

Report

Audit Committee

Part 1

Date: 24 January 2019

Item No: 7

Subject **Internal Audit – Progress against unfavourable audit opinions previously issued [to September 2018]**

Purpose To inform Members of the Council’s Audit Committee of the progress made by operational managers to implement agreed management actions in order to improve the control environment, minimise risk and obtain a more favourable audit opinion within their service or establishment.

Author Chief Internal Auditor

Ward General

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.

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 unfavourable audit opinion.

As at 30 September 2018, during **2018/19**, 22 audit opinions had been issued; 3 were *Unsatisfactory*, 1 was *Unsound*.

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.

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 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 June 2018 which related to opinions as at 31 March 2018. The then 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. The same Head of Service also attended Audit Committee in September 2018 to respond to concerns raised about a second consecutive unfavourable audit opinion in relation to Refuse Agency & Overtime .
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.
3. It is pleasing to report that improvements were made in 12 of the 13 areas and have been reported to Audit Committee previously. 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. Where the Internal Audit team comes 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.
5. Definitions of the audit opinions are shown at Appendix A

History of unfavourable audit opinions

6. In **2015/16**, 34 audit opinions were issued; 8 of which were deemed to be *Unsatisfactory*; a summary of the significant issues has previously been reported. 5 out of the 8 audits have been followed up and were given a more favourable audit opinion which has been reported previously.

	Original Date of follow up	Current Status
Joint Venture – Newport Norse	Unsatisfactory 2015/16 Follow up: 2018/19	Not yet followed up. Delay in finalising original report. Senior Managers requested follow up to be put back. Now planned for Q4 2018/19 following the outcome of the independent CIPFA review.
Highways Improvements Contracts – Project Management	Unsatisfactory 2015/16 TBC	Not yet followed up. No further project management / contracts being undertaken in the service area.
CCTV / Security Telford Depot	Unsatisfactory	Follow up planned for 2017/18

- Follow Up	2014/15 Unsatisfactory 2015/16	but delayed due to new cameras installation. Now planned for Q4 2018/19.
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7. In **2016/17**, 35 audit opinions were issued; 5 were deemed to be *Unsatisfactory*, 1 was *Unsound*. 1 out of the 5 has been followed up and was given a more favourable audit opinion which has been reported previously.

	Original Opinion / Date of follow up	Current Status
Payment Card Industry Data Security Standards	Unsatisfactory *1 July 2016	Now within SRS monitored by Information Governance Group
Highways Network Assets Valuation	Unsatisfactory *2 February 2017	N/A
Charles Williams Church in Wales School	Unsatisfactory July 2017 Follow up: Q3 2018/19	
Agency / Overtime - Refuse (incl. Follow-up)	Unsound November 2016 Unsatisfactory March 2018 Follow up: Q4 2018/19	

*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.

*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.

8. In **2017/18**, 40 audit opinions were 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 in the table:

	Original Opinion / Date of follow up	Current Status
Llanwern High School	Unsatisfactory December 2017	Reasonable August 2018 (Draft)
Cemeteries	Unsatisfactory January 2018 Follow up: Q4 2018/19	
SGO / Kinships	Unsatisfactory March 2018 Follow up: Q4 2018/19	
Trips & Visits (Evolve)	Unsatisfactory March 2018 Follow up: Q4 2018/19	
Outside Preferred Catering Contractor (Schools)	Unsatisfactory March 2018 Q1 2019/20 A follow up audit is subject to the School entering into a new contract	
Agency / Overtime – Refuse Follow Up	Unsound November 2016 Unsatisfactory March 2018 [Head of City Services called into Audit Committee September 2018.] Follow up: Q4 2018/19	

9. In **2018/19 (as at 30 September 2018)**, 22 audit opinions had been issued; 3 were deemed to be *Unsatisfactory*, 1 was deemed to be *Unsound*.

	Revised Opinion / Date of follow up	Current Status
General Data Protection Regulation (GDPR)	Unsatisfactory Sept 2018 Draft	
Subject Access Requests	Unsatisfactory Sept 2018 Draft	
Street Cleansing	Unsatisfactory August 2018 Final	
Bridge Achievement Centre (PRU)	Unsound Sept 2018 Draft	

a. General Data Protection Regulation (GDPR)

Ref.	SIGNIFICANT
1.06	There was no action plan in place to document and demonstrate the Authority's level of compliance against the GDPR legislation.
1.07	Corporate and service area policies and procedures had not been reviewed to ensure that they were aligned with GDPR changes.
1.08	Privacy notices for specific data processing activities undertaken by the Council and schools were not in place.
2.04	There was minimal communication, advice and guidance provided corporately to NCC staff before and after GDPR implementation.
2.05	There was no mandatory requirement for staff to complete GDPR training. Where training was provided through online e-learning courses these had not been updated to reflect the GDPR changes or promoted to staff to complete.
3.05	The form audit completed by service areas had: <ul style="list-style-type: none"> • not fully captured and documented information collected by the Council; • not been completed by all service areas; and • not been subject to review / validation by the Information Management team / Task & Finish Group.
4.01	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.

