

Report

Audit Committee

Part 1

21 June 2018

Item No.

Subject Internal Audit – Progress Against Unfavourable Audit Opinions Previously Issued [to March 2018]

Summary The attached report identifies current progress of systems or establishments which have previously been given an unsatisfactory or unsound audit opinion. Although there will always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers are allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

During **2016/17** 35 audit opinions had been issued; 5 were *Unsatisfactory*, 1 was *Unsound*. The new Head of Streetscene & City Services was called into Audit Committee in June 2017 to respond to concerns raised by Members of the Audit Committee regarding further unfavourable audit opinions in that service area. This was reported, in part, to Audit Committee in March 2017.

As at 31st March 2018, during **2017/18** 40 audit opinions had been issued; 6 were *Unsatisfactory*, none were *Unsound*. The audit of Agency / Overtime – Refuse resulted in a second Unsatisfactory audit opinion.

- Proposal**
- 1) The report be noted and endorsed by the Council's Audit Committee
 - 2) To consider calling in any specific heads of service if members of the Audit Committee feel they require further assurance that improvements will be made to the control environment following unfavourable audit opinions.
 - As the audit of the Agency / Overtime – Refuse resulted in a second consecutive Unsatisfactory audit opinion, members should consider calling in the Head of Street Scene and his Cabinet Member in order to gain assurance that appropriate improvements will be made.

Action by Audit Committee

Timetable Immediate

Background

1. This report aims to inform Members of the Audit Committee of the current status of audit reviews previously given an *unsatisfactory* or *unsound* audit opinion and to bring to their attention any areas which have **not** demonstrated improvements within the financial control environment. The previous report was presented to Audit Committee in January 2018 which related to opinions as at 30 September 2017. The new Head of Streetscene & City Services was called into Audit Committee in June 2017 to respond to concerns raised by Members of the Audit Committee regarding further unfavourable audit opinions in that service area. He gave a commitment that improvements would be made within 12 months.
2. Since bringing this report to the Audit Committee there have been 13 reviews (excluding Agency / Overtime - Refuse) which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee. The latest referrals are shown at Appendix A.
3. It is pleasing to report that improvements were made in 12 of the 13 areas. These reviews will now be picked up as part of the audit planning cyclical review and will be audited as part of that process.
4. Although follow up audit work had been planned for the 5 unsatisfactory opinions issued in 2016/17, 3 have actually been followed up to date. These are shown in the table in paragraph 8 and the others will be followed up during 2018/19.
5. Where the team come across obstacles in undertaking follow up work, for example managers stating that the issues will be addressed by the implementation of a new system, the Chief Internal Auditor will take a view as to the usefulness of a follow up review at the time and report back to the Audit Committee.
6. Definitions of the audit opinions are shown at Appendix B.

History of unfavourable audit opinions

7. In **2015/16**, 34 audit opinions had been issued; 8 of which were deemed to be *Unsatisfactory*; a summary of the significant issues has previously been reported:

	Revised Opinion / Date of follow up	Current Status
Partnerships & Planning - Re: Grants to Voluntary Sector Organisations	2016/17	Reasonable June 2017
Looked After Children 16+	2016/17	Reasonable July 2017
Kimberley Nursery	2016/17	Reasonable May 2017
Ysgol Gymraeg Casnewydd	2016/17	Good (March 2017)
Malpas Court Primary - Special	2015/16	Good
Joint Venture – Newport Norse	2017/18	Not yet followed up. Delay in finalising original report. Senior Managers requested follow up to be put back. Now planned for 2018/19.
Highways Improvements Contracts – Project Management	2017/18	Not yet followed up.
CCTV / Security Telford Depot – Follow Up	2014/15 – Unsatisfactory 2015/16 - Unsatisfactory	Unsatisfactory Follow up planned for 2017/18 but delayed due to new cameras installation. Now planned for 2018/19.

8. In **2016/17**, 35 audit opinions had been issued; 5 were deemed to be *Unsatisfactory*, 1 was *Unsound*; a summary of the significant issues follows the table:

	Revised Opinion / Date of follow up	Current Status
Payment Card Industry Data Security Standards	Unsatisfactory *1	Final (July 2016)
Highways Network Assets Valuation	Unsatisfactory *2	Final (February 2017)
Overtime & On Call Payments - Highways	Reasonable	Draft (March 2018)
Maes Ebbw School	Good	Draft (March 2018)
Charles Williams Church in Wales School	Unsatisfactory To be followed up in 2018/19	Final (July 2017)
Agency / Overtime - Refuse (incl. Follow-up)	Unsatisfactory	Draft (March 2018)

a) Payment Card Industry Data Security Standards

- Previously reported

*1 Still a number of actions outstanding which require work by the Shared Resource Service (SRS). These are behind due to the current workload of the SRS which includes a large number of projects. The matter is on the agenda and being monitored by the Council's Information Governance Group.

b) Highways Network Assets Valuation

- Previously reported

*2 The risk profile has reduced substantially as a result of CIPFA deciding not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities and the fact that the valuation figures are no longer a mandatory requirement for the whole of government accounts.

