

Report

Audit Committee

Part 1

Date: 23 June 2016

Subject Internal Audit – Progress Against Unsatisfactory Audit Opinions Previously Issued [to May 2016]

Purpose To inform Members of the Audit Committee of the up to date position of audit reviews previously given an unsatisfactory / unsound audit opinion.

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 internal controls within their areas of responsibility.

In July 2015 it was reported that 5 audit reviews had been given an Unsatisfactory audit opinion during **2014/15**:

In **2015/16**, to March 2016, 34 audit opinions had been issued; 8 were *Unsatisfactory*, no *Unsound* opinions were issued.

Proposal

- 1) The report be noted and endorsed by the Council's Audit Committee
- 2) To consider calling in the Operational Manager responsible for the CCTV / Security (Telford Depot) along with the Head of Street Scene & City Services to respond to two consecutive Unsatisfactory Audit Opinions.

Action by Audit Committee

Timetable Immediate

Background

1. This report aims to inform Members of the Audit Committee of the current 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.
2. Since bringing this report to the Audit Committee there have been 13 reviews which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee. The latest referrals are shown at Appendix A.
3. It is pleasing to report that improvements were made in all 13 areas. 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. Follow up audit work for the 5 2014/15 Unsatisfactory reviews had been planned for 2015/16 by the audit team and was recorded in the plan; not all of these have been followed up so the follow up reviews will take place during 2016/17. Where the team come 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 Audit Committee.
5. Definitions of the audit opinions are shown at Appendix B.

History of unfavourable audit opinions

6. In **2014/15**, 34 audit opinions were issued; 5 of which were deemed to be *Unsatisfactory* as shown in the following table. These have not all been followed up due to insufficient resources within the audit team so we are not yet in a position to provide an update on the current audit opinion for all 5 yet.

	Revised Opinion / Date of follow up	Current Status
Amenity Funds (Adult Services) Final	2016/17	Not yet followed up
Flexible Working and Travel and Subsistence Procedures (Adult Services) Final	2016/17	Not yet followed up
CCTV / Security (Telford Depot) (Street Scene)	2015/16	Unsatisfactory Draft as at 31/03/16
Discretionary Charging (Public Protection – Environmental Health)	2015/16	Reasonable Draft as at 31/03/16
SEN Assessments and Out of County Assessments (Education Services) Final	2016/17	Follow up in progress

7. In **2015/16**, 34 audit opinions had been issued; 8 of which were deemed to be *Unsatisfactory*; a summary of the significant issues follows the table:

	Revised Opinion / Date of follow up	Current Status
Partnerships & Planning (Draft) - Re: Grants to Voluntary Sector Organisations	2016/17	
Looked After Children 16+	2016/17	
Kimberley Nursery	2016/17	
Ysgol Gymraeg Casnewydd	2016/17	
Malpas Court Primary - Special	2015/16	Good
Joint Venture – Newport Norse (Draft)	2016/17	
Highways Improvements Contracts	2016/17	
CCTV / Security Telford Depot – Follow Up	2014/15 – Unsatisfactory 2015/16 - Unsatisfactory	

- a) **Partnerships & Planning (Draft) Re: Grants to Voluntary Sector Organisations** – reported previously to Audit Committee
- b) **Looked After Children 16+** – reported previously to Audit Committee
- c) **Kimberley Nursery** – reported previously to Audit Committee
- d) **Ysgol Gymraeg Casnewydd**

The outgoing Headteacher (retiring) and incoming Headteacher (former Deputy Headteacher at the School) had concerns over the School's financial administration so requested a review by Internal Audit.

Ref.	CRITICAL
2.01	For the period January 2015 to July 2015 invoices were not authorised for payment by the Headteacher / Acting Headteacher. Some paid invoices could not be located at the School.