Ref.	SIGNIFICANT
4.02	There were no corporate procedures and/or guidance in place to ensure that officers comply with the Data Protection Act when processing SARs.
4.03	There was no performance indicator in place to enable the monitoring and reporting of compliance with SARs processed within 30 calendar days in accordance with GDPR.
4.04	There was no corporate approach to ensure that all SARs received were logged in a central corporate system.

b. Subject Access Requests

Incorporated within the GDPR Report.

c. Street Cleansing

Ref.	SIGNIFICANT
1.07	There was insufficient evidence recorded to demonstrate the completion of the Street Cleansing schedule / responsive work.
1.08	Official Work Instructions' have been implemented without fully consulting with Human Resources and ensuring alignment with the Council's Disciplinary Policy.
1.09	Responsive requests received from members of the public were not being completed within the agreed timescales. It was not documented as to how Service Request Ticket (SRT) requests were to be prioritised.
1.10	Supervision of the work undertaken by the Operatives was not regularly completed and did not include the cleanliness of the street.
2.10	Annual leave entitlement was sometimes incorrectly calculated with annual leave taken not annotated on records as being approved by their line manager.
2.11	There was a high usage of agency staff with some agency working up to 2 years' service to deliver the cleansing service whilst it was running unadvertised vacancies.
2.12	High levels of TOIL were claimed by a Supervisor for undertaking 'mustering' duties which should be completed as part of their normal working time / day.
2.13	There were high sickness levels within Street Cleansing for the period covering 1 st April 2017 to 30 th April 2018. In addition there was insufficient recording of the reasons for the management actions taken to demonstrate that the Management of Attendance Policy had been followed.
3.04	There was no inventory in place to record all of the Street Cleansing equipment held at Telford Depot, Park Square and Caerleon.
3.05	There was no key list in place and vehicle keys were not stored in a lockable cabinet and were easily accessible to non-authorized staff.

d. Bridge Achievement Centre (PRU)

Although included within the 2018/19 Internal Audit Plan, due to initial concerns raised by the Chief Education Officer, this review was undertaken as a special investigation. The findings have therefore been reported directly to the Chief Education Officer, who along with the Strategic Director, is addressing the issues identified. Internal Audit will undertake a follow up review in due course in line with the agreed protocol.

General

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

14. There are no direct financial issues related to this report.

Risks

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.

Risk	Impact of Risk if it occurs*	Probability of risk occurring	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
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	(H/M/L)	(H/M/L)		risk?
Audit Plan not completed	M	M	Passed potential management issues back to management; Agency staff taken on board to cover longer term vacancies.	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

18. 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

19. 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.

20. The Audit Committee is asked to note progress on

Preferred Option and Why

21. N/A

Comments of Chief Financial Officer

22. 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

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

Staffing Implications: Comments of Head of People and Business Change

24. 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.

Comments of Cabinet Member

25. N/A

Local issues

26. N/A

Scrutiny Committees

27. N/A

Equalities Impact Assessment and the Equalities Act 2010

28. The Equality Act 2010 contains a Public Sector Equality Duty which came into force on 06 April 2011. The Act identifies a number of 'protected characteristics', namely age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation; marriage and civil partnership. The new single duty aims to integrate consideration of equality and good relations into the regular business of public authorities. Compliance with the duty is a legal obligation and is intended to result in better informed decision-making and policy development and services that are more effective for users. In exercising its functions, the Council must have due regard to the need to: eliminate unlawful discrimination, harassment, victimisation and other conduct that is prohibited by the Act; advance equality of opportunity between persons who share a protected characteristic and those who do not; and foster good relations between persons who share a protected characteristic and those who do not. The Act is not overly prescriptive about the approach a public authority should take to ensure due regard, although it does set out that due regard to advancing equality involves: removing or minimising disadvantages suffered by people due to their protected characteristics; taking steps to meet the needs of people from protected groups where these differ from the need of other people; and encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

29. As this is a progress report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

30. N/A

Wellbeing of Future Generations (Wales) Act 2015

31. In compiling this report the principles of this Act have been considered:

- Long term: The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan

- Prevention: Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.
- Integration: Internal Audit opinions provide an objective opinion on the adequacy of the internal control environment in operation and support sound stewardship of public money.
- Collaboration: Internal Audit work with operational managers to develop an appropriate action plan in order to address identified concerns.
- Involvement: Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources.

Crime and Disorder Act 1998

32. The work undertaken by Internal Audit should minimise potential fraud, corruption, theft or misappropriation within the Council. Allegations of potential criminal activity will be investigated and reported to the police where appropriate.

Consultation

33. N/A


Background Papers

34. N/A

Dated:

Appendix A

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>