

# Report

## Audit Committee

---



### Part 1

Date: 26 January 2017

**Subject** Internal Audit – Progress against audit plan 2016/17 Quarter 3

**Purpose** To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2016/17 agreed audit plan for the first nine months of the year and for information on audit opinions given to date and progress against key performance targets.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report identifies that the Internal Audit Section is making good progress against the 2016/17 audit plan and internal performance indicators.

**Proposal** 1) The report be noted by the Council's Audit Committee

**Action by** The Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change

## Background

1. This report aims to inform Members of the Audit Committee of progress of work undertaken by the Internal Audit Section of the Council against the agreed audit plan. Progress against the audit plan for the first nine months of the year will be reported.
2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q3.

### Internal Audit Staffing

3. The team currently operates with an establishment of 9 audit staff. At the start of the year there were 5 audit staff with 4 vacancies in the team. An Auditor was appointed and started in the team during Q1, a Principal Auditor was appointed in Q2 and started in Q3.
4. In order to take account of the budget savings contribution and the layering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured during Q1. The previous and the revised organisation charts are shown at **Appendix A**.
5. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

### Audit Plan

6. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 which the team will need 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).
7. 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 S151 Officers of local authorities in Wales. Newport's peer review will take place during 2017.
8. The 2016/17 Audit Plan was agreed by the Audit Committee on 26<sup>th</sup> May 2016.

### 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; we will endeavour to minimise these throughout the year. The section has been involved with minimal special investigations so far this year but if this increases significantly it could have an impact on this year's achievement of the audit plan; so far there have been 2 unplanned reviews.
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 Audit

Committee on a quarterly basis; the targets for each of the indicators are set internally by the Chief Internal Auditor.

11. The performance for Quarter 3 2016/17 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix B**) are cumulative and show that:
  - a. 50% (43%) of the audit plan has been achieved so far which is better than last year's performance and in line with the profiled target of 50%;
  - b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 14 days (15 days) which is above 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 (3 days) which is within the target time of 5 days.
12. Coverage of the plan at this stage of the year is in line with expectations; the target being 50% for Quarter 3, despite there being a reduced audit resource in the team. We have started to get involved with some sensitive and time consuming special investigations. Although performance may dip throughout the year, historically things have picked up in the final quarter; this year will depend on sufficient audit resources being available to complete the audit plan. All key financial systems will be reviewed by the year end.
13. 53 (51) days have been spent finalising 18 (15) 2015/16 audit reviews; 17 of which have been finalised.
14. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire, a Principal Auditor post and two Auditor posts.
15. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year, but there has been a significant improvement in this over previous years.

#### Quality Control

16. 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 Chief Internal Auditor who will assess the comments and address any criticisms. 90% positive feedback has been received from service managers via these questionnaires to date; this will continue to be collated throughout the year and fed into the annual audit report for 2016/17.

#### Financial Training

17. 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 is offered to all service areas.

An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self-nomination basis, bi-monthly, as part of the Corporate Training Programme. Feedback from staff who have attended courses has been positive. During this year the financial training is continuing to be targeted to areas of previous poor performance, in line with the agreed protocol for dissemination of good practice.

18. 7 sessions were delivered to 87 delegates up to and including Q3. The training programmes will continue throughout the year.

#### Audit Opinions 2016/17

19. Audit opinions issued so far in 2016/17 are shown at **Appendix C**. Definition of audit opinions currently given is shown at **Appendix D**.
20. 21 jobs completed to at least draft report stage by 31<sup>st</sup> December 2016 warranted an audit opinion: 4 x *Good*; 13 x *Reasonable*, 3 x *Unsatisfactory* and 1 x *Unsound*. Of the 2 community centre accounts undertaken, opinions for both were *Unqualified*. Other reports have been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims and provision of financial advice.
21. 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

22. 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.
23. 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

24. Where unsatisfactory and 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. These are reported separately to this Audit Committee on a six-monthly basis.

### **Financial Summary**

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

## Risks

26.

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	Currently going through a recruitment exercise to fill the vacant posts in the team.	Chief Internal Auditor

\* Taking account of proposed mitigation measures

## Links to Council Policies and Priorities

27. Giving management assurance on systems in operation gives them confidence that there is sound financial management in place, that more effective services can be provided and the risk of theft, fraud and corruption is minimised. Better service provision, looking after the public pound makes our City a better place to live for all our citizens.

- To make our City a better place to live for all our citizens
- To be good at what we do
- To work hard to provide what our citizens tell us they need

## Options Available

28. This is a factual progress report and therefore there are no specific options, as such. 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.

