

Report

Audit Committee

Part 1

Date: 29th January 2020

Item No: 7

Subject Internal Audit – Progress against unfavourable audit opinions previously issued [to September 2019] (previous report was to March 2019)

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 **2017/18** 40 audit opinions had been issued; 6 were *Unsatisfactory*, none were *Unsound*.

During **2018/19**, 48 audit opinions had been issued; 10 were *Unsatisfactory*, 1 was *Unsound*.

During **2019/20 (to 30 September 2019)**, 10 audit opinions had been issued; 2 were *Unsatisfactory*, none were *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 2019 which related to opinions as at 31 March 2019.
2. Since bringing this report to the Audit Committee there have been 14 reviews 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 13 of the 14 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.

	Original Date of follow up	Current Status
Joint Venture – Newport Norse	Unsatisfactory 2015/16 Follow up: 2020/21	Not yet followed up. Delay in finalising original report. Senior Managers requested follow up to be put back. Now planned for 2020/21 following the outcome of the independent CIPFA review.

7. In **2016/17**, 35 audit opinions were issued; 5 were deemed to be *Unsatisfactory*, 1 was *Unsound*.

	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

*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.

8. In **2017/18**, 40 audit opinions were issued; 6 were deemed to be *Unsatisfactory*, none were *Unsound*. 4 out of the 6 have been followed up; 3 of which have resulted in a more favourable audit opinion.

	Original Opinion / Date of follow up	Current Status
SGO / Kinships	Unsatisfactory March 2018 Follow up: Q4 2019/20	
Trips & Visits (Evolve)	Unsatisfactory March 2018	Unsatisfactory March 2019 (previously reported to Audit Committee) Follow up 2020/21
Outside Preferred Catering Contractor (Schools)	Unsatisfactory March 2018 2020/21 A follow up audit is subject to the School entering into a new contract.	

9. In **2018/19**, 48 audit opinions had been issued; 10 were deemed to be *Unsatisfactory*, 1 was deemed to be *Unsound*. A summary of the significant issues follows in the tables:

	Original Opinion / Date of follow up	Current Status
General Data Protection Regulation (GDPR)	Unsatisfactory November 2018 Final Follow up Q3 2019/20	
Subject Access Requests	Unsatisfactory November 2018 Final (incorporated with GDPR	

	Original Opinion / Date of follow up	Current Status
	follow up)	
SRS Client Relationship Management	Unsatisfactory December 2018 Final	Reasonable September 2019 Final
Adoption Allowances	Unsatisfactory September 2019 Final Follow up 2020/21	
Commercial & Industrial Property Portfolio	Unsatisfactory July 2019 Final Follow up 2020/21	
Highways	Unsatisfactory August 2019 Final Follow up 2020/21	
Vehicle Tracking System & Usage	Unsatisfactory October 2019 Final Follow up 2020/21	
Street Cleansing	Unsatisfactory August 2018 Final	Reasonable September 2019 Draft
Trips & Visits (Evolve System) (Follow-Up)	Unsatisfactory May 2019 Final Follow up 2020/21	
Caerleon Comprehensive	Unsatisfactory March 2019 Draft Follow up 2020/21	

	Original Opinion / Date of follow up	Current Status
Bridge Achievement Centre (PRU)	Unsound February 2019 Final Follow up 2020/21	

10. In **2019/20** (to 30-9-19), 10 audit opinions had been issued; 2 were deemed to be *Unsatisfactory*, none were deemed to be *Unsound*. A summary of the significant issues follows in the tables:

	Original Opinion / Date of follow up	Current Status
Grounds Maintenance (2018/19)	Unsatisfactory July 2019 Final Follow up 2020/21	
Passenger Transport Unit - Taxi Contracts (2018/19)	Unsatisfactory August 2019 Draft Follow up 2020/21	

a. Grounds Maintenance (2018/19)

	No critical weaknesses were identified during this audit.
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Ref.	SIGNIFICANT
1.04	There was a lack of documented evidence to record scheduled work completed by the Grounds Maintenance Service.
1.05	Inspections of the work carried out by Grounds Maintenance operatives were not taking place regularly by the Area Supervisors. The inspection forms required updating.
1.06	The Nursery's income collection and banking processes were inadequate: <ul style="list-style-type: none"> • Cash was held in the safe with no supporting records. • Bankings made did not have supporting records. • There were delayed bankings. • There was no evidence of a segregation of duties. • Unofficial change floats were in operation. • Income was not banked intact.

