

Report

Governance & Audit Committee

Part 1

Date: 27th July 2023

Subject 3rd Consecutive 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 will be made in service provision following 3 consecutive Unsatisfactory audit opinions.

Author Acting Chief Internal Auditor

Ward General

Summary Following **3 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 will be made. Initially improvements had been made, but subsequently Internal Audit were made aware that no service was being provided for a period of time, which resulted in a 2nd unsatisfactory audit opinion. A 2nd follow up has since been undertaken and the area continues to be not well controlled. A 3rd consecutive unsatisfactory audit opinion has been issued – being the original audit (September 2019) and two follow up audits (December 2021 & July 2023).

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 a 3rd 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 Audit 2018/19	1 st Follow up Audit 2020/21	1 st Follow up Audit Revised Opinion	2 nd Follow up Audit 2022/23
Opinion	Unsatisfactory	Reasonable	Unsatisfactory	Unsatisfactory
Date	Final (September 2019)	Draft (April 2021*)	Final (December 2021*)	Final (July 2023)

* Audit testing started in November 2020 but due to a lack of completed assessments, was postponed until February 2021. Delays were due to key staff not being in work.

1. The Public Sector Internal Audit 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 responsible for Adoption Allowances have been invited into Governance & Audit Committee to:
 - a) Explain why there continues to be weaknesses in control despite previous assurances given that improvements would be made
 - b) Provide assurances on the implementation of the agreed management actions taken to demonstrate improvement in the control environment
 - c) Include a timeline as appropriate.
3. The original audit review on Adoption Allowances was undertaken during 2018/19 and an **unsatisfactory** audit opinion was given.
4. The first follow up audit commenced during 2020/21 and 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'.
5. However, over the proceeding months there was a delay in receiving a formal response from management to the draft follow up report. 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.
6. Internal Audit followed this up in July and September 2021. 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.
7. 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.

8. Due to this, and subsequent to the original draft follow up report being issued (as Reasonable), 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 (December 2021) which reflected that Adoption Allowances continued to be not well controlled and changes were required urgently.
9. The Strategic Director and Head of Service attended Governance & Audit Committee in October 2022 as a call in, due to the 2nd consecutive unsatisfactory audit opinion. At this meeting, assurances were provided that improvements would be made to the Adoption Allowances service.
10. The 2nd follow up audit commenced during 2022/23 and despite previous assurances provided, improvements in control could not be evidenced. A small number of new weaknesses were identified as part of this review where appropriate controls were found not to be in place. In addition, some weaknesses originally rated as a moderate risk were re-assessed as now being an outstanding significant risk. None of the outstanding weaknesses from the previous follow up had been fully implemented. As a result, a 3rd consecutive **unsatisfactory** audit opinion was issued. (Draft – March 2023 / Final – July 2023) A 3rd follow up audit has been included in the Internal Audit Plan for 2023/24.
11. The Summary of Outstanding Weaknesses identified from the 2nd follow up audit can be seen in **Appendix 1**.
12. The Action Plan (from the 3rd consecutive unsatisfactory audit opinion – 2nd follow up) showing agreed management comments and actions to address the outstanding weaknesses can be seen in **Appendix 2**. Current progress and timescales for implementation have been detailed in the end column by the responsible Service Managers.

Financial Summary (Capital and Revenue)

13. There are no material financial issues related to this report, although improvements in controls in respect of the administration of Adoption Allowances should result in more efficient and effective processes.

Risks

14. 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 Title / Description	Risk Impact score of Risk if it occurs* (H/M/L)	Risk Probability of risk occurring (H/M/L)	Risk Mitigation Action(s) What is the Council doing or what has it done to avoid the risk or reduce its effect?	Risk Owner Officer(s) responsible for dealing with the risk?
Poor internal controls could impact on effective and efficient service delivery, increase in complaints from service users and negative impact on reputation.	M	M	The Strategic Director has agreed a way forward to support service delivery. Internal Audit will undertake a further follow up audit (#3) to verify that agreed action has been taken to improve service delivery.	Strategic Director – Social Services

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

15. Giving Management assurance on the 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 and looking after the public pound makes our City a better place to live for all our citizens, hence delivering an ambitious, fairer, greener Newport for everyone. (Corporate Plan 2022-2027).

Options Available and Considered

16. 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.
17. Members of the Governance & Audit Committee are asked to either accept the assurances from the Strategic Director and Head of Service or refer their concerns onto the Chief Executive and Executive Board.

Preferred Option and Why

18. Members of the Governance & Audit Committee to decide.

Comments of Chief Financial Officer

19. This report is the result of the processes which the Council's Internal Audit follows where follow up audits are made following unsatisfactory/unsound audit findings. It is being reported again to the Governance and Audit Committee because of on-going unsatisfactory audit conclusions. The Committee need to review the situation and decide if they wish to escalate this to the Council's Chief Executive or not.

Clearly, the lack of progress in making improvements in this area over a time span of well over 3 years is very concerning though the Covid pandemic is a key consideration. In saying that, this is one of the core aspects of the function of Children's Services and which involves significant financial resources. Robust implementation of the action plan is therefore a key requirement in going forward and which the Committee needs to assure itself will be achieved.

