

Report

Governance & Audit Committee

Part 1

Date: 29 September 2022

Subject Internal Audit – Progress against unfavourable audit opinions previously issued [to March 2022]

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 / administrative internal controls within their areas of responsibility. The previous report was presented in January 2022 and related to opinions issued to September 2021.

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**, 29 audit opinions had been issued; 1 was *Unsatisfactory*, none were *Unsound*.

During **2021/22**, 35 audit opinions had been issued; 2 were *Unsatisfactory*, none were *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.
 - to call-in the service Manager and Head of Service responsible for the Adoption Allowances service provision on the basis of a second consecutive *Unsatisfactory* Audit opinion.

Action by The Governance & Audit Committee

Timetable Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People, Policy and Transformation

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 Governance and Audit Committee in January 2022 which related to opinions issued as at 30 September 2021. This report reports progress up to 31 March 2022.
2. Since bringing this report to the former 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 former Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the former Audit Committee; the subsequent audit opinion improved to a more positive position. The most recent review to have 2 consecutive Unsatisfactory Audit opinions is Adoption Allowances which is included within this report.
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. 7/8 reports were followed up and resulted in a more positive audit opinion. One report has been followed up but not yet finalised.

	Original Opinion / Date of follow up	Current Status
Joint Venture – Newport Norse	Unsatisfactory 2015/16	Delay in finalising original report with service area. Follow up audit started in Q4 of 2020/21 and continued into 2021/22; delays due to service area staffing availability. This report was in Draft as at 31 March 2022, with a Reasonable opinion on the basis of promised information was provided to Internal Audit.

7. In **2016/17**, 35 audit opinions were issued; 5 were deemed to be *Unsatisfactory*, 1 was *Unsound*. 4/5 reports were followed up and resulted in a more positive audit opinion. 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 and monitored by the Information Governance Group. An external assessment has confirmed that the Council is now compliant during 2021/22.

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; follow up audits resulted in a more favourable audit opinion. Two reports have not yet been followed up.

	Original Opinion / Date of follow up	Current Status
Trips & Visits (Evolve System)		The audit was first undertaken during 2017/18, with the subsequent history shown at 2018/19 Table below
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 catering contract

9. In **2018/19**, 48 audit opinions had been issued; 10 were deemed to be *Unsatisfactory*, 1 was deemed to be *Unsound*. 8/10 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 2020/21 and continued into 2021/22; delays due to service area staffing availability. Ongoing as at 30 September 2021. Report finalised December 2021 – Unsatisfactory This is the 2 nd consecutive Unsatisfactory audit opinion

	Original Opinion / Date of follow up	Current Status
		The lack of controls identified and the justification for the opinion are shown at Appendix B.
Vehicle Tracking System & Usage	Unsatisfactory October 2019 Final	Follow up planned 2021/22 Not yet followed up – new system being implemented To be followed up in 2022/23
Trips & Visits (Evolve System) (Follow-Up)	Unsatisfactory March 2018 Unsatisfactory May 2019 Final	(previously, Head of Service attended former Audit Committee) 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 Report finalised March 2022 - Good

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 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 due Q1 2022/23
Corporate Governance	Unsatisfactory December 2020 Final	Follow up due 2022/23
Gwent Music Support Service	Unsatisfactory January 2020	Head of Service (Chief Education Officer) and the Service Manager attended

	Original Opinion / Date of follow up	Current Status
	Final	former Audit Committee March 2021 No opinion issued post interim follow up audit - Covid adversely affected Gwent Music Follow up due 2022/23

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

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

12. In **2021/22**, 35 audit opinions were issued; 2 audit reports with an *Unsatisfactory* audit opinion, none with an *Unsound* audit opinion.

	Original Opinion / Date of follow up	Current Status
Mobile Telephony	Unsatisfactory Final February 2022	Follow up due 2022/23
Housing Benefits	Unsatisfactory Draft December 2021	Follow up due 2022/23

13. The following tables show the lack of control in place within the audits undertaken which led to the **Unsatisfactory** Audit opinion:

a. Mobile Telephony

The tables below summarise the individual weaknesses identified during the review.

Ref.	SIGNIFICANT
1.03	Head of Service approval to extend the contract in place for mobile telephony had only been obtained verbally and had not been documented in accordance with Contract Standing Orders.
2.07	Employees had not always declared that they had read, understood and accepted the Mobile Communications Policy and agreed to the terms and conditions as set out in the policy and those stated within the Mobile Communications Agreement.
2.08	Users were not issued with a copy of their Mobile Communications Agreement form. A copy of the agreement was not retained on their HR personnel record.
3.02	The database of mobile phones maintained by Digital Services was not accurate or up to date.
3.03	Procedures in place did not ensure that staff leaving the Authority returned their mobile phone.
3.04	Mobile phones were not re-issued or transferred within the service area in accordance with the agreed procedure being followed or with the prior approval of Digital Services team.
3.05	Evidence was not available to provide assurance that damaged or redundant phones had been disposed of safely and legally or that, in accordance with policy, mobile phones had only been removed following the completion of Disposal of IT Equipment Retrieval forms.

Ref.	MODERATE
1.04	The Mobile Communications Policy had not been updated since October 2017.
1.05	From the evidence available, full assurance could not be given that documented central reviews of data usage had been regularly undertaken to identify excessive or potentially inappropriate usage.
1.06	Regular communication was not provided to all staff reminding them of the NCC Mobile Communications Policy and their responsibilities in relation to the use of their mobile phone.
1.07	Not all members of staff have attended Financial Regulations training. Those who had attended did so more than 10 years ago.

b. Housing Benefits

The tables below summarise the individual weaknesses identified during the review.

