

# Report

## Governance & Audit Committee

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### Part 1

Date: 27 October 2022

**Subject** Unsatisfactory Audit Opinion – Adoption Allowances – Governance & Audit Committee Call In

**Purpose** For Members of the Council's Governance & Audit Committee to:

- i) Consider the explanations and assurances provided by the Strategic Director and the Head of Service responsible for Adoption Allowances that improvements have been made in service provision following 2 consecutive Unsatisfactory audit opinions.

**Author** Andrew Wathan Chief Internal Auditor

**Ward** General

**Summary** Following 2 consecutive *Unsatisfactory* Internal Audit opinions, the Strategic Director and the Head of Service responsible for Adoption Allowances have been invited into Governance & Audit Committee to provide assurances that appropriate improvements within service provisions and the control environment have been made. Initially improvements had been made, but subsequently Internal Audit were made aware that no service was being provided for a period of time.

**Proposal** That Members of the Governance and Audit Committee

- i) accept the explanations and assurances of the Strategic Director and the Head of Service, which will be confirmed via the follow up internal audit

or

- ii) don't accept the explanations and assurances provided and escalate concerns to the Chief Executive and Executive Board.

**Action by** Governance & Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

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

**Signed**



## Background

Original Report	1 <sup>st</sup> Follow up audit	1 <sup>st</sup> Follow up audit revised opinion	2 <sup>nd</sup> Follow up audit due
Unsatisfactory	Reasonable	Unsatisfactory	Q3 2022/23
Final issued September 2019	Draft issued April 2021 *	Final issued December 2021 *	

**\* - audit testing started in November 2020 but due to lack of completed assessments was postponed until February 2021**

### **- delays due to key staff not being in work**

1. The Public Sector Internal Auditing Standards requires the Chief Internal Auditor to present a formal annual report to the Governance & Audit Committee which includes audit opinions issued and to disclose any qualifications to the overall opinion.
2. The Strategic Director and the Head of Service for Adoption Allowances has been invited into Governance & Audit Committee to:
  - a) Explain why there were weaknesses in control
  - b) Provide assurances on the progress of the implementation of the agreed management action taken to demonstrate improvement in the control environment
  - c) Include a timeline as appropriate
3. A draft follow-up internal audit report for Adoption Allowances was issued on the 15<sup>th</sup> 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'.
4. However, over the proceeding months 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 the Principal Officer and the Finance Officer were both absent from work with no clear return to work date and that a response to the report could not be provided until these officers returned to work.
5. Internal Audit followed this up in July and September. The Commissioning and Contracts Manager stated that adoption allowance assessments and annual reviews had not been conducted since the Finance Officer began their absence in May 2021 and there was now a considerable backlog of work both from this and the other duties which the officer undertook; there was no alternative resource within the team to complete these assessments / annual reviews and there was no other officer within the Council sufficiently trained to understand how to complete these.
6. A meeting was held between the Strategic Director (Social Services), Service Management, Accountancy and Internal Audit in October 2021 to discuss a way forward until the Finance Officer was able to return to work. It was agreed that the Strategic Director would discuss with the appropriate Cabinet Member a proposal to increase all current allowances by an agreed percentage. Adopters would be contacted in writing to confirm this arrangement and all annual assessments would then be completed as a priority during the 2022/23 financial year. A working group would also be 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.

7. Due to this, and subsequent to the original draft report being issued, there was now an unacceptable level of risk within the Adoption Allowances service and Internal Audit revised the audit opinion to reflect this. Consequently a second '**Unsatisfactory**' assurance rating was issued which reflected that Adoption Allowances continued to be not well controlled and changes were required urgently.
8. The Summary of Weaknesses, the Action Plan and categorisation of weaknesses reflects the audit work undertaken during the follow up review prior to key officers not being in work.

Original Weakness Rating	No. of Original Weaknesses	No. of Weaknesses Fully Implemented	No. of Outstanding Weaknesses
Critical	0	0	0
Significant	9	2	2
Moderate	12	Not tested	5*

\*5 weaknesses that were originally rated as significant have now been re-rated as moderate. This was due to management action being partially implemented to address one weakness and the review identifying, for the other 4, that the limited number of cases affected by the issue raised meant that it represented only a moderate and not a significant risk to the Authority.

## Financial Summary

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

## Risks

10. If management action is not taken to improve the control environment and increase service delivery resilience, service users may not receive an efficient and effective service, the number of complaints may increase and could lead to reputational damage.