Ref.	SIGNIFICANT
1.07	Pricing structures were not evident for goods sold by the Nursery site or Service. A sale for £658 was made to a member of staff with no supporting records.
1.08	Signed agreements or contracts were not held by Grounds Maintenance to confirm the expected service delivery, terms and conditions and remuneration of external clients. Not all services provided in 2017/18 were billed / charged for. A debt raised in 2018/19 could not be confirmed to an agreement. There were inconsistent payment terms in place with clients.
2.05	The purchase of supplies and services such as plants and seeds did not evidence that value for money had been achieved or that the purchases made were compliant with Contract Standing Orders.
2.06	An employee had awarded grounds maintenance work and authorised payments to a supplier who was a close family member. This personal interest had not been declared. The supplier used was appointed despite being unsuccessful in a recent tender award.
2.07	The 2018/19 Grounds Maintenance budget was overspent. Income targets were not being met. A review of the budget confirmed that it had been overspent consecutively for the past five years.
3.05	Documentation for the disposal of items held on the Grounds Maintenance inventory did not demonstrate appropriate authorisation or include a reason for disposal.
4.10	Employees based at the Nursery site did not complete any signing in and out records to demonstrate their start / finish times and working their contracted hours or to acknowledge their attendance on site.
4.11	Complete records were not available to demonstrate that the required personal protective equipment (PPE) had been issued to staff.

b. Passenger Transport Unit - Taxi Contracts (2018/19)

	No critical weaknesses were identified during this audit.
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Ref.	SIGNIFICANT
1.01	The CTX system was not being used to its maximum potential and was not used to record all contracts / taxi usage across the Authority.
1.02	The CTX database was not fully up-to-date with accurate operator, vehicle or driver details. Sufficient information was not available to support the drivers used on specific contracts.
1.03	There was a high proportion of incorrect information and expired DBS checks for drivers and escorts recorded on the CTX database.
1.04	User access onto the CTX system was not restricted to authorised personnel. The members of staff with administrator access rights was inappropriate.
1.05	A privacy notice had not been written and displayed on the NCC website regarding the data collected and retained by the service.
2.08	Taxi bookings were not always authorised by an appropriate officer.
2.09	Highly sensitive and confidential information was required to be uploaded onto eTenderWales.

Ref.	SIGNIFICANT
2.10	Taxi escorts were not required to submit any form of photo identification along with their DBS check.
2.11	Taxi contracts were awarded despite all the required information / supporting documents not being submitted to support the tender submission.
2.12	Purchase orders were not always raised in advance of the first taxi journey taking place. Full justification for the taxi booking and evidence of the use of the DPS or further market testing being undertaken was not available / recorded.
2.13	Invoices received from taxi companies did not always contain adequate information. For 2 contracts examined a price higher than the agreed tender price was charged by the taxi company.
2.14	There was no monitoring system in place detailing Social Services / Corporate taxi contract arrangements. Consequently there was currently no way of identifying outstanding taxi costs (per contract) at the end of the financial year.
2.15	There was no process in place for reviewing long-standing taxi contracts to ensure that they were still required or that they represented value for money.
2.16	Information regarding taxi drivers and escorts provided to Schools / NCC establishments was not sufficient.
3.04	The Licensing team were unable to share all relevant safeguarding / child protection issues with the PTU due to a lack of an information sharing protocol.
3.05	There was no documented complaints procedure. Complaints received by the team and associated documents were not centrally recorded and as such any recurring issues / concerns with drivers / companies could not be easily identified.
3.06	There were no quality assurance procedures / checks in place for taxi arrangements.
3.07	Staff within the PTU have not attended Information Security Training and have not attended Financial Regulations training for more than 10 years.
3.08	A sickness absence was identified which had not been input onto the iTrent HR & Payroll System and a Return to Work Discussion form was not completed. The PTU Manager did not have access to iTrent Manager Self Service.
3.09	There was no formal written agreement in place between Newport City Council and Monmouthshire County Council for the shared PTU Manager arrangement. The agreement costs had increased despite less management support time being provided and without senior manager approval / knowledge. The PTU Manager (who is an employee of MCC) had authorised a purchase order to his own Authority.

General

11. Internal Audit will continue to revisit any areas which have been given an *Unsatisfactory* or *Unsound* audit opinion within a twelve month timescale.
12. 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.
13. 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* / *Unsound* audit opinions.

14. 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

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

Risks

16. 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.

17. 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.

18. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.

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; 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

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 Available

20. This is a factual progress report and therefore there are no specific options, as such. The six monthly reports provide a mechanism for providing assurance on 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; that improvements are being made and where appropriate service managers and Heads of Service are held to account where expected controls are not as good as they should be.

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, 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.

Comments of Head of People and Business Change

24. There are no direct Human Resources issues arising from this report. As part of the Well-being Future Generations Act, Internal Audit is a critical function within the Council to provide independent assurance over the Council's governance, internal control and risk management arrangements. This report highlights the improvements required by the Council to improve key controls and to mitigate the risks in those key financial and non-financial systems which will enable ongoing compliance with legislation and deliver the Council's Corporate Plan and Well-being objectives. The Corporate Management Team will monitor closely those areas deemed to be unsatisfactory or unsound so that the issues identified are 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