

Report



Governance & Audit Committee

Part 1

Date: 28 September 2023

Subject Internal Audit – Progress against audit plan 2023/24
Quarter 1

Purpose This reports updates Members of the Governance & Audit Committee on progress in the completion of the 2023/24 agreed audit plan in the first quarter of 2023/24 by providing information on audit opinions given to date and progress against key performance targets.

Author Interim Chief Internal Auditor

Ward General

Summary The attached report identifies that the Internal Audit Section is making progress against the 2023/24 audit plan and internal performance indicators.

The original audit plan was based on 862 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, Policy & Transformation

Signed

Background

1. This report aims to inform Members of the Governance & Audit Committee of progress made on the completion of the agreed Internal Audit plan. Progress against the audit plan for the first 3 months of the year is reported here along with the performance of the team for that period.
2. The report also gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by showing the audit opinions given on work undertaken at the end of Q1.

Internal Audit Staffing

3. The team currently operates with an establishment of 6.5 audit staff. The Committee will be aware of the resourcing issues within the team and these and their potential impacts are explained fully, alongside both short and longer term mitigation in a separate report to the same meeting.
4. The relationship with South West Audit Partnership (SWAP) continues, who provide external support with the undertaking of the audit plan.

Public Sector Internal Audit Standards (PSIAS)

5. 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).
6. 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 compliant with the Standards, with no significant areas of non-compliance. The next review was due to take place at the end of 2023, however resourcing issues will require this to be delayed.

Internal Audit Plan

7. The 2023/24 Internal Audit Plan was agreed by the Governance & Audit Committee on the 25th May 2023 and was based on 862 audit days with 48 opinion related jobs.
8. 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. 13 audit jobs were ongoing at year end, therefore moved to the 2023/24 audit plan. 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.

Performance

9. 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.

10. 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 were set internally by the previous Chief Internal Auditor.
11. The performance for Quarter 1 2023/24 is summarised below with the detail shown at **Appendix A**:
- a. 12% of the original audit plan has been achieved so far, which is ahead of the target of 10%;
 - b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages 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.
12. 12 out of 13 2022/23 audit reviews which were in draft as at 31/03/23 have now been finalised.

Quality Control

13. 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 Internal Audit team, with the information assessed and any negative comments addressed. 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 2023/24.

Financial Training

14. 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. Two training sessions have been held so far this year, with others planned though the current resourcing challenges and the focus on opinion related audits for the rest of the year to maximise assurance from what resources are available will reduce the days allocated to training compared to the original audit plan and resource allocation.

Audit Opinions 2023/24

15. Audit opinions issued so far in 2023/24 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix D**. Please note the amendment to audit opinion titles and definitions for 2023/24.

16. 15 jobs were completed to at least draft report stage by 30 June 2023, 12 of which warranted an audit opinion: 4 x *Substantial*, 7 x *Reasonable*, 1 x *Limited*, 0 x *No Assurance* audit opinions. All 12 of opinion reviews were those ongoing from 2022/23. Other work completed related to the Annual Governance Statement, and the provision of financial regulations training. In addition, financial advice has been provided on an ongoing basis (**Appendix C**).
17. 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

18. 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.
19. 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

20. Where *Limited* (previously *Unsatisfactory*) or *No Assurance* (previously *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.

Financial Summary

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

Risks

22. If the plan is not completed due to a lack of resource in the team, the Interim Chief Internal Auditor may have to qualify the year end assurance opinion provided to the Governance & Audit Committee. As the work of internal audit is an important part of the Council's governance framework; the reduced amount of work on the agreed audit plan will also adversely impact on the review of the AGS in 20-23/24.

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	Audit work has been prioritised and an external provider are providing support.	Interim Chief Internal Auditor

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

23. 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

24. 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.
25. 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

26. N/A

Comments of Chief Financial Officer

27. There are no financial impacts in this report. Members of the committee will be aware of the current resourcing challenges facing this function and which are described in detail in another report on the agenda. It is highly probable that the level of audit coverage will be lower than that normally achieved, and this represents a potential problem and weakness to the Council's governance framework in 2023/24.

More support from SWAP have been secured and this should reduce the impact of the current situation though unlikely to fully mitigate. Recruitment is currently on-going and an update on that will be given to the committee at the meeting.

Comments of Monitoring Officer

28. 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

29. 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.