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?
Poor internal controls could impact on effective and efficient service delivery, increase in complaints	M	M	The Strategic Director has agreed a way forward to support service delivery. Internal Audit will undertake a further follow up audit within 6 months to verify that agreed action has been taken to improve service delivery.	Strategic Director

from service users and negative impact on reputation				

\* Taking account of proposed mitigation measures

### Links to Council Policies and Priorities

11. 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

12. This is a factual progress report and therefore there are no specific options to be considered; there are no decisions to be made further to the proposals noted above.
13. Members of the Governance & Audit Committee are asked to either accept the assurances from the Strategic Director or refer their concerns onto the Chief Executive.

### Preferred Option and Why

14. Members of the Governance & Audit Committee to decide

### Comments of Chief Financial Officer

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

### Comments of Monitoring Officer

16. There are no specific legal issues arising from the report. As part of its role in monitoring the effectiveness of the Council's systems of internal control and financial management, Governance & Audit Committee oversee the implementation and outcomes of the internal audit programme and, where necessary, can review and make recommendations regarding unsatisfactory audit reports. The Committee can seek assurances on the adequacy of responses to internal audit advice, findings and recommendations and will monitor implementation and compliance with agreed action plans. In this case, there have been consecutive unsatisfactory audits in relation to the administration of the Adoption Allowances Scheme and the relevant Head of Service and Strategic Director have been invited to attend the meeting to explain the situation and outline the management action that will be taken to address the issues concerned. If the Governance & Audit Committee are not satisfied with the management responses and there are considered to be residual risks in terms of the Adoption Allowances processes, then the Committee can escalate those concerns through the Chief Executive and the Executive Board. As these unsatisfactory audit reports relate to operational management issues, then it is not considered appropriate for any concerns to be escalated through the Cabinet or Cabinet Member as they do not involve strategic policy issues.

## **Comments of Head of People, Policy and Transformation**

17. As part of the Well-being of Future Generations Act (2015) and its corporate governance arrangement it is necessary to ensure that the Council's functions are operating effectively and efficiently to manage its governance, internal control and risk management arrangements in the delivery of the Corporate Plan and its statutory duties. This report presents a review of the Internal Audit activity during the period concerned and the outcomes of completed audit reviews. There are no direct human resources impact from this report.

### **Local issues**

18. N/A

### **Scrutiny Committees**

19. N/A

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

20. 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.
21. All audits are undertaken in a non-discriminatory manner and key equalities issues identified under the scope of the audits will be identified as part of the audit reports and management discussions. As this is a report on the call-in relating to audit opinions there is no requirement for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

## **Children and Families (Wales) Measure**

22. N/A

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

23. 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

24. N/A

## Background Papers

25. 2021/22 Approved Internal Audit Plan.

## Appendix 1

### SUMMARY OF OUTSTANDING WEAKNESSES December 2021

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

## Appendix 2

Extract of Agreed Action Plan December 2021 / update of current progress October 2022

IA Report Ref	Weakness	Further Management Action to Address Outstanding Weakness Dec 2021	By Who	By When	Current Progress October 2022
3.06	Annual review assessments had not always been calculated accurately or completed in a timely manner.	<p>Project group to be established to review current practices in assessment of allowances in Children's Services.</p> <p>Agreement has been sought with the Strategic Director (Social Services) to forego annual assessments during 2021/22 due to staff absence. An agreed uplift will be paid to all allowances.</p> <p>Full assessments will be completed promptly during the 2022/23 financial year.</p> <p>Completed assessments will be checked by an independent member of staff to ensure accuracy.</p>	<p>Children's Services Management Team, Commissioning and Contracts Team, Internal Audit, Accountancy.</p> <p>Strategic Director - Social Services</p> <p>Service Manager - Resources</p> <p>Commissioning &amp; Contracts manager</p> <p>Finance Officer</p>	<p>Project Group to convene in November 2021</p> <p>November 2021</p> <p>April 2022</p>	<p>Project Group completed review of practices.</p> <p>2021/22 uplifts were implemented by November 2021.</p> <p>Assessments have been completed during Q2 2022/23</p> <p>Additional checks on completed assessments have been undertaken by a member of the Commissioning Team and a member of the Income and Assessment Team.</p>

