

Report

Governance & Audit Committee

Part 1

Date: 26 May 2022

Subject Internal Audit – Progress against audit plan 2021/22
Quarter 3

Purpose To inform Members of the Council’s Governance & Audit Committee of the Internal Audit Section’s progress against the 2021/22 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 progress against the 2021/22 audit plan and internal performance indicators.

Covid-19 has impacted on Internal Audit and its ability to deliver services as intended; site visits to establishments are currently not being undertaken on a regular basis although this should become easier as Covid-19 restrictions ease.

The original audit plan was based on 1084 audit days.

Proposal 1) The report be noted by the Council’s Governance & Audit Committee

Action by The Governance & 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 Governance & 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; support is being provided by an external internal audit provider.
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.

Public Sector Internal Audit Standards (PSIAS)

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. The next review will take place at the end of 2023.

Audit Plan & The Impact of Covid-19

8. The 2021/22 Audit Plan was agreed by the Governance & Audit Committee on the 27th May 2021 and was originally based on 1084 audit days with 64 opinion related jobs.
9. The pandemic struck Wales mid February, early March 2020. The majority of Council staff were advised to work from home from the 18th March 2020, where they could. This meant the Internal Audit Team had to change the way it operated for the year end and for the start of the new financial year. This has continued into 2021/22.
10. Generally in Q1 of our audit plan the team are finalising reports in draft at year end, completing audit jobs which were ongoing at year end but draft reports had not been issued, picking up carried forward jobs from the previous year and starting new year audit jobs. In order to undertake audit work effectively and efficiently we need the co-operation of service managers and the staff in their

service areas to accommodate site visits (where necessary), meetings and provide relevant documentation.

11. Internal Audit staff currently work from home.
12. In 2019/20 external resources were brought in to undertake audit jobs which could not be completed in house due to a vacancy and a long term illness. This support has continued into 2021/22 to ensure appropriate audit coverage in the year.

Performance

13. 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.
14. 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 Governance & Audit Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.
15. The performance for Quarter 3 2021/22 is summarised below with the detail shown at **Appendix A**:
 - a. 42% of the original audit plan has been achieved so far which is below the 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 6 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 3 days which is within the target time of 5 days.
16. 13 out of 14 2020/21 audit reviews which were in draft as at 31/03/21 have now been finalised.
17. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire and a vacant post. The team took on additional external professional support to enable it to achieve the 2019/20 audit plan and carried this through to 2020/21 and 2021/22.
18. The main reasons for the team's current performance is that we have an ongoing long term sickness which is being covered from within the team, so overall resources have been reduced; our external provider has been unable to provide us with additional support on top of what has already been agreed; we have not been able to undertake the majority of site visit related audits due to current restrictions; the Principal Auditor vacancy was not filled during the year.
19. However, audit work has been re-prioritised where possible and the team have projected that closer to 70% of the agreed plan will be completed by the year end.

20. 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.
21. From time to time the team does get involved with additional non-planned audit work which can result in special investigations.

Quality Control

22. 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 2021/22.

Financial Training

23. 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 will be offered to all service areas. This course is available on a self-nomination basis, bimonthly, as part of the Corporate Training Programme. Feedback from staff who have previously attended courses has been positive. 8 training sessions have been held so far this year, via MS Teams, with others planned.

Audit Opinions 2021/22

24. Audit opinions issued so far in 2021/22 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix D**.
25. 18 jobs completed to at least draft report stage by 31 December 2021 warranted an audit opinion: 6 x *Good*, 11 x *Reasonable*, 1 x *Unsatisfactory*, no *Unsound* audit opinions. In addition, 5 grant claim audits have been undertaken during the year; all resulting with an *Unqualified*, opinion. Other work completed related to the Annual Governance Statement, NFI and the provision of financial advice and financial regulations training (**Appendix C**).
26. 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

27. 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.

28. 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

29. Where *Unsatisfactory* or *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 Governance & Audit Committee on a six-monthly basis.

Financial Summary

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

Risks

31. 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 Governance & 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	L	L	Audit work will be prioritised ; Have enquired with external provider but they cannot currently provide additional resources to support the team	Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

32. 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

33. 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.

34. The Governance & 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

35. N/A

Comments of Chief Financial Officer

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

Comments of Monitoring Officer

37. 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, Policy and Transformation

38. This report presents an updated position on the delivery of the Internal Audit Plan and its activity during quarter 3. The role of Internal Audit provides assurance that the Council's corporate governance arrangements are operating effectively and efficiently to manage governance, internal control and risk management. This work also supports the Council's overall assessment that it is delivering its statutory duties and has the necessary arrangements to deliver its Corporate Plan 2017-22 contributing towards the Well-being of Future Generations Act 2015. There are no direct human resources impact from this report, but the Council's Human Resources team are supporting the team with its ongoing resource issues.

Comments of Cabinet Member

39. N/A

Local issues

40. N/A

Scrutiny Committees

41. N/A

Equalities Impact Assessment and the Equalities Act 2010

42. 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.

43. 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.

