

# Report

## Audit Committee

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### Part 1

Date: 28 January 2021

Item No: 5

### **Subject Internal Audit – Progress against audit plan 2020/21 Quarter 3**

**Purpose** To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2020/21 agreed audit plan for the first 9 months of the year by providing 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 progress against the 2020/21 audit plan and internal performance indicators although the agreed revised plan only took effect from October 2020 due to the impact of the Covid-19 pandemic.

Covid-19 has significantly impacted on Internal Audit and its ability to deliver the original full year plan. Corporately the focus was on delivering essential front line services to deal with the pandemic. The Internal Audit team supported the business grants process and undertook extensive counter fraud work whilst the majority of the regularity audits were put on hold for an interim period.

The original audit plan was based on 1208 audit days; the revised audit plan was based on 626 audit days.

**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

**Signed**

## **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 9 months of the year will be reported along with the performance of the team for that period.
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 8 audit staff. At the start of the year there were 7 audit staff in the team.
4. In order to take account of the budget savings contribution and the delayering exercise required by senior management following the job evaluation exercise, the Internal Audit team was restructured and reduced in numbers in 2016/17.
5. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

### Public Sector Internal Audit Standards (PSIAS)

6. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 (updated March 2017) which the team needs to ensure it is compliant with as it carries out work in line with the Audit Plan. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).
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 S 151 Officers of local authorities in Wales. Newport's peer review took place in 2017/18; the outcome being that the team is generally compliant with the Standards, with no significant areas of non-compliance; this is the highest standard of compliance.

### Audit Plan & The Impact of Covid-19

8. The revised 2020/21 Audit Plan was agreed by the Audit Committee on the 28<sup>th</sup> September 2020. This was originally based on 1208 audit days with 65 opinion related jobs; the revised plan is based on 626 audit days with 50 opinion related audit jobs.
9. The pandemic struck Wales mid February, early March 2020. The majority of Council staff were advised to work from home from the 18th March 2020, where they could. This meant the Internal Audit Team had to change the way it operated for the year end and for the start of the new financial year.
10. We were unable to complete all work as planned as service areas re-prioritised their staff and workloads, staff became unavailable, meetings and site visits were cancelled and requests came in to postpone ongoing audit work. Currently we are experiencing some delays in obtaining information from service areas as not all relevant records are stored digitally.

11. Generally in Q1 of our audit plan the team are finalising reports in draft at year end, completing audit jobs which were ongoing at year end but draft reports had not been issued, picking up carried forward jobs from the previous year and starting new year audit jobs. In order to undertake audit work effectively and efficiently we need the co-operation of service managers and the staff in their service areas to accommodate site visits, meetings and provide relevant documentation; as a result of “Lockdown” services were re-prioritised and some staff deployed to support front line service provision. Key staff were therefore not available for audit work to be completed which meant the Internal Audit service was effectively put on hold.
12. Internal Audit staff are working from home. This move happened at pace in March 2020. Although we did manage to move some reports forward we could not undertake our audit work in line with the original audit plan. In early April, Internal Audit staff also got redeployed to support the payment of business rates grants; extensive counter fraud work was undertaken in relation to these grants. Other counter fraud work was also undertaken along with completion of special investigation work.
13. In 2019/20 external resources were brought in to undertake audit jobs which could not be completed in house due to a vacancy or long term illness. This support has continued into 2020/21 to ensure appropriate audit coverage in the year.

#### Performance

14. 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 some 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; there have also been a few unplanned reviews.
15. 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.
16. The performance for Quarter 3 2020/21 is summarised below with the detail shown at **Appendix A:**
  - a. 42% of the original audit plan has been achieved so far
  - b. The promptness of issuing draft reports (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 6 days, well within the target time of 10 days;
  - c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 2 days which is well within the target time of 5 days.
17. Coverage of the plan at this stage of the year is lower than expectations due to the impact of Covid-19. This year will depend on sufficient audit resources being available to complete the audit plan.
18. 2019/20 audit reviews have been finalised where possible, 10 out of 11.

19. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire. The team took on additional external professional support to enable it to achieve the 2019/20 audit plan and carried this through to 2020/21.
20. 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. Some planned work may be deferred by service managers to either later in the year or the following financial year.
21. From time to time the team does get involved with non-planned audit work which often results in special investigations.

#### Quality Control

22. 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. Generally, there has been positive feedback from service managers via these questionnaires; this will continue to be collated throughout the year and fed into the annual audit report for 2020/21.