Comments of Monitoring Officer

20. 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

21. As part of the Well-being of Future Generations Act (2015) and its corporate governance arrangements 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, however as outlined within the report further training is being arranged alongside operational management changes.

Scrutiny Committees

22. N/A

Fairness and Equality Impact Assessment:

- **Wellbeing of Future Generation (Wales) Act**
- **Equality Act 2010**
- **Socio-economic Duty**
- **Welsh Language (Wales) Measure 2011**

23. For this report, a full Fairness and Equality Impact Assessment is not required. This is because this report is not seeking any strategic decisions or policy changes. This is a call in report relating to an audit opinion which is an internal assessment and does not require the public to be consulted on it.
24. 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

25. N/A

Background Papers

26. 2022/23 Approved Internal Audit Plan. 2022/23 Internal Audit Annual Report. Adoption Allowances Call in Report - Governance & Audit Committee 27.10.22.

APPENDIX 1

Adoption Allowances Follow Up #2 Audit 2022/23

SUMMARY OF OUTSTANDING WEAKNESSES (July 2023)

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

Ref.	CRITICAL
	No critical weaknesses were outstanding at the time of the review.

Ref.	SIGNIFICANT
2.06	Adoption Allowances had been paid without an assessment of need being carried out, in accordance with legislative requirements.
2.09	Financial assessments for new claims were not being undertaken in a timely manner.
2.16	Resources were not identified, and a complete process document was not in place to ensure that new and annual review assessments could be completed in the absence of the Finance Officer.
3.06	Annual review assessments had not been calculated accurately or completed in a timely manner.
3.10	Independent checks to ensure correctness were not always completed on annual review assessments. When completed, errors in the calculation of Adoption Allowance awards had not been identified.
3.13 *NEW	Where changes to circumstances were known in advance, these were not recorded and reviewed mid-year.

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.
2.17 *NEW	Applications for Adoption Allowances were not being acknowledged when received. There were no validation checks completed on receipt of an application to ensure all required documentation had been submitted.
3.08	Income and expenditure details had not been cross-checked against the previous assessment to allow any discrepancies to be investigated.
3.09	Changes to circumstances were not always being correctly actioned. Adopters were not periodically reminded to notify the Council of any change of circumstance promptly which may impact on their financial assessment.
3.14 *NEW	It was not documented who had completed the Adoption Allowance assessment / annual review or who had conducted the independent check.
3.15 *NEW	Notification letters did not always contain all required information.

APPENDIX 2

Adoption Allowances Follow Up #2 Audit 2022/23 - Agreed Action Plan

IA Report Ref	Weakness	Further Management Action to Address Outstanding / New Weakness (Agreed July 2023)	By Who	Current Progress & Timescales for Implementation
2.06	Adoption Allowances had been paid without an assessment of need being carried out, in accordance with legislative requirements.	<p>Measures to be implemented to ensure that a financial assessment of need is undertaken for all new applications in accordance with statutory requirements.</p> <p>Assessments to be completed in line with the All Wales Adoption Support Services Policy implemented by the service.</p> <p>Payments made in exceptional circumstances to adopters who are determined as requiring financial support to be properly recorded – to detail the basis for the decision, are appropriately agreed and signed off by a senior manager.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>
2.09	Financial assessments for new claims were not being undertaken in a timely manner.	<p>New process to be implemented to ensure that financial assessments for new claims are calculated correctly in a timely manner.</p> <p>Checklist in place to be developed further and used to support the process.</p> <p>Staff responsible for new assessments within the Business Support Team to receive appropriate training and guidance to ensure that assessments are accurate and completed in a timely manner.</p> <p>Quality assurance and performance management checks to be completed to provide assurance that the process is</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>

IA Report Ref	Weakness	Further Management Action to Address Outstanding / New Weakness (Agreed July 2023)	By Who	Current Progress & Timescales for Implementation
2.16	Resources were not identified, and a complete process document was not in place to ensure that new and annual review assessments could be completed in the absence of the Finance Officer.	<p>operating effectively and delivering accurate assessments.</p> <p>Responsibility for Adoption Allowance assessments to be transferred from the Commissioning and Contracts Team to the Business Support Team within Children Services.</p> <p>Staff recruitment to be undertaken within the Business Support Team to provide additional resources and the resilience needed to ensure that new and annual review assessments are completed in line with statutory requirements.</p> <p>All staff responsible for new and annual review assessments within the Business Support Team to receive appropriate training and guidance.</p> <p>Process document to be further developed to support the measures implemented.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>
3.06	Annual review assessments had not been calculated accurately or completed in a timely manner.	<p>New process to be implemented to ensure that annual review assessments are calculated correctly in a timely manner.</p> <p>Checklist in place to be developed further and used to support the process.</p> <p>Staff responsible for new assessments within the Business Support Team to receive appropriate training and guidance to ensure that assessments are accurate and completed in a timely manner.</p> <p>Quality assurance and performance management checks to be completed to</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>