Wellbeing of Future Generations (Wales) Act 2015

44. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. 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 that is aligned to the Council's Corporate 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 Council's corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

Collaboration - Internal Audit work in collaboration 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. The involvement of the Governance & Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

Consultation

45. N/A

Background Papers

46. N/A

Dated:

Appendix A

Newport City Council Internal Audit Service Performance Indicators

2020/21	2020/21 Target	1 st Qtr 20/21	2 nd Qtr 20/21	3 rd Qtr 20/21	4 th Qtr 20/21	Comments
Proportion of planned audits complete	82%	N/A	24%	42%	78%	Quarterly performance
Directly chargeable time against total time available	50%	N/A	N/A	N/A	N/A	Quarterly performance
Directly chargeable time against planned	100%	N/A	N/A	N/A	N/A	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	N/A	N/A	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	N/A	1	2	6	Cumulative figures
Staff turnover rate (number of staff)	0	N/A	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	N/A	3 days	6 days	8 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	N/A	2 days	2 days	3 days	Cumulative figures

2021/22	2021/22 Target	1 st Qtr 21/22	2 nd Qtr 21/22	3 rd Qtr 21/22	4 th Qtr 21/22	Comments
Proportion of planned audits complete	82%	20%	30%	42%		[Profiled Target Q3 50%]
Directly chargeable time against total time available	50%	57%	55%	53%		Quarterly performance
Directly chargeable time against planned	100%	78%	75%	78%		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	2	5	8		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	7 days	6 days	6 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	5 days	4 days	3 days		Cumulative figures

Appendix B
Opinions as at 31 December 2021, Qtr 3

Good	6
Reasonable	11
Unsatisfactory	1
Unsound	0
Total	18
Unqualified	5

Internal Audit Services - Management Information for 2021/22
Q3

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P2122-P3	Finance	Income Collection	National Non Domestic Rates (NDR)	Medium	Good
P2122-P39	Law & Regulation	Legal	Insurances	Medium	Good
P2122-P42	Law & Regulation	Public Protection	Licensing (Taxi)	Medium	Good
P2122-P48	RI&H	Development Services	Building Control	Medium	Good
P2122-P58	City Services	Highways & Engineering	Street Works	Medium	Good
P2122-P84	People & Bus Change	Policy & Partnership	Covid-19 Response	High	Good
P2122-P2	Finance	Accountancy	Place & Corporate Accountancy	Medium	Reasonable
P2122-P4	Finance	Strategic Procurement	Gateway Process (incl. Excepted Contracts)	High	Reasonable
P2122-P23	Children & Young People Serv	Resources	Forest Lodge	Medium	Reasonable
P2122-P24	Children & Young People Serv	Resources	Oaklands (Replaced Rose Cottage)	Medium	Reasonable
P2122-P27	Children & Young People Serv	General	Children & Families Imprest Account (Follow-Up) 2020/21	High	Reasonable
P2122-P28	Children & Young People Serv	General	Control Risk Self-Assessments	Medium	Reasonable
P2122-P50	RI&H	Housing, Regeneration & Property	Newport Norse (Joint Venture) Follow Up 2020/21	High	Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Opinion given
P2122-P56	City Services	Highways & Engineering	Highways (Follow-up) 2020/21	High	Reasonable
P2122-P57	City Services	Highways & Engineering	SDR Contract	Medium	Reasonable
P2122-P65	Education Serv	Inclusion	Pupil Exclusions	Medium	Reasonable
P2122-P68	Education Serv	Nursery Schools	Kimberley Nursery Closure / Amalgamation	Medium	Reasonable
P2122-P54	City Services	Customer Services	Housing Benefits	High	Unsatisfactory
P2122-P33	Adult & Comm Serv	Service Development & Commissioning	Housing Support Grant	Medium	Unqualified
P2122-P34	Adult & Comm Serv	Service Development & Commissioning	Homelessness Prevention (Rough Sleeping) Grant	Medium	Unqualified
P2122-P43	Law & Regulation	Public Protection	Scambusters Grant Claim 2020/21	Medium	Unqualified
P2122-P66	Education Serv	Education Grants	Education Improvement Grant (SIG) 2020/21	Medium	Unqualified
P2122-P67	Education Serv	Education Grants	Pupil Development Grant 2020/21	Medium	Unqualified

Appendix C

Non Opinion work 2021/22 Q3

Job number	Service Area	Section or Team	Job Title
P2122-P7	Finance	General	Annual Governance Statement
P2122-P9	Finance	General	Financial Advice
P2122-P18	People & Bus Change	General	Financial Advice
P2122-P19	People & Bus Change	General	Financial Regulations Training
P2122-P29	Children & Young People Serv	General	Financial Advice
P2122-P37	Adult & Comm Serv	General	Financial Advice
P2122-P45	Law & Regulation	General	Financial Advice
P2122-P52	RI&H	General	Financial Advice
P2122-P62	City Services	General	Financial Advice
P2122-P79	Education Serv	General	Control Risk Self-Assessments
P2122-P80	Education Serv	General	Schools Financial Regulations Training / Cluster Meetings
P2122-P81	Education Serv	General	Financial Advice

Appendix D

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>