

Report

Audit Committee

Part 1

16 July 2015

Item No 10.

Subject Internal Audit – Progress Against Unsatisfactory Audit Opinions Previously Issued [to May 2015]

Purpose To inform Members of the Audit Committee of the up to date position of audit reviews previously given an unsatisfactory / unsound audit opinion.

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.

In December 2014 it was reported that 4 audit reviews had been given an Unsatisfactory audit opinion **2014/15**: Amenity Funds, Financial and Administrative Procedures [Flexible Working and Travel and Subsistence Procedures] (Adult Services), CCTV / Security (Telford Depot) and Discretionary Charging (Environmental Health). By the 31st March one further audit review had been given an Unsatisfactory audit opinion: SEN Assessments.

These reviews are due to be followed up during 2015/16; to date no follow ups have been undertaken.

In **2013/14**, 41 audit opinions were issued; no *Unsatisfactory* or *Unsound* opinions were issued.

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

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.
2. Since bringing this report to the Audit Committee there have been 13 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. The latest referrals are shown at Appendix A.
3. It is pleasing to report that improvements were made in all 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. Follow up audit work for the 5 2014/15 Unsatisfactory reviews has been planned for 2015/16 by the audit team and is recorded in the plan. 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.
5. Definitions of the audit opinions are shown at Appendix B.

History of unfavourable audit opinions

6. In **2013/14**, 41 audit opinions were issued; no *Unsatisfactory* or *Unsound* opinions were issued.
7. In **2014/15**, 34 audit opinions have been issued; 5 of which were deemed to be *Unsatisfactory*; a summary of the significant issues follows the table

	Revised Opinion / Date of follow up	Current Status
Amenity Funds (Adult Services) Draft	2015/16	
Flexible Working and Travel and Subsistence Procedures (Adult Services) Draft	2015/16	
CCTV / Security (Telford Depot) (Street Scene) Final	2015/16	
Discretionary Charging (Public Protection) Draft	2015/16	
SEN Assessments	2015/16	

a) Amenity Funds

- An up to date bank mandate for the Amenity Funds was not always retained on site
- The Amenity Funds did not have a formally established committee in place that complied with the 'Amenity Funds Guidelines for Operation'.
- The Amenity Fund committees had not always held a meeting within the past 12 months (2/5) and minutes of committee meetings did not always contain sufficient detail.
- Year-end statements of account had not always been completed correctly (2/5) or checked by 2 people independent from the fund.
- Income had not been banked promptly.
- Income had not always been banked intact but had instead been held on site and used to fund expenditure.
- Amounts charged to service users for refreshments varied between establishments and items to be sold as refreshments were procured using different funding sources.
- Expenditure had not been formally agreed by the committee and the decision documented prior to purchasing goods/services for 4/5 of the funds tested.
- Expenditure had not been made in accordance with the Social Services Amenity Fund Guidelines for Operation.

b) Flexible Working and Travel and Subsistence Procedures

- The guidance documents for the Council's Flexitime Scheme were not up to date, comprehensive or easily accessible;
- Incorrect adjustments had been made to flexi records;
- Reasons recorded on WinTime for adjustments requested did not always contain the minimum details specified in the WinTime Online Employee Guidance;
- Flexi leave had been taken when the flexi balance at the end of the previous 4 week accounting period did not equal or exceed the amount of flexi leave taken;

- Employees had carried over flexi balances that exceeded the limits that had been set;
- The 'Journey Details' and 'Purpose' sections of T&S forms did not contain sufficient information to confirm that all journeys made were appropriate;
- Journeys were identified that had been claimed for and paid that were not allowable according to the Travel and Subsistence Policy;
- A Travel and Subsistence form had been authorised by an individual for whom there was no 'Authorised Officer Signatory Form' held in Employment Services.

c) CCTV / Security (Telford Depot)

