

Report

Audit Committee

Part 1

Date: October 2019

Item no: 7

Subject **Call in of Head of Service following Unfavourable Internal Audit Opinions.**

Purpose To allow Members of the Audit Committee to discuss, with the Chief Education Officer their concerns raised in the Internal Audit review of:

- School Trips & Visits (Evolve System)

and to gain assurances that action will be taken to improve the internal controls in operation and agree how to follow up implementation of actions

Author Chief Internal Auditor

Ward General

Summary Following the presentation of the Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee agreed to escalate their concerns to the Chief Education Officer and call them in to provide reasons why the controls were poor and provide assurances that action will be taken to make the necessary improvements. This was in relation to a consecutive unfavourable audit opinion in relation to:

- School Trips & Visits (Evolve System)

Proposal

- 1) To review and assess proposed actions and come to a view if they are robust and deliverable and will address the issues identified satisfactorily within reasonable timescales.
- 2) To ensure the Chief Education Officer takes responsibility for implementing the proposed actions.
- 3) Agree that Internal Audit will carry out further follow up work in this area by the end of 2019/20 and report the resulting outcome back to Audit Committee.
- 4) The Audit Committee is asked to note the assurances given by the Chief Education Officer that improvements will be made to the service provided by the implementation of the agreed management actions so that the further Internal Audit follow up review will result in a more positive audit opinion.

Action by	Audit Committee
Timetable	Immediate

Background.

1. An internal audit review is undertaken to provide assurances (or otherwise) that appropriate internal controls, governance arrangements and risk management processes are in place to safeguard the Council's assets, to ensure the proper use of public money and that it has been used effectively, efficiently and economically, that fraud, error and misappropriation has been minimised and overall risks have been reduced.
2. Following the presentation of Internal Audit's six monthly update on unfavourable audit opinions in June 2019, Members of the Audit Committee were concerned that issues identified in the original report of School Trips and Visits (Evolve system) were not fully addressed by the time the auditors undertook a follow up audit review of the same system.
3. The timeline for the Internal Audit reviews was as follows:

	<u>Date of Fieldwork</u>	<u>Draft Report Issue Date</u>	<u>Final Report Issue Date</u>	<u>Audit Opinion</u>
Original Report	October 2018 – February 2018	March 2018	March 2018	Unsatisfactory
Follow up Report	March 2019	March 2019	May 2019	Unsatisfactory

4. The issues identified during the course of the audits highlighted a continued lack of internal control and exposed the Council to an unacceptable level of risk. The table below detail the significant outstanding weaknesses identified during the review; the agreed comments / actions provided by the Senior Operational Managers are shown at Appendix B.
5. A further follow up audit will be undertaken during 2019/20 with the subsequent audit opinion being reported back to Audit Committee in due course.
6. The following table shows how many original weaknesses were addressed by the implementation of the agreed management actions:

Original Weakness Rating	No. of Original Weaknesses	No. of Weaknesses Partially Addressed	No. of Weaknesses Fully Addressed	No. of Outstanding Weaknesses
Significant	7	4	0	6
Moderate	6	Not tested	Not tested	1*

** - There was 1 significant weakness which has been reclassified as moderate because of the actions taken by Management in addressing the weakness.

7. The weaknesses still outstanding (not addressed) at the time the audit follow up review was undertaken were as follows:

	No critical weaknesses were identified during this audit.
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Ref.	SIGNIFICANT
1.05	The agreement in place with the third party Outdoor Education Adviser had not been reviewed and no formal agreement had been implemented. The current version of the agreement was also non-compliant with GDPR requirements.
1.07	Educational Visits Coordinator (EVC) training had not been received or renewed in the past 3 years for the majority of the schools in line with the Outdoor Education Advisory Panel's National Guidance.
1.08	Despite the annual review exercise carried out by Central Education, a number of inappropriate accounts remained present on the EVOLVE system.
1.09	The current engagement with the Outdoor Educational Adviser remains non-compliant with off-payroll, working through an intermediary, (IR35) regulations.
2.10	Trips and Visits categorised as adventurous, residential and overseas were not always submitted by the School's Education Visits Coordinator / Headteacher 28 days prior to the visit taking place, in accordance with the instruction issued by the Chief Education Officer.
2.11	Trips had taken place without required Local Authority approval, these were not reported to the Education Senior Management Team.

Ref.	MODERATE
1.06	The process of demonstrating compliance with Contract Standing Orders in relation to the engagement of the Outdoor Educational Adviser was incomplete. The Excepted Contracts form required signing by the Chief Education Officer at the time of the review.