IA Report Ref	Weakness	Further Management Action to Address Outstanding Weakness Dec 2021	By Who	By When	Current Progress October 2022
3.10	Independent checks completed on annual review assessments to ensure correctness had not identified errors in the calculation of adoption allowance awards.	<p>Project group to be established to review current practices in assessment of allowances in Children's Services.</p> <p>We will look to increase capacity within the team to ensure that more people are able to understand and check documentation in relation to financial assessments. These independent checks will be fully documented.</p>	<p>Children's Services Management Team, Commissioning and Contracts Team, Internal Audit, Accountancy.</p> <p>Commissioning &amp; Contracts Manager</p>	<p>Project Group to convene in November 2021</p> <p>April 2022</p>	<p>Training has been provided to a member of the Commissioning Team to enable independent checks to be completed. Further checks have been completed by a member of the Income and Assessment Team. Consideration is being given to incorporate these checks into the role of the Income and Assessment Team on a permanent basis, which could offer greater probity around administration of the processes.</p>
2.06	Assurance could not be given that financial assessment forms were being properly completed for new applications.	<p>Project group to be established to review current practices in assessment of allowances in Children's Services.</p> <p>We will ensure that all financial assessment forms are properly completed. Forms will be returned to applicants if not completed in full.</p>	<p>Children's Services Management Team, Commissioning and Contracts Team, Internal Audit, Accountancy</p> <p>Finance Officer</p>	<p>Project Group to convene in November 2021</p> <p>November 2021/ on-going</p>	<p>New applications were received in 2022/23, with assessments fully implemented.</p>
2.08	Assurance could not be given that financial assessment forms for new claims were being	<p>Project group to be established to review current practices in</p>	<p>Children's Services Management Team, Commissioning and Contracts Team,</p>	<p>Project Group to convene in November 2021</p>	<p>New applications were received in 2022/23, with assessments fully implemented.</p>

IA Report Ref	Weakness	Further Management Action to Address Outstanding Weakness Dec 2021	By Who	By When	Current Progress October 2022
	properly supported with appropriate evidence of income and expenditure.	assessment of allowances in Children's Services.  We will ensure that all assessments are supported by the appropriate evidence as required by the Adoption Financial Support policy. Adopters will be contacted to provide documentation not submitted.	Internal Audit, Accountancy  Finance Officer	November 2021/ on-going	
2.09	Assurance could not be given that financial assessments for new claims were being correctly calculated and completed in a timely manner.	Project group to be established to review current practices in assessment of allowances in Children's Services.  Financial assessments will be correctly completed in a timely manner.  As part of the project group we will look to ensure more members of NCC staff are trained to understand and can complete / review financial assessments.	Children's Services Management Team, Commissioning and Contracts Team, Internal Audit, Accountancy  Finance Officer  Commissioning & Contracts Manager	Project Group to convene in November 2021  November 2021 / on-going  December 2021	New applications were received in 2022/23, with assessments fully implemented. Independent checks to be applied.
3.08	Assurance could not be given that income and expenditure details had been cross-checked	Project group to be established to review current practices in	Children's Services Management Team, Commissioning and Contracts Team,	Project Group to convene in November 2021	The integration of independent checks into the process helps to

IA Report Ref	Weakness	Further Management Action to Address Outstanding Weakness Dec 2021	By Who	By When	Current Progress October 2022
	against the previous assessment to allow any discrepancies to be investigated.	<p>assessment of allowances in Children's Services.</p> <p>The officer completing the financial assessment will take into account and review the income and expenditure declared against the previous assessment. Any discrepancies will be investigated and formally documented.</p>	<p>Internal Audit, Accountancy.</p> <p>Commissioning &amp; Contracts manager</p> <p>Finance Officer</p>	<p>Upon next assessment / On-going</p>	<p>ensure a consistency of approach.</p>
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.	<p>Project group to be established to review current practices in assessment of allowances in Children's Services.</p> <p>Adopters will be periodically reminded to notify the Council of any change of circumstance promptly which may impact on their financial assessment.</p> <p>Once notified of a change, the assessment will be reviewed and any overpayments recovered as per the agreed policy.</p> <p>As part of the project group we will look to</p>	<p>Children's Services Management Team, Commissioning and Contracts Team, Internal Audit, Accountancy.</p> <p>Commissioning &amp; Contracts Manager</p> <p>Finance Officer</p>	<p>Project Group to convene in November 2021</p> <p>April 2022</p> <p>Upon next notification / on-going</p>	<p>Project Group completed review of practices</p> <p>Correspondence sent to adopters at beginning of 22/23 to remind them of the need to notify the Council of any change in circumstances where relevant.</p> <p>Ongoing</p>

IA Report Ref	Weakness	Further Management Action to Address Outstanding Weakness Dec 2021	By Who	By When	Current Progress October 2022
		amend the Adoption Financial Support Policy to cover retrospective increases in awards.	Service Manager – Resources	December 2021	The policy is being reviewed and will be updated in accordance with the recommendations by 30 <sup>th</sup> November 2022