c) Overtime & On Call Payments – Highways

- Previously reported

d) Maes Ebbw School

- Previously reported

e) Charles Williams Church in Wales Primary School

- Previously reported

f) Agency / Overtime – Refuse (incl. Follow-up)

- Previously reported

9. In **2017/18**, 40 audit opinions had been issued; 6 were deemed to be *Unsatisfactory*, none were *Unsound*. In addition, an audit of Freedom of Information & Subject Access Requests revealed that the internal controls in relation to Subject Access Requests were unsatisfactory and a follow-up review of this specific area has been scheduled. A summary of the significant issues follows the table:

	Revised Opinion / Date of follow up	Current Status
Llanwern High School	Unsatisfactory	Final (December 2017)
Cemeteries	Unsatisfactory	Final (January 2018)
SGO / Kinships	Unsatisfactory	Draft (March 2018)
Trips & Visits (Evolve)	Unsatisfactory	Final (March 2018)
Outside Preferred Catering Contractor (Schools)	Unsatisfactory	Final (March 2018)
Agency / Overtime – Refuse Follow Up	Unsatisfactory	Draft (March 2018)

a) Llanwern High School

Previously reported

b) Cemeteries

Previously reported

c) SGO / Kinships

Ref.	SIGNIFICANT
1.05	There was a lack of central coordination of the SGO financial assessment process as roles and responsibilities were not clearly defined. No one manager had overall responsibility for this function despite the budget being over £950k.
1.06	The declaration on the financial assessment form did not include the requirement to verify and share the data provided and that action could be taken in the event of providing false information.
1.07	Evidence that information about the SGO process was issued to all relevant parties was not always available.
2.07	Follow up financial assessments were not always conducted within 8 weeks of the SGO being granted and the SGO allowances were not always calculated in accordance with the Financial Procedures Policy.
2.08	Notification of the initial SGO award letters did not include information on the reduction of SGO payments after 8 weeks.
2.09	The evidence sighted to confirm the details recorded on the financial assessment form was not copied or noted and no further verification of the information was conducted.
2.10	The financial assessment forms were not always signed and dated by the special guardians.
2.11	Independent checks of financial assessment calculations were not accurately completed prior to payment being made.

Ref.	SIGNIFICANT
2.12	DSS1-2 forms were not always signed and dated by the authorising officer.
2.13	Annual re-assessments were not aligned to the 1 st April each year to reflect changes to state benefits and allowances.
2.14	Not all the required information relating to the financial assessments was scanned or saved in ESCR.
3.08	Follow up letters were not issued to special guardians of SGO children who were more than 16 years of age and, when applicable, evidence that the child was still in education was not available.

d) Trips & Visits (Evolve)

Ref.	SIGNIFICANT
1.05	A formal contract agreement was not in place with the third party Outdoor Education Adviser. The letter of engagement did not include an end date or a review schedule. Some of the tasks detailed in the letter of engagement were not being performed and some key areas regarding information security requirements were not included.
1.06	The engagement process of appointing the third party adviser was not in line with Contract Standing Orders. There is no evidence to prove that the Local Authority is receiving the most appropriate service or obtaining value for money.
1.07	At the time of the review, a number of schools had not received Educational Visit Co-ordinator (EVC) training in the last three years. No central records were maintained to highlight schools requiring training.
1.08	An overview of the Evolve System's users identified that former employees of the Local Authority still had active accounts on the system. Users of the system are also able to amend their personal details without an audit trail in place to identify the changes made.
1.09	The current engagement with the Outdoor Educational Adviser is not complying with off-payroll, working through an intermediary, (IR35) regulations.
2.10	For the sample reviewed, not all trips and visits were submitted by the Schools Educational Visits Coordinator (EVC) on the Evolve system at least 28 days prior to the event in line with the Education Visits Policy 2016/17.
2.11	The Local Authority has insufficient resource and knowledge to confirm that all school trips and visits have been recorded on the Evolve system. Reliance is solely placed on a third party to highlight any issues or anomalies on the system.

e) Outside Preferred Catering Contractor (Schools)

Ref.	SIGNIFICANT – CENTRAL EDUCATION
1.02	Free School Meal reimbursements were not being provided at the actual cost of a meal for Newport High School and Caerleon Comprehensive School; the reimbursements were greater than the actual cost.
1.03	Routine inspections of catering facilities at the schools which had opted out of the central catering contract were not being completed by Central Education as a statutory requirement.

Ref.	SIGNIFICANT – NEWPORT HIGH SCHOOL
2.06	The contract and the 'Capital Addendum' with Alliance in Partnership were not signed by the Chair of Governors or under the seal of the Council.
2.07	There was no evidence to support the decision to remove the waste disposal element from the tender specification / final contract agreement and that this had been communicated to all parties.