29. The 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

30. N/A

## Comments of Chief Financial Officer

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

## Comments of Monitoring Officer

32. 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.

## **Staffing Implications: Comments of Head of People and Business Change**

33. The report details a number of issues around vacancy management and structure which are being managed within the Service Area. There are no other specific HR issues arising as a result of the report. In terms of Corporate Policy & Performance, the report presents a review of audit activity during the period concerned and is set out in the context of performance framework. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures.

## **Comments of Cabinet Member**

34. N/A

## **Local issues**

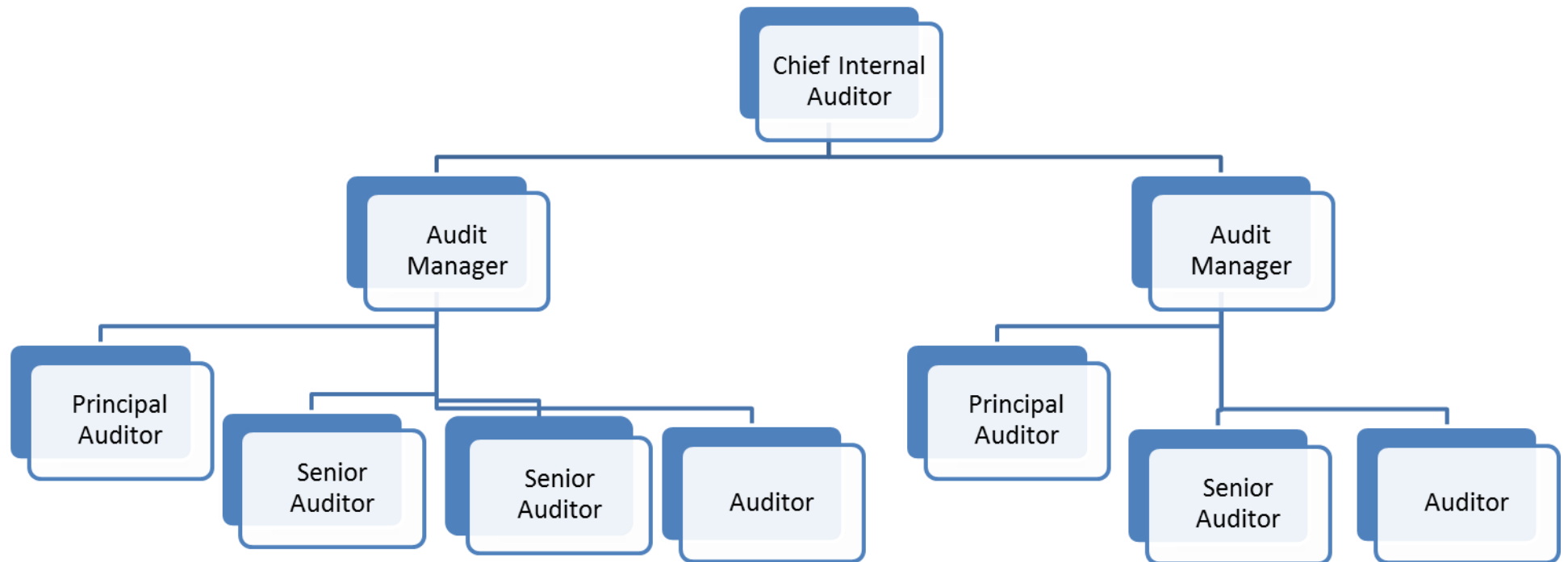
35. N/A

## **Consultation**

36. N/A

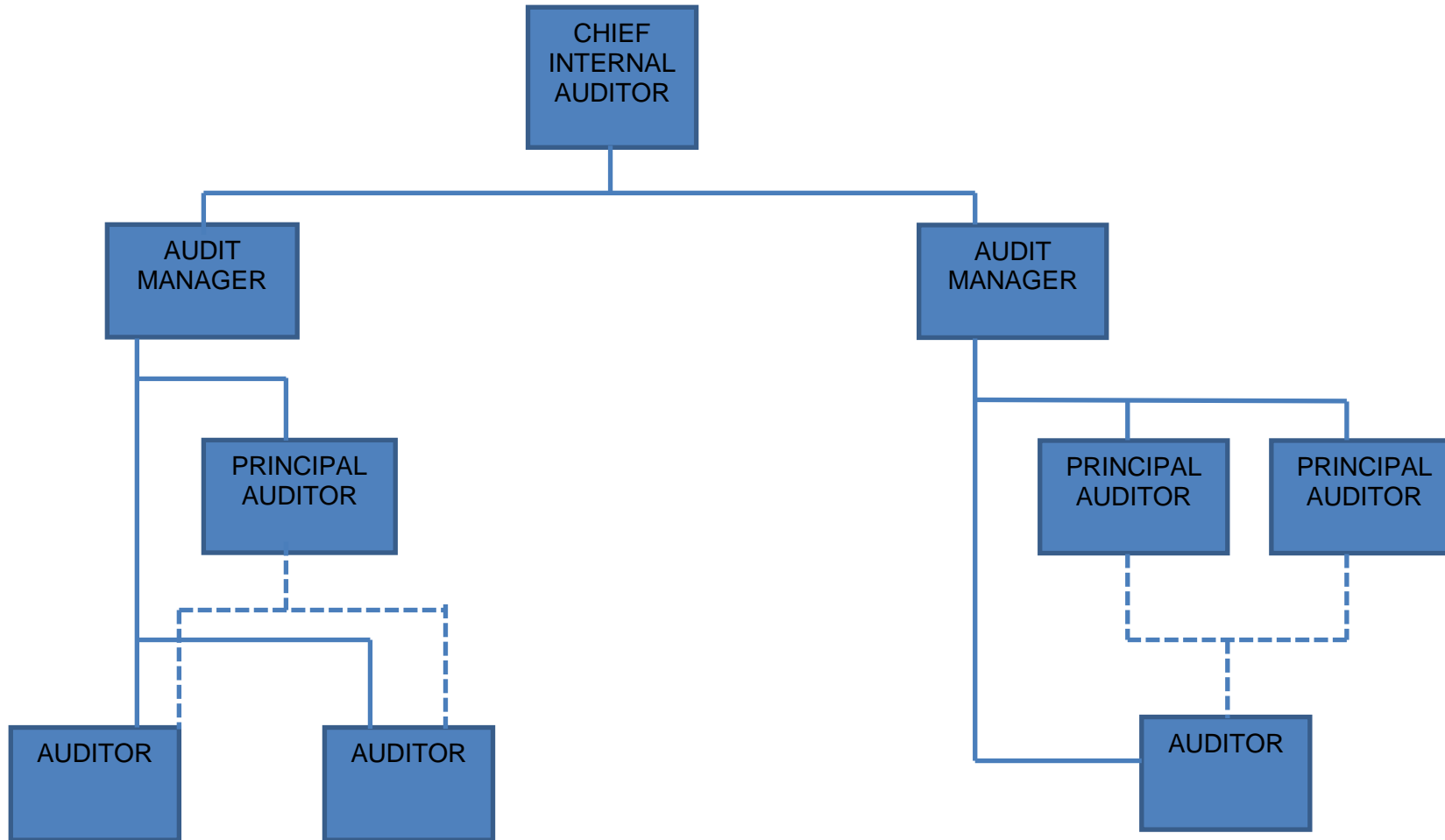
## **Background Papers**

37. N/A



Revised

MAY 2016





**Appendix B**

**Newport City Council Internal Audit Service Performance Indicators**

<b>2015/16</b>	2015/16 Target	1 <sup>st</sup> Qtr 15/16	2 <sup>nd</sup> Qtr 15/16	3 <sup>rd</sup> Qtr 15/16	4 <sup>th</sup> Qtr 15/16	Comments
Proportion of planned audits complete	75%	16%	32%	43%	77%	
Proportion of planned audits complete within estimated days	65%	N/A	36%	22%	52%	Cumulative figures
Directly chargeable time against total time available	61%	53%	53%	55%	55%	Quarterly performance
Directly chargeable time against planned	84%	81%	77%	74%	71%	Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%	100%	Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	5	5	9	Cumulative figures
Staff turnover rate (number of staff)	1	1	1	2	4	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	10 days	15 days	12 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	3 days	3 days	3 days	Cumulative figures

<b>2016/17</b>	2016/17 Target	1 <sup>st</sup> Qtr 16/17	2 <sup>nd</sup> Qtr 16/17	3 <sup>rd</sup> Qtr 16/17	4 <sup>th</sup> Qtr 16/17	Comments
Proportion of planned audits complete	75%	16%	35%	50%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	90%	74%		Cumulative figures
Directly chargeable time against total time available	50%	52%	54%	57%		Quarterly performance
Directly chargeable time against planned	84%	62%	66%	72%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	6	7		Cumulative figures
Staff turnover rate (number of staff)	1	0	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	9 days	14 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	4.5 days	3.5 days	3 days		Cumulative figures