8. The timeline for the Internal Audit reviews was as follows:

	<u>Date of Fieldwork</u>	<u>Draft Report Issue Date</u>	<u>Final Report Issue Date</u>	<u>Audit Opinion</u>
Original Report	October 2018 – February 2018	March 2018	March 2018	Unsatisfactory
Follow up Report	March 2019	March 2019	May 2019	Unsatisfactory

9. A further follow up audit will be undertaken during 2019/20 with the subsequent audit opinion being reported back to Audit Committee in due course.

10. 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. Generally, the audit 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.
11. NCC 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.
12. 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.
13. 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.
14. 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.
15. 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

Financial Summary

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

Risks

17. If the issues identified in the audit reports are not addressed then weaknesses in the control environment will continue which could expose the Council to a potential risk of non-compliance, fraud, error or misappropriation.

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?
Issues not addressed by implementation of agreed management actions	M	M	Management have agreed what they should do to address the identified weakness; this needs to be implemented.	Heads of Service

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

18. 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

19. This is a factual progress report and therefore there are no specific options to be considered. Internal Audit team assess 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.
20. The Audit Committee is asked to note the assurances given by the Chief Education Officer that improvements will be made to the service provided by the implementation of the agreed management actions so that the further Internal Audit follow up review will result in a more positive audit opinion.

Comments of Chief Financial Officer

21. This report is compiled on behalf of the Head of Finance. It is important that the Audit Committee review proposed actions thoroughly and come to a conclusion on whether improvements will be realised, within a reasonable timescale. It will be essential that Internal Audit carry out the follow up audit sometime in 2019/20 in this area and ensure controls have improved to satisfactory levels and this will provide the Committee's future assurance in this area.

Comments of Monitoring Officer / Head of Law & Regulation

22. The Report has been prepared in accordance with the Council's internal audit procedures and Performance Management framework. It will be important to review the adequacy of the proposed management actions to address the identified risks within acceptable timescales. In particular, critical risk areas will need to be addressed as a matter of priority.

Comments of Head of People and Business Change

23. The report highlights areas for concern within the Education Service.. The Committee is being asked to consider whether the actions outlined and progress to date are satisfactory. Internal

Audit provides 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.

The Chief Internal Auditor has considered the sustainable development principle as required by the Wellbeing of Future Generations Act (2015).

Comments of Cabinet Member

24. Not applicable

Local issues

25. N/A

Scrutiny Committees

26. N/A

Equalities Impact Assessment and the Equalities Act 2010

27. 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.
28. As this is not a decision making report there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

Children and Families (Wales) Measure

29. N/A

Wellbeing of Future Generations (Wales) Act 2015

30. 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
- 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 internal control environment in operation and support sound stewardship of public money.
 - Collaboration: Internal Audit work 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.

Crime and Disorder Act 1998

31. 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

32. N/A

Background Papers

33. N/A

Dated:


Appendix A

INTERNAL AUDIT SERVICES – RISK RATINGS / AUDIT OPINIONS

- The following ratings have been applied to the individual weaknesses identified during the follow up audit

RATING	DESCRIPTION
CRITICAL	Major risk to the system.
SIGNIFICANT	Unacceptable risk.
MODERATE	Risk partially mitigated but should still be addressed.

- 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.

	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

Agreed Action Plan

Control Objective 1: Arrangements are in place for adequate monitoring of school trips & visits and the Evolve system by NCC staff. An adequate contract is in place with the third party school trip adviser and appropriate training is provided to both central and school based staff.					
Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
1.05	<p>Original Weakness: A formal contract agreement was not in place with the third party Outdoor Education Adviser. The letter of engagement did not include an end date or a review schedule. Some of the tasks detailed in the letter of engagement were not being performed and some key areas regarding information security requirements were not included.</p> <p><i>(Significant)</i></p> <p>Agreed Management Action: We have met with the Employment Services Manager regarding the employment status of the Outdoor Education Adviser. Discussions are ongoing on this subject, including with colleagues in a neighbouring LA, and this weakness will be fully addressed once this issue has been resolved.</p> <p>With regard to information</p>	<p><u>Not Implemented</u></p> <p>Outstanding Weakness: The agreement in place with the third party Outdoor Education Adviser had not been reviewed and no formal agreement had been implemented. The current version of the agreement was also non-compliant with GDPR requirements.</p> <p><i>(Significant)</i></p>	Options for future service delivery are currently being considered, a formal agreement will be established once a decision has been made. The agreement will be drawn up in consultation with HR, Corporate Procurement, Information Management and colleagues in Legal. The agreement shall include relevant terms and conditions of the engagement and will comply with GDPR.	Service Manager, Resources & Planning (DW)	September 2019

Control Objective 1: Arrangements are in place for adequate monitoring of school trips & visits and the Evolve system by NCC staff. An adequate contract is in place with the third party school trip adviser and appropriate training is provided to both central and school based staff.