Ref.	SIGNIFICANT – CAERLEON COMPREHENSIVE SCHOOL
3.05	Tender documentation and supporting evidence was not retained by the school.
3.06	The Contract between Caerleon Comprehensive School and Churchills in 2015 was not subject to independent review and was not approved in accordance with Contract Standing Orders for Schools 2009.
3.07	There was non-compliance with OJEU and Contract Standing Orders for Schools in the re-awarding of the catering contract as: <ul style="list-style-type: none"> • No tender exercise was completed in accordance with OJEU; • Chartwells were approached despite being excluded from the original tender exercise; • Strategic Procurement and legal services were not consulted; and • Contract agreement was not signed by the Chair of Governors or under the seal of the Council.
3.08	The School's Governors were not informed of the full facts in a timely manner relating to the termination of the Churchills contract and the appointment of Chartwells.
3.09	There was no clarity from the School with regards to the length of the Chartwells contract.
3.10	Catering contractors were not taking responsibility for the financing of the waste removal as per the tender specification.
3.11	Litmus Partnership Limited was appointed without a formal contract / agreement in place.
3.12	There was no inventory for the School catering facilities to identify equipment which belonged to the School or their catering contractor.

f) Agency / Overtime – Refuse Follow Up

Ref.	SIGNIFICANT
1.01	There was no approved policy in place for the management and administration of 'Task & Finish' in the Refuse Service.
1.02	For the period examined, both NCC and agency officers were not recording their hours accurately to demonstrate that they had completed their contracted hours. Agency staff were also still being paid on their contracted hours and not the actual hours worked.
1.03	For the period reviewed, weekday overtime was being claimed and paid to members of staff who had not completed their contracted hours for the week.
1.04	At the time of the review, office based staff such as Supervisors and the Assistant Manager (Refuse) did not deduct lunch breaks from their daily working hours as required. There was also no evidence to confirm that drivers and loaders deducted any lunch / breaks from their daily working hours.
1.05	The Signing In records at the site were not recording the actual time which officers were arriving on site for work.
1.06	For the period examined, high levels of overtime continued to be paid to the Refuse Supervisors (Grade 6) and the Assistant Manager (Grade 9).

g) Subject Access Requests

Ref.	SIGNIFICANT
1.07	There was no corporate policy in place for the management and processing of SARs to ensure compliance with the Data Protection Act 1998 and future compliance with GDPR 2018.
1.08	There were no corporate procedures and/or guidance in place to ensure that officers comply with the Data Protection Act when processing SARs.
1.09	There was no performance indicator in place to enable the monitoring and reporting of compliance with SARs processed within 40 calendar days as recommended by the ICO SAR Code of Practice 2017.
3.04	There was no corporate approach to ensure that all SARs received were logged in the IT service desk system.
3.05	Progress notes of SAR cases were not recorded in the IT service desk system to demonstrate: key decisions; reason for delays; review and approval of information.
3.06	No evidence was retained in 2 SAR cases to demonstrate that the information provided to individuals had been redacted and checked by an independent officer.

10. Internal Audit will continue to cover the service areas and specific sections identified in the 2018/19 operational plan and will endeavour to revisit any areas which have been given an unsatisfactory or unsound audit opinion within a twelve month timescale.
11. Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and have agreed to do this by incorporating their comments within the audit reports and taking on board the agreed management actions.
12. Internal Audit are continuing to raise the awareness of financial regulations and contract standing orders within the Council by delivering seminars to all service areas; during recent years this training has been further targeted towards areas that have had unsatisfactory audit opinions.
13. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.

Financial Summary, Risks and Links to Council Policies and Priorities

14. No direct financial implications for this report.
15. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. The report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.

16. Newport Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.
17. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.
18. Risk table – N/A for this report
19. 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 Considered / Available. Preferred choice and reasons

20. Not applicable

Comments of Chief Financial Officer

21. This report is compiled on behalf of the Head of Finance. Areas of unsatisfactory / unsound audit opinions are a concern and in particular for 2017/18, those affecting significant amount of money in overtime/on-call arrangements. But having highlighted issues, it is expected that local managers implement appropriate improvements as soon as they can. Further on-going unsatisfactory / unsound opinions are then of even more concern and the Committee will need to come to a view, having made enquiries of the Chief Internal Auditor, what, if any further action may be required. For example, they may request that the relevant Head of Service and service manager come to a future meeting to explain the lack of progress and what changes they have planned and timescales.

Comments of Monitoring Officer / Head of Law & Regulation

22. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework.

Comments of Head of People and Business Change

23. There are no direct Human Resources issues arising from this report. Internal Audit provide a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

Local Issues and Consultation

24. Not applicable

INTERNAL AUDIT SERVICES

Progress of reports following call-in to Audit Committee as a result of 2 consecutive unfavourable audit opinions:

Review	Service Area	Status since Head of Service and Cabinet Member attended Audit Committee
Ysgol Gymraeg Casnewydd (Nov 2011)	Education Services	Reasonable (March 2013) Unsatisfactory (April 2016) Good (March 2017)
Recruitment & Selection (July 2012)	People & Transformation	Good (Feb 2014)

INTERNAL AUDIT SERVICES – OPINIONS

- The Internal Audit team has revised the audit opinions in line with the level of assurance obtained from undertaking the audit work, that appropriate controls, governance arrangements and risk management are in place.
- The Internal Audit team introduced a new report format during 2015/16 where the Audit Opinion has been colour coded based on a traffic light system and the report only contains key issues which need to be addressed.

AUDIT OPINIONS 2017/18:

	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