Ref.	SIGNIFICANT
1.05	For the period reviewed, receipts were not written / appropriate summaries kept in support of income banked into the School budget.
1.06	At the time of the review, dinner money purses held on behalf of pupils were not being held securely.
1.07	For the period reviewed, application and indemnity forms had not been completed for the hire of rooms within the School. There was no Lettings Policy / Fees & Charges structure in place which had been agreed by the Governing Body.
2.02	At the time of the review, when the South East Wales Framework was not used for the procurement of supply teachers there was no evidence of Governing Body approval to use a different supplier. Where alternative suppliers were used, there was no evidence to support that safeguarding checks had been undertaken by the Agency / School.
2.03	At the time of the review, a number of purchase orders could not be located at the School and a number of invoices had been processed through the non-order facility where a purchase order should have been raised. Where purchase orders were found these had not been authorised by the Headteacher. The filing system in place at the School was poor.
2.04	For the period reviewed, a recurring payment schedule was not maintained detailing invoices processed through the non-order facility.
2.05	For the sample examined, there was no evidence of having obtained value for money for purchases under £3,000.
2.06	It was identified that the School Support Officer (Level 4) had taken paid invoices files off-site without the permission of the Headteacher.
2.07	For the sample examined, invoices were not being date stamped upon receipt and some appeared to have been paid late i.e. in excess of 30 days from date of receipt.
2.08	For the period reviewed, invoice batch authorisation summaries had not been signed / reviewed by the Headteacher to confirm payment could be made. 2 invoice batch summaries could not be located at the School.
2.09	For the period reviewed, there was an inadequate segregation of duties within the procurement processes at the School.
2.10	At the time of the review, the Schools Petty Cash account could not be located. A reimbursement had not been made since February 2011 (5 years).

Ref.	SIGNIFICANT
3.03	For the sample examined, 2 Self Certification & Return to Work Discussion Forms could not be located at the School. From the forms available, they had not been completed in full and they had not been completed by a senior officer / manager. The management action taken in relation to the absence was not always in-line with the Management of Attendance Policy.
3.04	Employees' certificates of insurance, driving licences and MOT certificates were not always reviewed annually for all members of staff.
4.04	Monthly reconciliations of the School Private Fund (SPF) account had not been completed and there was no evidence to support that bank statements / income records had been reviewed by the Headteacher / independent person.
5.02	At the time of the review, the School's inventory record had not been updated for a number of years; consequently not all assets were recorded. There was no valuation of library books / reading schemes held.
5.03	At the time of the review, portable electrical equipment had not been security marked as belonging to the School / NCC.
5.04	At the time of the review, encrypted memory sticks had not been provided to staff. Evidence confirmed school information was being stored on an employee's personal memory stick.
5.05	At the time of the review, staff personnel and pupil files were not kept secure.

e) Malpas Court Primary - Special – Income Administration

The following issues were reported to the School via a memo rather than our normal reporting processes and were therefore not identified as critical or significant.

No	Weakness
1	Not all income returns had been submitted for the 2013/14 academic year as required. Some duplicate income returns had been submitted and copies of the returns held by the School sometimes differed to those held by Central Accountancy.
2	Income returns were not being correctly completed or in full. Income recorded did not always match to the income actually banked.
3	Week-ending dates and week numbers were not always recorded on income returns and when completed were often incorrect.
4	Income returns were not always certified by the Headteacher / Deputy Headteacher.
5	The review of the bank paying-in books to verify income banked took place prior to the actual banking taking place.
6	5 occasions were identified where the cash-paying in counterfoil had been ripped out of the bank paying-in book.
7	Bank paying-in counterfoils were not always used in sequence and were not always submitted to Central Accountancy to accompany the corresponding income return.
8	Miscellaneous income received by the School was not formally receipted.
9	Income was not banked on a regular nor prompt basis. Bankings on weekends and during periods when the School was closed were identified. Income collected was not always banked intact.
10	Bankings did not always take place at a location near to the School. The Headteacher confirmed she was unaware of the location used for school meal income banking.
11	School music income had not been promptly collected from parents with more than a third remaining outstanding at the end of the academic year. The School music income collection summary was not adequately detailed.
12	At the time of the review, income was not being held securely after being transported to the School office.
13	The key to the School safe was not being held securely with access restricted. The