- The main entrance gates for the Depot were not always secure / locked during the early morning, evening or weekends;
- Site security incidents had not been formally reported in line with the Authority's Incident Reporting Policy;
- Formal key holder lists were not held for each building on the site and the key holder list for the main gate held by the Streetscene Area Manager did not match to the actual persons issued with keys by managers based at the site. Access to the 'key room' was not secure and the issuing of keys was not monitored;
- Access to the Depots buildings via the PAC system had not been updated when employees had left the authority or moved work bases;
- Portable items held at the Depot were not always kept secure;
- An alarm system had not been installed in the Transport Offices / Stores building. An up-to-date record was not maintained of those with access to the alarm system within the main office block;
- Security Allowances paid to 2 employees have continued to be paid for a number of years without review. Management were unaware of these payments;
- At the time of the review, the CCTV maintenance contract had expired;
- The CCTV footage was of poor quality and could not be used to identify vehicles or persons on the site. No night-vision cameras were located within the site.

d) Discretionary Charging

- At the time of the review, there was no methodology across the Environmental Health Service in how the fees & charges were calculated.
- For the sample examined, works completed in default were not always adequately recorded on the Uniform database. There was no control record of works in default actually completed.
- At the time of the review, not all works in default completed had been re-charged to the client.

e) SEN Assessments

- The SEN performance indicator (EDU015 a&b) was not being calculated in line with Welsh Government (NSi) Guidance;
- 2/10 case files examined contained documentation not relating to the pupils case;
- At the time of the review, the ONE system showed a large number of Active Statutory Assessments which were overdue;
- At the time of the review, SEN staff had not attended Information Security Training;

- For 3/8 SEN files examined there was no evidence held on the file to support the Out of County Placement arranged for the pupil or the cost of this provision;
- For the sample of placements examined, Excepted Contracts forms did not fully detail the specific reasons why Contract Standing Orders would not apply to the placement. Efforts by the SEN team to secure alternative placements were not detailed on the form and other factors influencing the final placement decision were not being recorded. An SEN framework agreement had not been established;
- For the sample of Out of County Placements examined, 7/8 contracts were not held on file. In the case where a contract was held this was not signed by an appropriate officer;
- For the sample of paid invoices examined, there was no evidence to support these had been checked to ensure agreed rates had been charged. Invoices were not always date stamped upon receipt and some had not been paid within 30 days;
- At the time of the review, the Out of County Placement expenditure budget was not being effectively monitored.

8. Internal Audit will continue to cover the service areas and specific sections identified in the 2014/15 operational plan and will endeavour to revisit any areas which have been given an unsatisfactory or unsound audit opinion within a twelve month timescale.
9. 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.
10. 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.
11. 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

12. No direct financial implications for this report.
13. 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.
14. 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.
15. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.
16. Risk table – N/A for this report

17. 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

18. Not applicable

Comments of Chief Financial Officer

19. This report is compiled on behalf of the Head of Finance.

Comments of Monitoring Officer / Head of Law & Standards

20. 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 Transformation

21. There are no direct Human Resources issues arising from this report.

Local Issues and Consultation

22. Not applicable

INTERNAL AUDIT SERVICES

Progress of reports following call-in to O&SF Resources as a result of 2 consecutive unfavourable audit opinions:

Review	Service Area	Status since Head of Service and Cabinet Member attended Audit Committee
Civic Centre Car Parking	Law & Standards	Reasonable (March 10)
Leaving care / after care	Children and Family Services	Reasonable (July 10)
Ysgol Gymraeg Casnewydd (Nov 2011)	Education Services	Reasonable (March 2013)
Recruitment & Selection (July 2012)	People & Transformation	Good (Feb 2014)

INTERNAL AUDIT SERVICES – OPINIONS

VERY GOOD	Very well controlled with minimal risk and minor issues arising
GOOD	Well controlled with some risks identified which require addressing
REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required
UNSATISFACTORY	Not well controlled; unacceptable levels of risk; changes required urgently
UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect