

Report

Audit Committee



Part 1

Date: 30 March 2017

Subject Internal Audit – Progress against Unsatisfactory Audit Opinions Previously Issued [to December 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**, 34 audit opinions had been issued; 8 were *Unsatisfactory*, no *Unsound* opinions were issued. This was reported to Audit Committee in June 2016. The Head of Streetscene & City Services was called into Audit Committee in September 2016 to respond to two consecutive Unsatisfactory Audit Opinions relating to CCTV / Security (Telford Depot).

As at 31st December 2016, during **2016/17** 23 audit opinions had been issued; 3 were *Unsatisfactory*, 1 was *Unsound*.

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

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 has now been undertaken with the updated opinions shown in the table in paragraph 9. 3 opinions have subsequently improved.
5. Although follow up audit work had been planned for the 8 unsatisfactory opinions issued in 2015/16, only 2 have actually been followed up. These are shown in the table in paragraph 10. Significant improvements have been made in the 2 areas followed up with 'Good' opinions issued. 3 areas are currently being reviewed and 3 will be carried forward to 2017/18.
6. 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.
7. The 4 areas given an unfavourable audit opinion in 2016/17 will be included in the 2017/18 audit plan and followed up within that year.
8. Definitions of the audit opinions are shown at Appendix B.

History of unfavourable audit opinions

9. In **2014/15**, 34 audit opinions were issued; 5 of which were deemed to be *Unsatisfactory* as shown in the following table. 2 of these have not been followed up for the reasons noted in the table 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) | 2016/17 | Reasonable (Draft - February 2017) |
| Flexible Working and Travel and Subsistence Procedures (Adult Services) | 2016/17 | Not followed up - Changes to flexi administration - T&S inc in Corporate review of T&S |
| CCTV / Security (Telford Depot) (Street Scene) | 2015/16 | Unsatisfactory Final issued 29/06/16 No further follow up to date due to absence of Head of Service and Operational Manager. Planned for 2017/18 |
| Discretionary Charging (Public Protection – Environmental Health) | 2015/16 | Reasonable Finalised |
| SEN Assessments and Out of County Assessments (Education Services) Final | 2016/17 | Reasonable Finalised |

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

| | Revised Opinion / Date of follow up | Current Status |
|--|--|--|
| Partnerships & Planning - Re: Grants to Voluntary Sector Organisations | 2016/17 Q4 | In progress |
| Looked After Children 16+ | 2016/17 Q4 | In progress |
| Kimberley Nursery | 2016/17 Q4 | In progress |
| Ysgol Gymraeg Casnewydd | 2016/17 | Good (Draft - March 2017) |
| Malpas Court Primary - Special | 2015/16 | Good |
| Joint Venture – Newport Norse | 2017/18 | Delay in finalising original report |
| Highways Improvements Contracts – Project Management | 2017/18 | Not yet followed up |
| CCTV / Security Telford Depot – Follow Up | 2014/15 – Unsatisfactory 2015/16 - Unsatisfactory | Unsatisfactory Follow up planned for 2017/18 due to absence of Head of Service and Operational Manager |

11. In **2016/17**, up to 31st December 2016, 23 audit opinions had been issued; 3 were deemed to be *Unsatisfactory*, 1 was *Unsound*; a summary of the significant issues follows the table:

| | Revised Opinion / Date of follow up | Current Status |
|---|--|-----------------------|
| Payment Card Industry Data Security Standards | Unsatisfactory | Final (July 2016) |
| Highways Network Assets Valuation | Unsatisfactory | Final (February 2017) |
| Overtime & On Call Payments - Highways | Unsatisfactory | Draft (December 2016) |
| Agency / Overtime - Refuse (incl. Follow-up) | Unsound | Final (November 2016) |

a) Payment Card Industry Data Security Standards

- The Council cannot easily demonstrate compliance with SAQ C because there is a lack of PCI documentation such as the original assessment and scope of PCI work, relevant payment location information, details of the flow of cardholder data through the network and any detail about the solutions in place for specific control requirements in the SAQ.
- There is no network segmentation between the cardholder data environment (CDE) and the corporate network so the scope of PCI-DSS is increased by requirements potentially relating to the whole network rather than just a smaller (CDE) segment. This is a theme that runs through the audit review, especially within Objective 6.2 where identifying components to test is challenging.
- Several specific requirements reviewed within the audit were found to not be compliant at that point in time. PCI-DSS requires compliance at all times so the Council cannot be deemed compliant while some controls are deficient.