#### Financial Training

23. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders will be offered to all service areas. An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self-nomination basis, quarterly, as part of the Corporate Training Programme. Feedback from staff who have previously attended courses has been positive. 2 training sessions have been held so far this year, via MS Teams, with others planned.

#### Audit Opinions 2020/21

24. Audit opinions issued so far in 2020/21 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix D**.
25. 12 jobs completed to at least draft report stage by 31 December 2020 warranted an audit opinion:

- 3 x *Good*,
- 8 x *Reasonable*,
- 1 x *Unsatisfactory*.

In addition, 5 grant claim audits have been undertaken during the year:

- 3 were *Unqualified*
- 2 were *Qualified*.

Other work completed related to the Annual Governance Statement, National Fraud Initiative (NFI), Covid-19 Business Grants, iTrent System Developments, School Deficit budget Project and

provision of financial advice (**Appendix C**). Of the 11 audits in draft at the year end (31/3/20) 10 have also been finalised.

26. 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

27. 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.
28. 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

29. 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**

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

#### **Risks**

31. If the plan is not completed due to a lack of resource in the team, the Chief Internal Auditor may have to qualify his year end assurance opinion provided to the Audit Committee.

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	L	Passed potential management issues back to management ; Will take on interim external support to cover long term vacancy	Chief Internal Auditor

\* Taking account of proposed mitigation measures

## **Links to Council Policies and Priorities**

32. 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**

33. This is a factual progress report and therefore there are no specific options to be considered. The quarterly reports provide a mechanism for monitoring the performance and progress of the Internal Audit team and the adequacy of the Council's internal control environment to ensure the public pound is spent wisely and appropriately and that fraud, theft and corruption is minimised.
34. 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**

35. N/A

## **Comments of Chief Financial Officer**

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

## **Comments of Monitoring Officer**

37. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework. The progress made to date in delivering the objectives set out in the approved Audit Plan highlights the effectiveness of the work undertaken by this service area in ensuring that adequate and effective internal financial controls are in place.

## **Comments of Head of People and Business Change**

38. As part of the Well-being of Future Generations Act (2015) and its corporate governance arrangement it is necessary to ensure that the Council's functions are operating effectively and efficiently to manage its governance, internal control and risk management arrangements in the delivery of the Corporate Plan and its statutory duties. This report presents a review of the Internal Audit activity during the period concerned and the outcomes of completed audit reviews. There are no direct human resources impact from this report.

## **Comments of Cabinet Member**

39. N/A

## **Local issues**

40. N/A

## **Scrutiny Committees**

41. N/A

## **Equalities Impact Assessment and the Equalities Act 2010**

42. 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.

43. As this is a progress report on performance and audit opinions there is no need for an Equalities Impact Assessment. All audits are undertaken in a non-discriminatory manner.

## **Children and Families (Wales) Measure**

44. N/A

## **Wellbeing of Future Generations (Wales) Act 2015**

45. The role of Internal Audit supports the Council in complying with the principles of the Wellbeing Act and providing assurance on the activities undertaken across the Council. In compiling this report the principles of this Act have been considered:

**Long term** - The Internal Audit workload is based on an annual operational plan supported by a 5 year strategic plan that is aligned to the Council’s Corporate Plan.

**Prevention** - Internal Audit identify strengths and weaknesses within the control environment of Newport City Council; addressing the weaknesses gives management the opportunity of preventing gaps in service provision getting worse. This should also minimise the potential for fraud, theft, loss or error.

**Integration** - Internal Audit opinions provide an objective opinion on the adequacy of the Council’s corporate governance, internal control and risk management environment in operation and support sound stewardship of public money.

**Collaboration** - Internal Audit work with delivered in collaboration with operational managers to develop an appropriate action plan in order to address identified concerns.

**Involvement** - Heads of Service and Senior Managers are invited to contribute to the audit planning process each year in order to prioritise audit resources. The involvement of the Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

## **Crime and Disorder Act 1998**

46. 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**

47. N/A

## **Background Papers**

48. N/A

Dated:

## Appendix A

### Newport City Council Internal Audit Service Performance Indicators

<b>2019/20</b>	2019/20 Target	1 <sup>st</sup> Qtr 19/20	2 <sup>nd</sup> Qtr 19/20	3 <sup>rd</sup> Qtr 19/20	4 <sup>th</sup> Qtr 19/20	Comments
Proportion of planned audits complete	82%	18%	33%	51%	76%	[Profiled Target Qtr 2: 30%]
Directly chargeable time against total time available	50%	58%	54%	54%	58%	Quarterly performance
Directly chargeable time against planned	100%	86%	80%	72%	88%	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	8	0	3	4	7	Cumulative figures
Staff turnover rate (number of staff)	0	0	0	0	0	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	1 day	6 days	5 days	5 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	1 day	2 day	2 day	Cumulative figures

