Cumulative figures
Staff turnover rate (number of staff)	1	0	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 days	9 days	14 days	13 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	4.5 days	3.5 days	3 days	3 days	Cumulative figures

2017/18	2017/18 Target	1 st Qtr 17/18	2 nd Qtr 17/18	3 rd Qtr 17/18	4 th Qtr 17/18	Comments
Proportion of planned audits complete	80%	21%	35%	54%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	50%	73%		Cumulative figures
Directly chargeable time against total time available	50%	52%	63%	64%		Quarterly performance
Directly chargeable time against planned	84%	62%	92%	84%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	100%	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	2	4	6		Cumulative figures
Staff turnover rate (number of staff)	1	0	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	4 days	13 days	16 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	8 days	6days	4 days		Cumulative figures

Appendix B
Opinions as at 31 December 2017, Qtr 3

Good	5
Reasonable	16
Unsatisfactory	6
Unsound	0
Total	27

Internal Audit Services - Management Information for 2017/18 Q3

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1718-4	CE	Finance	Accountancy	Treasury Management 2016/17 (D)	Medium	Good
P1718-5	CE	Finance	Income Collection	Sundry Debtors (D)	High	Good
P1718-46	People	Education Serv	Primary Schools	Clytha Primary (F)	Medium	Good
P1718-49	People	Education Serv	Primary Schools	St David's RC Primary (F)	Medium	Good
P1718-59	People	Education Serv	Engagement & Learning	Gwent Education Minority-Ethnic Service (F)	Medium	Good
P1718-1	CE	Finance	Accountancy	Social Services Financial Assessment & Charging (F)	High	Reasonable
P1718-7	CE	Finance	Procurement	Purchasing Cards (System) (D)	High	Reasonable
P1718-14	CE	People & Bus Change	Business Improvement & Performance	Performance Indicators (D)	Medium	Reasonable
P1718-18	CE	People & Bus Change	Digital & Information	Freedom of Information (FOI) (D)	Medium	Reasonable
P1718-31	People	Adult & Comm Serv	Care & Support Services	Spring Gardens (D)	Medium	Reasonable
P1718-32	People	Adult & Comm Serv	Care & Support Services	Brynglas Day Opportunities 2016/17 (D)	Medium	Reasonable
P1718-45	People	Education Serv	Primary Schools	Always Primary 2016/17 (F)	Medium	Reasonable
P1718-48	People	Education Serv	Primary Schools	Somerton Primary (D)	Medium	Reasonable

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1718-50	People	Education Serv	Primary Schools	St Julian's Primary (D)	Medium	Reasonable
P1718-52	People	Education Serv	Secondary Schools	Lliswerry High (D)	Medium	Reasonable
P1718-57	People	Education Serv	R&P - School Organisation	Outside Preferred Catering Contractor (Schools) Part B (D)	Medium	Reasonable
P1718-58	People	Education Serv	Improvement & Inclusion	Education Welfare Service 2016/17 (F)	Medium	Reasonable
P1718-63	Place	RI&H	Development Services	Developers Contributions (Section 106) (F)	High	Reasonable
P1718-64	Place	RI&H	Economic Regeneration & Policy	Vibrant & Viable Places Programme 2016/17 (F)	High	Reasonable
P1718-68	Place	RI&H	Housing Renewals / Improvements	Disabled Facilities Grants 2016/17 (F)	High	Reasonable
P1718-74	Place	Streetscene & City Serv	Operational Areas	Parking Services (F)	High	Reasonable
P1718-18	CE	People & Bus Change	Digital & Information	Subject Access Requests (D)	Medium	Unsatisfactory
P1718-24	People	Children & Young People Serv	Safeguarding, Quality Assurance & Child Protection	SGO / Kinship Payments (D)	High	Unsatisfactory
P1718-53	People	Education Serv	Secondary Schools	Llanwern High (F)	Medium	Unsatisfactory
P1718-57	People	Education Serv	R&P - School Organisation	Outside Preferred Catering Contractor Part A & C (Schools) (D)	Medium	Unsatisfactory
P1718-77	Place	Streetscene & City Serv	Green Services	Cemeteries (D)	Medium	Unsatisfactory
P1718-79	Place	Streetscene & City Serv	Waste Operations	Agency / Overtime - Refuse Follow Up (D)	High	Unsatisfactory

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1718-30	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification	Not applicable	Unqualified
P1718-39	Place	Law & Regulation	Trading Standards	Scambusters Grant Claim 2016/17	Medium	Unqualified
P1718-44	People	Education Serv	R&P - Finance & School Resources	Pupil Deprivation Grant 2016/17	Medium	Unqualified
P1718-43	People	Education Serv	R&P - Finance & School Resources	Education Improvement Grant 2016/17	Medium	Qualified
P1718-76	Place	Streetscene & City Serv	Passenger Transport Unit	Bus Services Support Grant 2016/17	Medium	Qualified

(D) – report is in draft status

(F) – report has been finalised


Appendix C

Non Opinion work 2017/18 Q3

Job number	Group	Service Area	Section or Team	Job Title	Opinion
P1718-9	CE	Finance	General	Annual Governance Statement	Not applicable
P1718-11	CE	Finance	General	National Fraud Initiative (NFI)	Not applicable
P1718-12	CE	Finance	General	Financial Advice	Not applicable
P1718-20	CE	People & Bus Change	General	Financial Advice	Not applicable
P1718-21	CE	People & Bus Change	General	Financial Regulations Training	Not applicable
P1718-26	People	Children & Young People Services	General	Financial Advice	Not applicable
P1718-33	People	Adult & Comm Services	General	Financial Advice	Not applicable
P1718-40	Place	Law & Regulation	General	Financial Advice	Not applicable
P1718-56	People	Education Services	Schools	CRSA's / Healthcheck - Primary/Secondary/ Nursery	Not applicable
P1718-60	People	Education Services	Schools	Financial Regulations Training	Not applicable
P1718-61	People	Education Services	General	Financial Advice	Not applicable
P1718-71	Place	RI&H	General	Financial Advice	Not applicable
P1718-80	Place	Streetscene & City Services	General	Financial Advice	Not applicable
P1718-82	External	Ext Audits	WCAG Training Co-ordinator	WCAG Training Co-ordinator	Not applicable

Appendix D

INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

	GOOD	Well controlled with no critical risks identified which require addressing; substantial level of assurance.	Green
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red

Unqualified	<p>The Financial Statement is free from material misstatement and presents fairly the activities of the organisation.</p> <p>The terms and conditions of the grant funding have been complied with.</p>
Qualified	<p>There is a lack of supporting information or documentation to verify that that figures quoted in the Financial Statement fairly represent the activities of the organisation.</p> <p>The terms and conditions of the grant funding have not been fully complied with.</p>