

# Report

## Audit Committee

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### Part 1

Date: 29 January 2020

Item No: 4

**Subject** Internal Audit – Progress against audit plan 2019/20 Quarter 3

**Purpose** To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2019/20 agreed audit plan for the first 9 months of the year by providing 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 2019/20 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 9 months of the year will be reported along with the performance of the team for that period.
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 in the team.
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 and reduced in numbers in 2016/17.
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 (updated March 2017) which the team needs 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 took place in 2017/18; the outcome being that the team is generally compliant with the Standards, with no significant areas of non-compliance; this is the highest standard of compliance.
8. The 2019/20 Draft Audit Plan was agreed by the Audit Committee on the 28<sup>th</sup> March 2019 with the Final being approved on the 6<sup>th</sup> June 2019.

### 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 some 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; there have also been a few 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 2019/20 is summarised below with the detail shown at **Appendix A**:
  - a. 51% of the audit plan has been achieved so far which is in line with the profiled target of 50%;
  - b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 5 days, well within 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 2 day which is well within the target time of 5 days.
12. Coverage of the plan at this stage of the year is in line with expectations; the target being 50% for Quarter 3, despite the team being involved with some special investigations and unplanned reviews. 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.
13. 51 days have been spent finalising 22 2018/19 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. The team has taken on additional external professional support to enable it to achieve the 2019/20 audit plan.
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. Some planned work may be deferred by service managers to either later in the year or the following financial year.
16. From time to time the team does get involved with non-planned audit work which often results in special investigations.

#### 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 2019/20.

#### 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. 4 Training sessions have been held with 70 delegates attending.

#### Audit Opinions 2019/20

19. Audit opinions issued so far in 2019/20 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix D**.
20. 21 jobs completed to at least draft report stage by 31 December 2019 warranted an audit opinion: 6 x *Good*, 12 x *Reasonable*, 3 x *Unsatisfactory*. In addition, 7 grant claim audits have been undertaken during the year; all were *Unqualified*. Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI), provision of financial advice and training (**Appendix C**). Audits in draft at the year end (31/3/19) have also been finalised.
21. 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

22. 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.
23. 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

24. 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**

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

## Risks

26. If the plan is not completed due to a lack of resource in the team, the Chief Internal Auditor may have to qualify his year end assurance opinion provided to the Audit Committee.

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	L	Passed potential management issues back to management ; Will take on interim external support to cover long term vacancy	Chief Internal Auditor

\* Taking account of proposed mitigation measures

## Links to Council Policies and Priorities

27. 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, hence Improving People's Lives.

## Options Available

28. This is a factual progress report and therefore there are no specific options to be considered. 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.
29. 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

30. N/A

## Comments of Chief Financial Officer

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

## Comments of Monitoring Officer

32. 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.

## Comments of Head of People and Business Change

33. There are no direct human resources impact from this report. As part of the Well-being of Future Generations Act (2015) it is necessary to ensure that the Council's functions are operating effectively and efficiently to manage its governance, internal control and risk management arrangements to deliver the Corporate Plan. This report presents a review of the Internal Audit activity during the period concerned and the outcomes of completed audit reviews.

## **Comments of Cabinet Member**

34. N/A

## **Local issues**

35. N/A

## **Scrutiny Committees**

36. N/A

## **Equalities Impact Assessment and the Equalities Act 2010**

37. 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.

38. 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**

39. N/A

## **Wellbeing of Future Generations (Wales) Act 2015**

40. 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**

41. 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**

42. N/A

## **Background Papers**

43. N/A

Dated:

**Appendix A**

**Newport City Council Internal Audit Service Performance Indicators**

<b>2018/19</b>	2018/19 Target	1 <sup>st</sup> Qtr 18/19	2 <sup>nd</sup> Qtr 18/19	3 <sup>rd</sup> Qtr 18/19	4 <sup>th</sup> Qtr 18/19	Comments
Proportion of planned audits complete	82%	20%	36%	53%	83%	[Profiled Target 82%]
Proportion of planned audits complete within estimated days	65%	50%	56%	47%	65%	Cumulative figures
Directly chargeable time against total time available	50%	59%	59%	58%	62%	Quarterly performance
Directly chargeable time against planned	84%	92%	92%	87%	91%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	3	6	7	9	Cumulative figures
Staff turnover rate (number of staff)	1	0	1	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	3 days	9 days	11 days	11 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	3 days	3 days	3 days	Cumulative figures

<b>2019/20</b>	2019/20 Target	1 <sup>st</sup> Qtr 19/20	2 <sup>nd</sup> Qtr 19/20	3 <sup>rd</sup> Qtr 19/20	4 <sup>th</sup> Qtr 19/20	Comments
Proportion of planned audits complete	82%	18%	33%	51%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	100%	25%	27%		Cumulative figures
Directly chargeable time against total time available	50%	58%	54%	54%		Quarterly performance
Directly chargeable time against planned	100%	86%	80%	72%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	0	3	4		Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	6 days	5 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	1 day	2 day		Cumulative figures

**Appendix B**  
**Opinions as at 31 December 2019, Qtr 3**

Good	6
Reasonable	12
Unsatisfactory	3
Unsound	0
Total	21

**Internal Audit Services - Management Information for 2019/20 Q3**

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1920-3	CE	Finance	Accountancy	Paye.net	High	Good
P1920-4	CE	Finance	Income Collection	National Non Domestic Rates (NNDR)	Medium	Good
P1920-5	CE	Finance	Income Collection	Sundry Debtors	Medium	Good
P1920-25	People	Children & Young People Serv	Safeguarding, Quality Assurance & Child Protection	Adults at Risk	Medium	Good
P1920-31	People	Adult & Comm Serv	First Contact	Hospital Team	High	Good
P1920-75	People	Education Serv	Primary Schools	St Patricks RC Primary	Medium	Good
P1920-6	CE	Finance	Strategic Procurement	Purchasing Cards (Transactions)	Medium	Reasonable
P1920-11	CE	People & Bus Change	Digital Services	Data Protection (General Data Protection Regulation) - Follow-up	High	Reasonable
P1920-13	CE	People & Bus Change	Human Resources	Employment Status	High	Reasonable
P1920-21	People	Children & Young People Serv	Child Protection & Family Support	Child Protection & Family Support (x 4 Teams)	High	Reasonable
P1920-39	Place	Law & Regulation	Democratic Services & Communications	Destination Development (Inc City Events)	Medium	Reasonable
P1920-42	Place	Law & Regulation	Public Protection	Licensing (Premises)	High	Reasonable
P1920-59	Place	City Services	Highways & Engineering	Drainage	Medium	Reasonable

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P1920-64	Place	City Services	Waste & Cleansing	Street Cleansing - Follow-up	High	Reasonable
P1920-73	People	Education Serv	Primary Schools	Millbrook Primary	Medium	Reasonable
P1920-74	People	Education Serv	Primary Schools	Ringland Primary	Medium	Reasonable
P1920-79	People	Education Serv	Primary Schools	Maesglas Primary (2018/19)	Medium	Reasonable
P1920-81	People	Education Serv	Secondary Schools	The John Frost School	Medium	Reasonable
P1920-56	Place	City Services	Environment & Leisure	Grounds Maintenance (2018/19)	Medium	Unsatisfactory
P1920-62	Place	City Services	Highways & Engineering	Passenger Transport Unit - Taxi Contracts (2018/19)	High	Unsatisfactory
P1920-67	People	Education Serv	Engagement & Learning	Music Support Service	Medium	Unsatisfactory
P1920-34	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Finances)	Medium	Unqualified
P1920-35	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (SPPG) Certification (Outcomes)	Medium	Unqualified
P1920-43	Place	Law & Regulation	Public Protection	Scambusters Grant Claim 2018/19	Medium	Unqualified
P1920-48	Place	RI&H	Community Regeneration	30 Hours Free Childcare	Medium	Unqualified
P1920-49	Place	RI&H	Community Regeneration	Flexible Funding Grant 2018/19	Medium	Unqualified
P1920-71	People	Education Serv	Education Grants	School Improvement Grant (SIG) 2018/19	High	Unqualified
P1920-72	People	Education Serv	Education Grants	Pupil Development Grant (PDG) 2018/19	Medium	Unqualified

## Appendix C

### Non Opinion work 2019/20 Q3

Job number	Group	Service Area	Section or Team	Job Title	Opinion
P1920-7	CE	Finance	General	Annual Governance Statement	Not applicable
P1920-8	CE	Finance	General	National Fraud Initiative (NFI)	Not applicable
P1920-9	CE	Finance	General	Financial Advice	Not applicable
P1920-18	CE	People & Bus Change	General	Financial Advice	Not applicable
P1920-19	CE	People & Bus Change	General	Financial Regulations Training	Not applicable
P1920-28	People	Children & Young People Serv	General	Financial Advice	Not applicable
P1920-36	People	Adult & Comm Serv	General	Financial Advice	Not applicable
P1920-45	Place	Law & Regulation	General	Financial Advice	Not applicable
P1920-53	Place	RI&H	General	Financial Advice	Not applicable
P1920-63	Place	City Services	Highways & Engineering	Civil Parking Enforcement (Consultancy)	Not applicable
P1920-65	Place	City Services	General	Financial Advice	Not applicable
P1920-83	People	Education Serv	Other - School Related	CRSA's / Heathcheck - Secondary / Primary / Nursery	Not applicable
P1920-85	People	Education Serv	General	Financial Advice	Not applicable
P1920-87	External	Ext Audits	SWCAG	SWCAG Training Programme	Not applicable

Appendix D

**INTERNAL AUDIT SERVICES – OPINION DEFINITIONS**

	<b>GOOD</b>	<b>Well controlled with no critical risks identified which require addressing; substantial level of assurance.</b>	<b>Green</b>
	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>