

# Report



## Governance & Audit Committee

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### Part 1

Date: 27 January 2022

**Subject** Internal Audit – Progress against unfavourable audit opinions previously issued [to September 2021] (previous report was to December 2020)

**Purpose** To inform Members of the Council's Governance & 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 **2018/19**, 48 audit opinions had been issued; 10 were *Unsatisfactory*, 1 was *Unsound*.

During **2019/20**, 32 audit opinions had been issued; 6 were *Unsatisfactory*, none were *Unsound*.

During **2020/21**, 12 audit opinions had been issued; 1 was *Unsatisfactory*, none were *Unsound*.

During **2021/22** (to 30-9-21), 9 audit opinions had been issued; none were *Unsatisfactory* or *Unsound*.

- Proposal**
- 1) The report be noted and endorsed by the Council's Governance & Audit Committee
  - 2) To consider calling in any specific heads of service if members of the Governance & Audit Committee feel they require further assurance that improvements will be made to the control environment following unfavourable audit opinions.

**Action by** The Governance & Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Strategic Director, Transformation & Corporate

**Signed**

## Background

1. This report aims to inform Members of the Governance & Audit Committee of the 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 March 2021 which related to opinions as at 31 December 2020. This report reports progress up to 30 September 2021.
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. 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 Governance & 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. One report has not yet been followed up.

	Original Opinion / Date of follow up	Current Status
Joint Venture – Newport Norse	Unsatisfactory 2015/16  Follow up: 2020/21	Delay in finalising original report with service area. Follow up audit started in Q4 of 20/21 and continued into 21/22; delays due to service area staffing availability.

7. In **2016/17**, 35 audit opinions were issued; 5 were deemed to be *Unsatisfactory*, 1 was *Unsound*. One report has not yet been followed up.

	Original Opinion / Date of follow up	Current Status
Payment Card Industry Data Security Standards	Unsatisfactory *1 July 2016	Now within SRS monitored by the Information Governance Group.

\*1 Still a number of actions outstanding which require work by the Shared Resource Service (SRS). The matter is on the agenda and being monitored by the Council's Information Governance Group. The Digital Team have engaged with a consultant to identify a gap analysis which is currently being worked through.

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. Two reports have not yet been followed up.

	Original Opinion / Date of follow up	Current Status
<i>Trips &amp; Visits (Evolve)</i>		See 2018/19 Table
Outside Preferred Catering Contractor (Schools)	Unsatisfactory March 2018	Follow up planned 2022/23 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*. 6 audits have been followed up which resulted in more favourable opinions.

	Original Opinion / Date of follow up	Current Status
Adoption Allowances	Unsatisfactory  September 2019 Final	Follow up audit started in Q4 of 20/21 and continued into 21/22; delays due to service area staffing availability. Ongoing as at 30 September 2021.
Commercial & Industrial Property Portfolio	Unsatisfactory  July 2019 Final	Reasonable  March 2021 Final
Highways	Unsatisfactory  August 2019 Final	Reasonable  June 2021 Final
Vehicle Tracking System & Usage	Unsatisfactory  October 2019 Final	Follow up planned 2021/22  Not yet followed up – new system being implemented
Trips & Visits (Evolve System) (Follow-Up)	Unsatisfactory  March 2018	(previously, Head of Service attended Audit Committee)

	Original Opinion / Date of follow up	Current Status
	Unsatisfactory May 2019 Final	Follow up planned 2022/23 (delay due to Covid pandemic / school closures)
Caerleon Comprehensive	Unsatisfactory October 2019 Final	Due to Covid Pandemic to be followed up in Q3 2021/22

10. In **2019/20**, 32 audit opinions had been issued; 6 were deemed to be *Unsatisfactory*, none were deemed to be *Unsound*. 3 audits have been followed up which has resulted in more favourable opinions.

	Original Opinion / Date of follow up	Current Status
Passenger Transport Unit - Taxi Contracts (2018/19)	Unsatisfactory October 2019 Final	Follow up Q4 2021/22
Corporate Governance	Unsatisfactory December 2020 Final	Follow up 2022/23
SGO / Kinship Payments (Follow Up)	Unsatisfactory March 2020 Final  Previous Unsatisfactory May 2018	Head of Children and Young People and the Service Manager attended Audit Committee in January 2021.  Reasonable June 2021 Final
Children & Families Imprest Account	Unsatisfactory March 2020 Final	Reasonable  August 2021 Final
Gwent Music Support Service	Unsatisfactory January 2020 Final	Head of Service (Chief Education Officer) and the Service Manager attended Audit Committee March 2021  No opinion issued post interim follow up audit

	Original Opinion / Date of follow up	Current Status
		- Covid adversely affected Gwent Music  Follow up 2022/23

11. In **2020/21**, 29 audit opinions had been issued; 1 was deemed to be *Unsatisfactory*, none were deemed to be *Unsound*.

	Original Opinion / Date of follow up	Current Status
Newport City Dogs Home	Unsatisfactory  Final December 2020	Follow up 2022/23  Delay in follow up due to unavailability of staff in service area

12. In **2021/22**, to September 2021, 9 audit opinions have been issued; no audit reports have been issued with an *Unsatisfactory* or *Unsound* audit opinion.

## General

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

14. 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.

15. 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.

16. 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 Governance & Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls

## Financial Summary

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

## Risks

18. 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.

19. 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.
20. Reduced audit staff resources 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

21. 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

22. 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

23. N/A

## **Comments of Chief Financial Officer**

24. This report is compiled on behalf of the Head of Finance. Areas of unsatisfactory / unsound audit opinions are a concern. 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**

25. 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 Strategic Director, Transformation & Corporate**

26. 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**

27. N/A

## **Local issues**

28. N/A

## **Scrutiny Committees**

29. N/A

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

30. 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.

31. 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**

32. N/A

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

33. 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**

34. 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**

35. N/A


## **Background Papers**

36. N/A

Dated:

## Appendix A

### 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