No	Weakness
	Headteacher did not have independent access to the safe.
14	The School was raising debtor invoices which were in excess of the £100 limit set for primary schools.
15	Application and indemnity forms were not held for all School lettings.
16	The school meal registers for the 2013/14 academic year were not fully nor correctly completed with income being backdated into the registers. No reconciliation between the total income received and the total income banked took place.
17	The school meal registers were sometimes completed in pencil and correction fluid was being used to amend entries.
18	There was no evidence of a periodic overview of the school meal registers by the Headteacher.
19	There was no cash handover procedure in place between members of staff at the School.
20	At the time of the review, daily meals ordered sheets were being destroyed at the end of each week.
21	School meal arrears were not being monitored effectively and an excessive school meals arrears balance existed. The Headteacher was not made aware of the significant level of school meal arrears.
22	The 4/5 Weekly Primary School Meal Return was neither correctly completed nor completed in full. There was no evidence of an independent overview of the return prior to submission to Central Education.
23	Some pupils were identified as receiving free school meals but were not eligible. In some cases where eligibility had been confirmed, parents continued to pay for meals.
24	There was no staff school meal register in place and there were no records to support payments received in respect of adult meals provided. The current meal price being charged to staff was incorrect.

f) Joint Venture – Newport Norse

Ref.	CRITICAL
1.04	Although the contract had been signed, not all the columns of the Service Specification (Schedule 2 of the contract) had been populated.
2.05	At the time of the review, there was no specific list available of the works and services that are included in the 'core services' fee paid to Newport Norse, resulting in confusion over what the Authority should and should not be paying for. It was not known how and on what the core services payment was being spent by Newport Norse on behalf of the Authority.

Ref.	SIGNIFICANT
1.05	There was a contradiction within the Service Agreement with regards to whether Newport Norse should comply with NCC's Contract Standing Orders.
1.06	There was a discrepancy between the calculations of the internal profit figure in Schedule 3 of the Service Agreement, which has been used to calculate NCC's 2014/15 profit share.
1.07	At the time of the review, the actual 2014/15 profit share was significantly lower than the projected profit share and documentation to support the calculation had not

Ref.	SIGNIFICANT
	originally been provided by Newport Norse or requested by the NCC Accountancy Team.
1.08	During the course of the audit, it became evident that the client / contractor relationship was under resourced given the workload involved.
2.06	At the time of the review, there was a lack of communication to NCC Service Areas / Sections with regards to when Newport Norse should be used for works / services and when they should be invited to quote / tender for additional works. As a result, NCC officers were not always obtaining quotes from other suppliers for any additional works / services.
2.07	At the time of the review, quarterly reconciliations between the capital maintenance budget and the actual capital expenditure incurred by Newport Norse were not being conducted by NCC. Amendments when required were not being made to the invoices in the month following the quarter end to correct any over or under spend.
2.08	At the time of the review, service reviews of Newport Norse and benchmarking exercises had not been conducted.
2.09	The Newport Norse Business Plan for 2015/16 did not contain everything as specified in the contract.
2.10	At the time of the review, the performance indicators in the minutes of the Quarterly Liaison Board meeting were different to those included in the Service Agreement (specification schedule) and those provided by NCC Accountancy.
3.04	For the period reviewed, some orders for additional works had been raised with other companies within the Norse Property Services (NPS) Group rather than directly with Newport Norse.
3.05	For the sample reviewed, the invoices received from Newport Norse for additional works completed were not always adequately detailed.
3.06	For the period reviewed, invoices from Newport Norse for additional works completed were not always issued promptly to NCC.
3.07	At the time of the review, according to the Newport Norse outstanding debt report there was a large volume of unpaid invoices (i.e. owed by NCC) and the value of unpaid invoices could not be agreed.

g) Highways Improvements Contracts

Ref.	SIGNIFICANT
1.05	For the period reviewed, there was no evidence to suggest work programmes were being submitted by the Contractors and reviewed and commented on by the Project Managers for any of the contracts reviewed.
1.06	For the period reviewed, Contractor and project wide meetings were not always held and minuted.
1.07	The carriageway resurfacing contract did not provide for the recovery of additional costs (i.e. delay damages).