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
	<p>security, we are pursuing the use of Egress for transferring data.</p> <p>Implementation Date: September 2018</p>				
1.06	<p>Original Weakness: The engagement process of appointing the third party adviser was not in line with Contract Standing Orders. There is no evidence to prove that the Local Authority is receiving the most appropriate service or obtaining value for money.</p> <p>(Significant)</p> <p>Agreed Management Action: The decision to engage the Outdoor Education Adviser was taken following discussions with a neighbouring LA who was already procuring the service in this way.</p> <p>The Employment Services Manager has confirmed that it would be difficult to change the arrangements at this stage; however we are mindful of the procedures that should be followed at the appropriate time.</p>	<p><u>Partially Implemented</u></p> <p>Outstanding Weakness: The process of demonstrating compliance with Contract Standing Orders in relation to the engagement of the Outdoor Educational Adviser was incomplete. The Excepted Contracts form required signing by the Chief Education Officer at the time of the review.</p> <p>(Moderate)</p>	<p>Excepted Contract Form was signed by the Chief Education Officer and submitted to Procurement on the 28th March 2019.</p> <p>Procurement arrangements with the service provider to be reviewed and revised as per W1.05 above.</p>	<p>Service Manager, Resources & Planning (DW)</p> <p>Service Manager, Resources & Planning (DW)</p>	<p>Implemented</p> <p>September 2019</p>

Control Objective 1: Arrangements are in place for adequate monitoring of school trips & visits and the Evolve system by NCC staff. An adequate contract is in place with the third party school trip adviser and appropriate training is provided to both central and school based staff.

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
	<p>Implementation Date: September 2018</p>				
1.07	<p>Original Weakness: At the time of the review, a number of schools had not received Educational Visit Co-ordinator (EVC) training in the last three years. No central records were maintained to highlight schools requiring training.</p> <p><i>(Significant)</i></p> <p>Agreed Management Action: This has now been addressed and a central record of training has been introduced and will be maintained.</p> <p>Implementation Date: March 2018 / On-going</p>	<p><u>Partially Implemented</u></p> <p>Outstanding Weakness: Educational Visits Coordinator (EVC) training had not been received or renewed in the past 3 years for the majority of the schools in line with the Outdoor Education Advisory Panel's National Guidance.</p> <p><i>(Significant)</i></p>	<p>The Education Policy Officer has now implemented and will be maintaining a central record of training received.</p> <p>The provision of training to all Schools and the associated record keeping to be included in the agreement with the service provider going forward from Sep 2019.</p>	<p>Education Policy Officer (NLT)</p> <p>Service Manager, Resources & Planning (DW)</p>	<p>Implemented / Ongoing</p> <p>September 2019</p>
1.08	<p>Original Weakness: An overview of the Evolve System's users identified that former employees of the Local Authority still had active accounts on the system. Users of the system were also able to amend</p>	<p><u>Partially Implemented</u></p> <p>Outstanding Weakness: Despite the annual review exercise carried out by Central Education, a number of</p>	<p>An annual review of the system had taken place. This will be supported with a termly reminder to Schools to notify / remove leavers from the system.</p>	<p>Education Business Manager (CG)</p> <p>Education Policy Officer</p>	<p>June 2019 / Termly</p>

Control Objective 1: Arrangements are in place for adequate monitoring of school trips & visits and the Evolve system by NCC staff. An adequate contract is in place with the third party school trip adviser and appropriate training is provided to both central and school based staff.