**Appendix C**  
**Opinions as at 31<sup>st</sup> December 2016, Qtr 3**

Good	4
Reasonable	13
Unsatisfactory	3
Unsound	1
Total	21

**Internal Audit Services - Management Information for 2016/17 Q3**

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1617-P4	Finance	Income Collection	National Non Domestic Rates (NNDR)	Medium		Good
P1617-P46	Education Serv	Primary Schools	Mount Pleasant Primary	Medium	Finalised	Good
P1617-P49	Education Serv	Primary Schools	Crindau Primary	Medium		Good
P1617-P66	Street Scene and City Services	Customer Services	Housing Benefits	High		Good
P1617-P5	Finance	Strategic Procurement	Creditors CAAT's	Medium		Reasonable
P1617-P6	Finance	Strategic Procurement	Procure to Pay (eProcurement)	High		Reasonable
P1617-P13	People & Bus Change	Business Service Development	Performance Indicators	Medium		Reasonable
P1617-P14	People & Bus Change	Corporate HR	Payroll CAAT's	Medium		Reasonable
P16-17 P16	People & Bus Change	Corporate HR	T&S	High		Reasonable
P1617-P17	People & Bus Change	Corporate HR	Total Reward	High	Finalised	Reasonable
P1617-P31	Children & Young People Serv	Safeguarding, QA & Child Protection	Appointeeships	Medium		Reasonable
P16-17 P36	Adult & Comm Serv	Provider Services	Blaen-y-Pant	Medium		Reasonable
P16-17 P52	Education Serv	Secondary Schools	Newport High School	Medium		Reasonable

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1617-P56	Education Serv	I&I - Special Educational Needs	SEN Assessments / OoCP (Follow-up)	High		Reasonable
P1617-P57	Education Serv	I&I - Inclusion Services	Safeguarding / Child Protection (2015/16)	High	Finalised	Reasonable
P16-17 P65	Streetscene & City Serv	Environmental Serv	Crematorium	Medium		Reasonable
P1617-P67	Streetscene & City Serv	General	Overtime - WDS (Follow-up)	Medium	Finalised	Reasonable
P16-17 P9	Finance	General	Highways Network Assets Valuation	High		Unsatisfactory
P1617-P18	People & Bus Change	Digital & Information	Payment Card Industry Data Security Standards	High	Finalised	Unsatisfactory
P16-17 P68	Streetscene & City Serv	General	Overtime & On Call Payments - Highways	Medium		Unsatisfactory
P1617-P69	Streetscene & City Serv	General	Agency / Overtime - Refuse (incl. Follow-up)	Medium	Finalised	Unsound
Grant Claims						
P1617-P64	Streetscene & City Serv	Transport Management	Bus Services Support Grant (2015/16)	Medium	Finalised	Qualified
P1617-P25	Law & Regulation	Trading Standards	Scambusters Grant Claim 2015/16	Medium	Finalised	Unqualified
P1617-P35	Adult & Comm Serv	Quality Assurance	Supporting People Grant Certification	Medium	Finalised	Unqualified
P1617-P39	Adult & Comm Serv	Quality Assurance	Supporting People Grant Certification - Outcomes	Medium	Finalised	Unqualified


## Non Opinion work 2016/17 Q3

Job number	Service Area	Section or Team	Job Title	Opinion given
P1617-P8	Finance	General	Annual Governance Statement	Not applicable
P1617-P10	Finance	General	National Fraud Initiative (NFI)	Not applicable
P1617-P11	Finance	General	Financial Advice	Not applicable
P1617-P20	People & Bus Change	General	Financial Advice	Not applicable
P1617-P21	People & Bus Change	General	Financial Regulations Training	Not applicable
P1617-P26	Law & Regulation	General	Financial Advice	Not applicable
P1617-P32	Children & Young People Serv	General	Financial Advice	Not applicable
P1617-P40	Adult & Comm Serv	General	Financial Advice	Not applicable
P1617-P43	Education Serv	R&P - Finance & School Resources	Education Improvement Grant (2015/16)	Not applicable
P1617-P55	Education Serv	Schools	CRSA's / Heathcheck - Nursery / Primary / Secondary	Not applicable
P1617-P58	Education Serv	General	Financial Regulations Training	Not applicable
P1617-P59	Education Serv	General	Financial Advice	Not applicable
P1617-P70	Streetscene & City Serv	General	Financial Advice	Not applicable
P1617-P78	RI&H	General	Financial Advice	Not applicable
U1617-U1	Education Service	R&P - Finance & School Resources	Pupil Deprivation Grant (15/16)	Not applicable

Community Centre	Opinion
Duffryn	Unqualified
Eveswell	Unqualified

Appendix D

**INTERNAL AUDIT SERVICES – OPINIONS**

	<b>GOOD</b>	<b>Well controlled with no critical risks identified which require addressing; substantial level of assurance.</b>	<b>Green</b>
	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

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>