<b>2020/21</b>	2020/21 Target	1 <sup>st</sup> Qtr 20/21	2 <sup>nd</sup> Qtr 20/21	3 <sup>rd</sup> Qtr 20/21	4 <sup>th</sup> Qtr 20/21	Comments
Proportion of planned audits complete	82%	N/A	24%	42%		[Profiled Target N/A]
Directly chargeable time against total time available	50%	N/A	N/A	N/A		Quarterly performance
Directly chargeable time against planned	100%	N/A	N/A	N/A		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	N/A	N/A	N/A		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	8	N/A	1	2		Cumulative figures
Staff turnover rate (number of staff)	0	N/A	0	0		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	N/A	3 days	6 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	N/A	2 days	2 days		Cumulative figures

**Appendix B**  
**Opinions as at 31 December 2020, Qtr 3**

Good	3
Reasonable	8
Unsatisfactory	1
Unsound	0
Total	12

**Internal Audit Services - Management Information for 2020/21 Q3**

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Draft / Final	Opinion given
P2021-P3	CE	Finance	Income Collection	Council Tax	High	Finalised	Good
P2021-RP1	CE	Finance	Accountancy	Main Accounting System	Medium	Finalised	Good
P2021-RP5	Place	City Services	Environment & Leisure	Parks & Outdoor Recreation	Medium	Finalised	Good
P2021-P2	CE	Finance	Accountancy	Schools Finance	High		Reasonable
P2021-P14	CE	People & Bus Change	Human Resources	Recruitment & Selection	High	Finalised	Reasonable
P2021-P49	Place	RI&H	Development Services	Planning Applications	Medium		Reasonable
P2021-P59	Place	City Services	Environment & Leisure	Grounds Maintenance (Follow-Up)	High		Reasonable
P2021-RP2	CE	Law & Regulation	Legal	Corporate Admin Team	Medium	Finalised	Reasonable
P2021-RP4	Place	RI&H	Culture, Libraries & Community Learning	Museum & Art Gallery	Medium	Finalised	Reasonable
P2021-RP7	People	Education Serv	Inclusion	Additional Learning Needs	High		Reasonable
P2021-RP8	People	Education Serv	Inclusion	Bridge Achievement Centre (Follow-Up)	Medium	Finalised	Reasonable
P2021-RP3	CE	Law & Regulation	Public Protection	Newport City Dogs Home	Medium	Finalised	Unsatisfactory

Job number	Group	Service Area	Section or Team	Job Title	Risk Rating / Priority	Draft / Final	Opinion given
P2021-P33	People	Adult & Comm Serv	Service Development & Commissioning	Supporting People Programme Grant (Finances)	Medium	Finalised	Unqualified
P2021-P34	People	Adult & Comm Serv	Service Development & Commissioning	Homelessness Prevention Grant (Rough Sleeping)	Medium	Finalised	Unqualified
P2021-P45	CE	Law & Regulation	Public Protection	Scambusters Grant Claim (2019/20)	Medium	Finalised	Unqualified
P2021-P72	People	Education Serv	Education Grants	Education Improvement Grant (SIG) 2019/20	Medium	Finalised	Qualified
P2021-P73	People	Education Serv	Education Grants	Pupil Deprivation Grant 2019/20	Medium	Finalised	Qualified

## Appendix C

### Non Opinion work 2020/21 Q3

Job number	Group	Service Area	Section or Team	Job Title
P2021-P7	CE	Finance	General	Annual Governance Statement
P2021-P9	CE	Finance	General	Financial Advice
P2021-P20	CE	People & Bus Change	General	Financial Advice
P2021-P21	CE	People & Bus Change	General	Financial Regulations Training
P2021-P29	People	Children & Young People Serv	General	Financial Advice
P2021-P37	People	Adult & Comm Serv	General	Financial Advice
P2021-P46	CE	Law & Regulation	General	Financial Advice
P2021-P54	Place	RI&H	General	Financial Advice
P2021-P65	Place	City Services	General	Financial Advice
P2021-P86	People	Education Serv	General - Schools	Deficit Budget Project
P2021-P88	People	Education Serv	General	Financial Advice
P2021-RP9	CE	Finance	Income Collection	Covid-19 Business Rate Grants & Fraud Prevention
P2021-RP11	CE	People & Bus Change	Human Resources	iTrent System Development

## Appendix D

### INTERNAL AUDIT SERVICES – OPINION DEFINITIONS

	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

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>