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
	<p>their personal details without an audit trail in place to identify the changes made.</p> <p><i>(Significant)</i></p> <p>Agreed Management Action: This has now been addressed and will now be monitored on a termly basis. Schools will be reminded of the need to advise the LA of any changes as and when they occur.</p> <p>Implementation Date: March 2018 / Termly monitoring</p>	<p>inappropriate accounts remained present on the EVOLVE system.</p> <p><i>(Significant)</i></p>		(NLT)	
1.09	<p>Original Weakness: The current engagement with the Outdoor Educational Adviser is not complying with off-payroll, working through an intermediary, (IR35) regulations.</p> <p><i>(Significant)</i></p> <p>Agreed Management Action: We have met with the Employment Services Manager regarding the employment status of the Outdoor Education Adviser.</p>	<p><u>Not Implemented</u></p> <p>Outstanding Weakness: The current engagement with the Outdoor Educational Adviser remains non-compliant with off-payroll, working through an intermediary, (IR35) regulations.</p> <p><i>(Significant)</i></p>	Currently, options for future service delivery are being considered. We will ensure that where relevant IR35 regulations will be complied with.	Service Manager, Resources & Planning (DW)	September 2019

Control Objective 1: Arrangements are in place for adequate monitoring of school trips & visits and the Evolve system by NCC staff. An adequate contract is in place with the third party school trip adviser and appropriate training is provided to both central and school based staff.

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
	Discussions are ongoing on this subject, including with colleagues in a neighbouring LA. Implementation Date: September 2018				

Control Objective 2: Trips and visits undertaken by schools are promptly and correctly recorded onto the Evolve system with the required supporting documentation submitted. All trips undertaken have the appropriate approval prior to the activity taking place.

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
2.10	<p>Original Weakness: For the sample reviewed, not all trips and visits were submitted by the School's Educational Visits Coordinator (EVC) on the Evolve system at least 28 days prior to the event in line with the Education Visits Policy 2016/17.</p> <p><i>(Significant)</i></p> <p>Agreed Management Action: Schools will be reminded of their responsibilities within the agreed Trips and Visits policy.</p> <p>Implementation Date: March 2018</p>	<p><u>Partially Implemented</u></p> <p>Outstanding Weakness: Trips and visits categorised as adventurous, residential and overseas were not always submitted by the School's Education Visits Coordinator / Headteacher 28 days prior to the visit taking place, in accordance with the instruction issued by the Chief Education Officer.</p> <p><i>(Significant)</i></p>	<p>The Educational Visits Policy 2018/19 was sent to the Education Achievement Service (EAS) on the 15th March 2019 to be included on all Schools Full Governing Body Agenda during the summer term.</p> <p>The provision of training and monitoring compliance with the policy will be outlined in the revised agreement once options for future service delivery have been considered and agreed.</p>	<p>Service Manager, Resources & Planning (DW)</p> <p>Service Manager, Resources & Planning (DW)</p>	<p>Implemented</p> <p>September 2019 / on-going</p>

Control Objective 2: Trips and visits undertaken by schools are promptly and correctly recorded onto the Evolve system with the required supporting documentation submitted. All trips undertaken have the appropriate approval prior to the activity taking place.

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
2.11	<p>Original Weakness: The Local Authority has insufficient resource and knowledge to confirm that all school trips and visits have been recorded on the Evolve system. Reliance is solely placed on a third party to highlight any issues or anomalies on the system.</p> <p><i>(Significant)</i></p> <p>Agreed Management Action: Headteachers are required to act in accordance with the agreed policy to ensure all trips are recorded onto the Evolve system. Arrangements will be made for the 2018-20 policy to be added to the agenda for all governing bodies to consider and agree adoption. At the time of engagement, the Local Authority did not have sufficiently skilled resources to enable the overseeing function to be carried out internally, and therefore after consulting with colleagues in neighbouring authorities, an external consultant</p>	<p><u>Partially Implemented</u></p> <p>Outstanding Weakness: Trips had taken place without required Local Authority approval, these were not reported to the Education Senior Management Team.</p> <p><i>(Significant)</i></p>	<p>Ensure that management report expectations are set out in any future service provision agreement.</p> <p>Revise the Education Policy Officer's job description to include administration and monitoring of the Evolve system.</p> <p>Explore what reports are available from the Evolve system to give the Authority more oversight of the trips and visits taking place, including those not approved by the Outdoor Education Advisor.</p>	Service Manager, Resources & Planning (DW)	September 2019 / on-going

Control Objective 2: Trips and visits undertaken by schools are promptly and correctly recorded onto the Evolve system with the required supporting documentation submitted. All trips undertaken have the appropriate approval prior to the activity taking place.

Original Report Ref.	Original Weakness & Agreed Management Action	Status, Findings & Outstanding Weakness	Further Management Action to Address Outstanding Weakness	By Who	By When
	<p>was procured. This remains the case, and therefore if this arrangement was to cease, an alternative external provider would be sought.</p> <p>Implementation Date: July 2018</p>				