b) Highways Network Assets Valuation

| Ref. | SIGNIFICANT |
|------|---|
| 1.03 | The Highway Asset Management Plan 2009-12 was out of date and not aligned with the Corporate Asset Management Plan and Corporate Plan. Additionally there was no strategic overview to identify the key actions / requirements to ensure compliance with the CIPFA standards. |
| 1.04 | There was insufficient knowledge and understanding about the purpose and impact which the highways network asset valuation has on the financial accounts. |
| 1.05 | There was no guidance or working instructions to ensure officers were consistently providing accurate data and evidence to demonstrate compliance with the CIPFA Code of Practice. |
| 2.02 | Issues were identified with the accuracy of carriageway dimensions and rates used with insufficient evidence to support the carriageway additions. |

| | |
|------|---|
| 2.03 | There was no system in place to accurately record the inventory (including surface type), condition, rates and adoptions of footways and cycle tracks . |
| 2.04 | Issues were identified with the accuracy of the structures access database to record the structure dimensions and condition with further investigation required for the valuation and ownership of assets. |
| 2.05 | No evidence was retained to support the street lighting inventory (incl. additions / disposals) with discrepancies identified between the replacement rates in the valuation and contract. |
| 2.06 | The original reports from Mayrise were not retained to support the illuminated signs inventory (incl. additions / disposals) with discrepancies identified between the valuation rates and contract rates. |
| 2.07 | Issues were identified with the accuracy and quality of the estimated and actual inventory data, rates and additions / disposals of street furniture used in the valuation. |
| 2.08 | There was no effective inventory system to record and manage the traffic signals and other traffic management systems (TMS) valuations with insufficient documentary evidence to support the rates used in the valuation. |
| 2.09 | No land valuation figure was provided for the 2015/16 Highways Network Asset Valuation resulting in the overall valuation being understated. |
| 2.10 | The Highways Network Asset Valuation was not subject to any peer review or verification prior to and after its submission to Accountancy to ensure the valuation is accurate and evidentially supported. |

c) Overtime & On Call Payments – Highways (Draft)

| Ref. | CRITICAL |
|------|--|
| 1.04 | For the period examined it was identified that employees were working in excess of the hours as prescribed by the EU Working Time Directive without formally opting out. |

| Ref. | SIGNIFICANT |
|------|--|
| 1.05 | Signing in / out records were not completed by the Service. Compensatory rest days / TOIL taken by employees was not being recorded. When compensatory rest days / TOIL was taken, this was not deducted from the employee's salary. |
| 1.06 | For the sample examined, hours claimed and paid to employees via timesheets were not always supported by appropriate documentation e.g. Call out reports. |
| 1.07 | For the sample examined, where available, call out reports were not completed in full meaning the additional hours claimed by employees could not be verified. |
| 1.08 | For the period examined, some call outs had been completed without corresponding Duty Officer Work Instructions. |
| 1.09 | For the period examined, a standard call out time of 2hrs was being claimed rather than the employee's actual working time. |
| 1.10 | For the period examined, where multiple call outs appeared to be of a continuous nature, these had not been aggregated and were claimed and paid as separate call outs. |
| 1.11 | For the period examined, on call payments had not been reviewed on an annual basis in line with the Out of Hours policy and employees who worked in excess of 187 hours overtime in a 17 week period were not removed from the on call rota. |
| 1.12 | No meaningful authorisation was being given to employees' timesheets by management prior to payment. Hours claimed on timesheets were sometimes in excess of the maximum hours which could be claimed within the period. |

d) Agency / Overtime - Refuse (incl. Follow-up)

| Ref. | CRITICAL |
|------|--|
| 1.01 | For the period examined, members of refuse staff (both permanent employees and agency employees) were not working their contracted hours even though they were being paid for these. For agency staff alone, this is costing NCC approx. £1,600 per week; the equivalent of £83,000 per annum. |

| Ref. | SIGNIFICANT |
|------|---|
| 1.02 | For the period reviewed, weekday overtime was being claimed by and paid to members of staff (both NCC and agency employees) even though they had not completed their contracted working hours for the week. |
| 1.03 | For the period examined, regular weekend overtime was being paid despite employees not working their contracted hours. |
| 1.04 | At the time of the review, office based staff such as Supervisors and the Assistant Manager (Refuse) did not deduct lunch breaks from their daily working hours as required. There was also no evidence to confirm that drivers and loaders deducted any lunch / breaks from their daily working hours. |
| 1.05 | The signing in / out records at the site continued to be inadequate with no arrival times recorded. The records were not always fully completed. |
| 1.06 | For the period examined, high levels of overtime continued to be paid to the Refuse Supervisors (Grade 6) and the Assistant Manager (Grade 8). |
| 1.07 | From a review of the 'Manning Book' and the signing in / out records a number of unreported sickness absences were identified. |
| 1.08 | The hours worked by employees detailed in the 'Manning Book' were not always consistent with those recorded on the paid timesheets. |
| 1.09 | For the period reviewed, agency staff were being paid but not always being recorded on the 'Manning Book'. |
| 1.10 | For the period reviewed, the use of agency staff by the refuse service was high and some agency had worked for the service for over 2 years. |

12. 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.
13. 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.
14. 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.
15. 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

16. No direct financial implications for this report.
17. 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.
18. 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.
19. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.
20. Risk table – N/A for this report
21. 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

22. Not applicable

Comments of Chief Financial Officer

23. This report is compiled on behalf of the Head of Finance. Areas of unsatisfactory / unsound audit opinions are a concern and in particular for 2016/17, those affecting significant amount of money in overtime/on-call arrangements. 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

24. 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

25. 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

26. 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) Unsatisfactory (April 2016) Good (March 2017) - Draft |
| Recruitment & Selection (July 2012) | People & Transformation | Good (Feb 2014) |

INTERNAL AUDIT SERVICES – OPINIONS

- The Internal Audit team has revised 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 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 |