Comments of Cabinet Member

30. N/A

Local issues

31. N/A

Scrutiny Committees

32. N/A

Equalities Impact Assessment and the Equalities Act 2010

33. 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.
34. 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

35. N/A

Wellbeing of Future Generations (Wales) Act 2015

36. 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.

Crime and Disorder Act 1998

37. The work undertaken by Internal Audit should minimise potential fraud, corruption, theft or misappropriation within the Council. Allegations of potential criminal activity will be investigated and reported to the police where appropriate.

Consultation

38. N/A

Background Papers

39. N/A

Dated:

Appendix A

Newport City Council Internal Audit Service Performance Indicators

2022/23	22/23 Target	1 st Qtr 22/23	2 nd Qtr 22/23	3 rd Qtr 22/23	4 th Qtr 22/23	Comments
Proportion of planned audits complete	82%	19%	31%	47%	77%	[Profiled Target Q1 10%]
Directly chargeable time against total time available	50%	50%	56%	52%	54%	Quarterly performance
Directly chargeable time against planned	100%	60%	58%	62%	-	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	N/A	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	3	5	8	10	Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	3 days	5 days	5 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	2 days	2 days	2 days	Cumulative figures

2023/24	23/24 Target	1 st Qtr 23/24	2 nd Qtr 23/24	3 rd Qtr 23/24	4 th Qtr 23/24	Comments
Proportion of planned audits complete	82%	12%				[Profiled Target Q1 10%]
Directly chargeable time against total time available	50%	42%				Quarterly performance
Directly chargeable time against planned	100%	54%				Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%				Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	2				Cumulative figures
Staff turnover rate (number of staff)	0	3.5 (63%)				Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	6 days				Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	3 days				Cumulative figures

Appendix B
Opinions as at 30 June 2023, Q1

Substantial	4
Reasonable	7
Limited	1
No Assurance	0
Total	12
Unqualified	0

Internal Audit Services - Management Information for 2023/24
Q1

Job number	Service Area	Section or Team	Job Title	Risk Rating	Draft /Final	Opinion Given
F2324-F4	People, Policy & Transformation	Climate Change	Health & Safety (Occupational Health) (2022/23)	H	Final	Good/Substantial
F2324-F7	Children Services	Fostering & Adoption	Fostering Panel (2022/23)	M	Final	Good/Substantial
F2324-F9	Education Services	Primary Schools	Gaer Primary School (2022/23)	M	Final	Good/Substantial
F2324-F10	Education Services	Primary Schools	Malpas Park Primary School (2022/23)	M	Final	Good/Substantial
F2324-F1	Finance	Accountancy	Capital Programme (2022/23)	H	Final	Reasonable
F2324-F2	Finance	Benefits	Housing Benefits (Follow Up) 2021/22	H	Final	Reasonable
F2324-F3	People, Policy & Transformation	Digital Services & Complaints	Internal Mobile Telephony (Follow Up) 2021/22	H	Final	Reasonable
F2324-F5	Law & Standards	Registration	Registration Services (2022/23)	M	Final	Reasonable
F2324-F8	Education Services	Inclusion / ALN	Education Psychology (2022/23)	M	Final	Reasonable
F2324-F11	Education Services	Primary Schools	Malpas Church in Wales Primary School (2022/23)	M	Final	Reasonable
F2324-F13	Environment & PP	Public Protection	Newport City Dogs Home (Follow Up) 2021/22	H	Final	Reasonable
F2324-F12	Infrastructure (City Services)	Transport	PTU Taxi Contracts (Follow-Up #1) 2021/22 **	H	Final	Unsatisfactory/ Limited

**Note that Follow-Up #2 has been undertaken since this point, with a Substantial opinion provided.

Appendix C

Non Opinion work 2023/24 Q1

Job number	Service Area	Section or Team	Job Title
N/A	N/A	Cross Cutting	Financial Regulations Training
N/A	T&C	Finance (Housing Benefit Staff)	Financial Regulations Training
P2324-P20	CE	Education Services	Financial Advice
P2324-P42	T&C	Finance	Annual Governance Statement
P2324-P44	T&C	Finance	Financial Advice
P2324-P63	SS	Childrens Services	Financial Advice

Appendix D

INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

	SUBSTANTIAL	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited
	REASONABLE	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited
	LIMITED	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
	NO ASSURANCE	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited

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>