IA Report Ref	Weakness	Further Management Action to Address Outstanding / New Weakness (Agreed July 2023)	By Who	Current Progress & Timescales for Implementation
		provide assurance that the process is operating effectively and delivering accurate assessments.		
3.10	Independent checks to ensure correctness were not always completed on annual review assessments. When completed, errors in the calculation of Adoption Allowance awards had not been identified.	<p>Ensure that independent checks on annual review assessments are completed and recorded to provide assurance that they have been calculated correctly.</p> <p>Checklist in place to be developed further and used to support the process.</p> <p>Staff responsible for checking assessments within the Business Support Team to receive appropriate training and guidance to ensure that any calculation errors made are identified.</p> <p>Independent checks to be completed prior to payment or as soon as is reasonably practicable thereafter.</p> <p>Quality assurance and performance management checks to be completed to provide assurance that process is operating effectively.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>
3.13 *NEW	Where changes to circumstances were known in advance, these were not recorded and reviewed mid-year.	<p>New process to be implemented to reference and action advance changes in circumstance.</p> <p>Staff responsible for assessments within the Business Support Team to receive appropriate training and guidance.</p> <p>Quality assurance checks to be completed to provide assurance that the process is operating effectively.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>

IA Report Ref	Weakness	Further Management Action to Address Outstanding / New Weakness (Agreed July 2023)	By Who	Current Progress & Timescales for Implementation
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.	<p>New process to be implemented to ensure that financial assessment forms for new claims are properly supported with appropriate evidence of income and expenditure.</p> <p>Checklist in place to be developed further and used to support the process.</p> <p>Staff responsible for new assessments within the Business Support Team to receive appropriate training and guidance to ensure that all relevant evidence is obtained.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>
2.17 *NEW	Applications for Adoption Allowances were not being acknowledged when received. There were no validation checks completed on receipt of an application to ensure all required documentation had been submitted.	<p>New process to be implemented to ensure that:</p> <ul style="list-style-type: none"> • adopters receive an acknowledgement to confirm receipt of their application. • all applications are subject to validation checks to verify that they are supported with all required information and evidence. <p>All staff responsible for new and annual review assessments within the Business Support Team to receive appropriate training and guidance to ensure that validation checks are completed correctly and in a timely manner.</p> <p>Quality assurance and performance management checks to be completed to provide assurance that the process is operating effectively.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>
3.08	Income and expenditure details had not been cross-checked against the previous assessment to allow any	New process to be implemented to ensure that income and expenditure details are cross-checked against the previous assessment to allow any discrepancies to be investigated.	Service Manager – Childrens Teams (RB)	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>

IA Report Ref	Weakness	Further Management Action to Address Outstanding / New Weakness (Agreed July 2023)	By Who	Current Progress & Timescales for Implementation
	discrepancies to be investigated.	<p>Checklist in place to be developed further and used to support the process.</p> <p>Staff responsible for assessments within the Business Support Team to receive appropriate training and guidance to ensure that cross-checks are completed correctly and that further action is taken and recorded, as appropriate.</p> <p>Quality assurance and performance management checks to be completed to provide assurance that the process is operating effectively.</p>	<p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	
3.09	Changes to circumstances were not always being correctly actioned. Adopters were not periodically reminded to notify the Council of any change of circumstance promptly which may impact on their financial assessment.	<p>The All Wales Adoption Support Services Policy in place allows for overpayments to be recovered in respect of retrospective changes that adopters fail to notify, and for retrospective increases in awards to be applied.</p> <p>Measures to be implemented to ensure that changes in circumstances received from adopters are actioned in a timely manner to minimise the risk of adoption allowances being overpaid.</p> <p>Adopters will be periodically reminded to promptly notify the Council of any change(s) which may impact on their financial assessment.</p> <p>This will also be supported within written award notifications issued to adopters.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>
3.14 *NEW	It was not documented who had completed the Adoption	Process to be reviewed to ensure that the 'For Official Use Only' section of the financial	Service Manager – Childrens Teams	Partially completed – ongoing action

IA Report Ref	Weakness	Further Management Action to Address Outstanding / New Weakness (Agreed July 2023)	By Who	Current Progress & Timescales for Implementation
	Allowance assessment / annual review or who had conducted the independent check.	<p>assessment form and other calculation records reference who completed the assessment and who conducted the independent check.</p> <p>Quality assurance checks to be completed to provide assurance that the process is operating effectively.</p>	<p>(RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>To be completed by December 2023</p>
3.15 *NEW	Notification letters did not always contain all required information.	<p>Letter templates to be reviewed to ensure that notifications issued to adopters providing detail of their awards contain all of the required information.</p> <p>Quality assurance checks to be completed to provide assurance that letters issued meet the agreed requirements.</p>	<p>Service Manager – Childrens Teams (RB)</p> <p>Service Manager – Operations (JM)</p> <p>Business Support Team Leader (CR)</p>	<p>Partially completed – ongoing action</p> <p>To be completed by December 2023</p>