Ref.	SIGNIFICANT
1.08	The overall project management of the contracts was poor with conditions of contract not being followed and a general lack of paperwork to support key decisions being made.
3.01	For the period reviewed, formal project management instructions (PMIs) were not issued and signed off by the Project Managers for any of the 3 contracts reviewed.
3.02	For the sample reviewed, compensation events for the carriageway resurfacing contract were not valued in strict accordance with the contract and documentation to support these was not always available.
4.01	For the period reviewed, there was no formal request or agreement to a delay in completion of the works for the carriageway resurfacing contract.
4.02	For the period reviewed, there was no formal agreement that liquidated damages would not be applied if the Contractor did not claim an extension of time as a result of delays due to the NATO summit.
4.03	For the period reviewed, a record of the due completion date, details of any agreed delays to the completion date and the overall effect on the due completion date for each contract were not maintained.
4.04	The minutes of the Contractor and project wide meetings available did not note the overall effect on the due completion date of agreed delays in completion.

h) CCTV / Security Telford Depot – Follow Up

This is the second consecutive Unsatisfactory Audit opinion given for this audit review.

Ref.	SIGNIFICANT
1.07	The main entrance gates for the Depot were not always secure / locked during the early evening when staff on site was reduced.
1.12	Formal key holder lists were not held for each building on the site and the key holder list for the main gate held by the Streetscene Area Manager did not match to the actual persons issued with keys by managers based at the site.
1.13	Access to the Depots buildings via the PAC system was not being monitored. No list of those with access to the buildings via the PAC system was available.
1.14	Vehicles and portable items held at the Depot were not always kept secure.
1.15	An alarm system had not been installed in the Transport Offices / Stores building.
1.16	Overtime paid to members of staff undertaking security duties was not paid at a grade appropriate to the duties of the post.
2.07	At the time of the review, the remote access to the CCTV system and a number of the cameras were not operational.
2.08	Regular maintenance was not conducted of the CCTV system / cameras. No maintenance contract / agreement had been arranged.
2.09	The CCTV footage was of poor quality and could not be used to identify vehicles or persons on the site. The remote usage of the system no longer allows for movement of the cameras, rewinding or recording. No night-vision cameras were located within the site and the low level lighting was not always fully operational.

8. Internal Audit will continue to cover the service areas and specific sections identified in the 2016/17 operational plan and will endeavour to revisit any areas which have been given an unsatisfactory or unsound audit opinion within a twelve month timescale.
9. 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.
10. 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 audit opinions.
11. 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 Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.

Financial Summary, Risks and Links to Council Policies and Priorities

12. No direct financial implications for this report.
13. 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.
14. 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.
15. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.
16. Risk table – N/A for this report
17. 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 Considered / Available. Preferred choice and reasons

18. Not applicable

Comments of Chief Financial Officer

19. This report is compiled on behalf of the Head of Finance. Areas of unsatisfactory / unsound audit opinions are a concern but 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 / Head of Law & Regulation

20. 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 and Business Change

21. There are no direct Human Resources issues arising from this report. Internal Audit provide a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

Local Issues and Consultation

22. Not applicable

INTERNAL AUDIT SERVICES


Progress of reports following call-in to Audit Committee as a result of 2 consecutive unfavourable audit opinions:

Review	Service Area	Status since Head of Service and Cabinet Member attended Audit Committee
Ysgol Gymraeg Casnewydd (Nov 2011)	Education Services	Reasonable (March 2013)
Recruitment & Selection (July 2012)	People & Transformation	Good (Feb 2014)

INTERNAL AUDIT SERVICES – OPINIONS

- The Internal Audit team is in the process of revising the audit opinions in line with the level of assurance obtained from undertaking the audit work, that appropriate controls, governance arrangements and risk management are in place.
- The Internal Audit team has introduced a new report format during 2015/16 where the Audit Opinion has been colour coded based on a traffic light system and the report only contains key issues which need to be addressed.

AUDIT OPINIONS 2016/17:

	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