Ref.	CRITICAL
1.09	There was not always evidence to independently confirm the occupancy of claimants at Temporary Accommodation for the periods where Housing Benefit had been awarded. Where occupancy sheets were available these did not always match to the Housing Benefit claim which has resulted in errors.

Ref.	SIGNIFICANT
1.10	The Bed & Breakfast monitoring spreadsheets were not fully complete and highlighted a significant number of instances where emergency accommodation has been provided but no Housing Benefit claim has been made.
1.11	There was no up to date, single record of the current rates charged by accommodation providers. The Housing Benefit team did not have independent confirmation of the rates charged by the suppliers and there was no cross check back to the paid accommodation invoices to ensure the amounts being claimed were correct.
1.12	There appeared to be significant delays between the date the Housing Benefit Bed & Breakfast application forms were completed by Housing Needs and the date they are subsequently received by the Housing Benefits team.
1.13	Once received, Bed & Breakfast Housing Benefit application forms were not always processed promptly by the Housing Benefits team.
1.14	The external audit qualification of the Housing Benefits subsidy claim along with the potential for future qualification was not included within the City Services Service Area Risk Register or Service Plan.
2.03	Not all members of staff have attended Financial Regulations and Information Security training. Staff have not completed all the mandatory eLearning courses.
2.04	Employees have not completed a Declaration of Interest Form (including nil returns) via the iTrent Employee Self Service system.
2.05	There was no evidence available to confirm that Housing Benefit staff have the required Baseline Personnel Security Standard checks.

Ref.	MODERATE
1.15	It was not documented that the officer completing the Housing Benefit Bed & Breakfast Application Form had verified the applicant's identity or right to abode in the UK.
1.16	Housing Benefit Bed & Breakfast Application Forms were not always completed in full.
1.17	A Welsh language version of the Housing Benefit B&B Application form could not be provided to the Auditor. There was no option available on the Housing Benefit B&B Application form for an applicant to declare their communication language preference.
2.06	Not all members of staff have had regular documented iTrent check in meetings with their line manager. Not all employees had performance and personal objectives listed on iTrent.

General

14. 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.
15. 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.
16. 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.
17. 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

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

Risks

19. 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.
20. 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.
21. 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

22. 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

23. 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 expected.

Preferred Option and Why

24. N/A

Comments of Chief Financial Officer

25. 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

26. 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 Policy and Transformation

27. 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

28. N/A

Local issues

29. N/A

Scrutiny Committees

30. N/A

Equalities Impact Assessment and the Equalities Act 2010

31. 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.

32. 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

33. N/A

Wellbeing of Future Generations (Wales) Act 2015

34. 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.

Consultation

35. N/A


Background Papers

36. Internal Audit reports and working papers.

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

Appendix B

Adoption Allowances:

A draft follow-up internal audit report for Adoption Allowances was issued on the 15th April 2021. On the basis of the audit testing completed during March 2021, this report was issued with an improved draft audit opinion of 'Reasonable'.

However, there was a delay in receiving a formal response from management. In June 2021, Internal Audit were advised by the Commissioning and Contracts Manager that key officers were absent from work. We were told that a response to the report could not be provided until these officers returned to work.

Further enquiries were made by the auditor between July and September 2021 to ascertain the current situation. Internal Audit were subsequently advised that adoption allowance assessments and annual reviews had not been conducted since the absence in May 2021 and there was now a considerable backlog of work both from this and the other duties which the officer undertook. We were informed that not only was there resource within the team to complete these assessments / annual reviews but there was no other officer within Newport City Council sufficiently trained to understand how to complete these.

This was escalated and a meeting was held between the Strategic Director (Social Services), Service Management, Accountancy and Internal Audit in October 2021 to discuss a way forward. A working group was established to review the current procedures to ensure there was capacity within the service to not only undertake the urgent assessments but to ensure that more staff understood the process to add resilience in case of any future staff absences.

Due to the above, Internal Audit determined that subsequent to the original draft report being issued, there was now an unacceptable level of risk within the Adoption Allowances service and revised the audit opinion to reflect this. Consequently we issued a second '**Unsatisfactory**' assurance rating which reflected that Adoption Allowances continued to be not well controlled and changes are required urgently.

The tables below summarise the outstanding individual weaknesses identified during the 2020/21 follow up review.

Ref.	CRITICAL
	No critical weaknesses were identified.

Ref.	SIGNIFICANT
3.06	Annual review assessments had not always been calculated accurately or completed in a timely manner.
3.10	Independent checks completed on annual review assessments to ensure correctness had not identified errors in the calculation of adoption allowance awards.

Ref.	MODERATE
2.06	Assurance could not be given that financial assessment forms were being properly completed for new applications.

Ref.	MODERATE
2.08	Assurance could not be given that financial assessment forms for new claims were being properly supported with appropriate evidence of income and expenditure.
2.09	Assurance could not be given that financial assessments for new claims were being correctly calculated and completed in a timely manner.
3.08	Assurance could not be given that income and expenditure details had been cross-checked against the previous assessment to allow any discrepancies to be investigated.
3.09	Overpayments had not been recovered in respect of retrospective changes that adopters had failed to notify and decisions to apply increases in awards retrospectively were not covered within the Adoption Financial Support Policy.