

# Report

## Governance and Audit Committee

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### Part 1

Date: 30 May 2024

**Subject** Internal Audit Annual Report 2023/24

**Purpose** To inform the Members of the Council's Governance and Audit Committee of:

- i) the overall opinion on the internal controls of the City Council for 2023/24;
- ii) Internal Audit's progress against the agreed audit plan;
- iii) Internal Audit's performance against local performance indicators.

**Author** Interim Chief Internal Auditor

**Ward** General

**Summary** Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

This report has been prepared in accordance with the Public Sector Internal Audit Standards. It gives an overall opinion on the adequacy and effectiveness of the City Council's internal controls during 2023/24, which was **Reasonable** - *There is a general sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.* The overall opinion has been based on the approved Internal Audit plan 2023/24 (May 2023).

The report also highlights the performance of the Internal Audit Section and whether its key targets in the year were met. 79% of the approved audit plan was completed for the year.

**Proposal** That the Annual Internal Audit Report 2023/24 and overall Audit Opinion be noted and endorsed by the Council's Governance and Audit Committee

**Action by** The Governance and Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People, Policy & Transformation

**Signed**

## Background

1. Internal Audit is an independent, objective, assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.
2. In line with the Public Sector Internal Audit Standards, this is the Chief Internal Auditor's formal annual report to the Council which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment; a summary of the work completed during the year and the performance of the Internal Audit team.

### Overall Audit Opinion

3. The level of assurance that can be placed on the internal controls operating effectively for 2023/24 is "**Reasonable**" (**Appendix A**).

4. The opinion for the internal controls operating within the Council in 2023/24 is:

We have undertaken our internal audit work for the year ending 31/03/2024 in accordance with the audit plan agreed by the Head of Finance and approved by the Council's Governance & Audit Committee on 30<sup>th</sup> May 2023. The plan was designed to ensure adequate coverage over the year of the Council's accounting and operational systems.

Our audit work included reviews, on a sample basis, of each of these systems / establishments sufficient to discharge the Head of Finance's responsibilities under section 151 of the Local Government Act 1972 and The Accounts and Audit (Wales) Regulations 2014. The opinion is based upon the work undertaken. We planned and performed our work to obtain the information necessary to provide us with sufficient evidence to provide assurance of the internal control systems tested.

The audit work undertaken was in line with the audit plan for 2023/24. Based on this work, in my view the internal controls in operation are **Reasonable**.

Dan Newens  
Interim Chief Internal Auditor  
May 2024

### Audit Opinions Issued

5. The definition of the audit opinions used are shown within **Appendix A**. The opinion terminology used aligns to those suggested by CIPFA.
6. The opinions given to individual audit reviews are shown within **Appendix B**.
7. The 2023/24 Internal Audit Plan included 48 new opinion related jobs, as well as 13 ongoing opinion jobs from 2022/23, and a number of non-opinion jobs (such as Financial Advice to Service Areas and Financial Regulations Training).

8. The following outcome against delivery of the plan can be noted:
- All 13 jobs ongoing from 2022/23 completed.
  - 33 opinion jobs from the 48 new 2023/24 jobs completed.

9. In summary the following opinions were issued in 2023/24:

	2023/24	%
<b>Substantial</b>	16	35
<b>Reasonable</b>	16	35
<b>Limited</b>	4	9
<b>None</b>	0	0
<b>Other</b>	10	21
<b>Total</b>	46	100

10. Given the mid-year position faced for Internal Audit delivery due to resource challenges, this represents a positive year end outcome, comparable with delivery from previous years.
11. With regards to the audit opinions provided within the 2023/24 reviews, overall the outcomes have been positive, with a large number of Substantial and Reasonable opinions provided. The following adverse (Limited) opinions are noted:
- Private Sector Housing (HMO)
  - Asylum Seekers Imprest Account
  - Adoption Allowances Follow Up #2
  - PTU Follow Up #1 (note that since this, Follow Up #2 has been performed and a Substantial audit opinion provided).
12. The 10 reviews listed as 'Other' are as follows:
- 4 Grant certifications, each with unqualified opinions provided.
  - 3 Control Risk Self-Assessments, none of which identified any critical risks.
  - 3 consultancy type reviews. Given that the Housing Service Area has been undergoing a period of change, it was agreed that 2 of the reviews in their area (Private Sector Leasing & Vulnerable Persons Resettlement Scheme) would be delivered as consultancy reviews. These reviews are designed to support the area with making progress and are therefore likely to require further audits in the future. The third consultancy review listed was the National Fraud Initiative (NFI), see *Counter Fraud Arrangements* section below.
- Whilst they do not carry the same opinion terminology as the majority of the reviews undertaken, these 10 'Other' reviews still provide a level of assurance (or otherwise) and therefore are utilised when forming the annual opinion.
13. A further 4 opinion jobs from the 48 new 2023/24 jobs have fieldwork ongoing. These will be completed within quarter 1 of 2024/25 and therefore will form part of the 2024/25 annual opinion. The remaining 11 jobs, each of which were not started, have been considered as part of the 2024/25 planning process and form part of the agreed 2024/25 Audit Plan.
14. As a result of the resource issues faced within Internal Audit, the level of non-opinion work delivered had to be reduced, to enable available resources to focus upon the delivery of opinion audits. Nonetheless, it was still possible to undertake 6 Financial Regulations training sessions during the year. The full programme has been reinstated for 2024/25.

### Additional Resource

15. In order to ensure suitable coverage of the audit plan, external resource was brought in from SWAP Internal Audit Services (SWAP) to undertake specific audits and also to perform the Interim Chief Internal Auditor role. This relationship continues into 2024/25.

### Implementation of Agreed Management Actions

16. During the year the team sought assurance from operational managers that previously agreed management actions to improve the internal control environment and reduce the level of risk had been implemented. Based on the operational manager's feedback, 96% of agreed management actions had been implemented.
17. There are insufficient resources within the audit team to follow up on all audit reports issued to test and confirm that all of the agreed management actions have been implemented at an operational level. The implementation of agreed management action performance reported above is primarily based on managers feedback on this. The Internal Audit team therefore have to rely on managers to provide accurate feedback on whether or not they have implemented the actions they agreed. This current process is currently being reviewed, to determine whether changes can be made to enable greater assurance to be placed upon this going forward.

### Counter Fraud Arrangements

18. As per the 2023 Audit Wales report on Counter Fraud Arrangements at the Council, there is a recognition that activities require strengthening to more actively perform fraud prevention and identification work. This includes:
  - National Fraud Initiative (NFI) – data matches have been reviewed on a risk basis during 2023/24 and a summary report produced for the Head of Finance. Some matches are still to be reviewed by staff within Service Areas, these individuals have been reminded and their Heads of Service made aware of the need for this. NFI reporting is to be strengthened going forward to ensure the maximum benefits of the exercise are achieved. This will include reporting outcomes to Executive Board and the Governance & Audit Committee.
  - Fraud Risk Assessment (FRA) – an FRA has been undertaken by SWAP's Counter Fraud Team. The outcomes of this review will be reported to Executive Board to discuss the risks identified, then utilised to inform part of the use of the Proactive Fraud Work budget within the 2024/25 Internal Audit Plan.
  - Continuous Audit – opportunities to reintroduce regular counter fraud checks as part of the 2024/25 Internal Audit plan are currently being explored.
19. A report on Counter Fraud will be brought before the Governance & Audit Committee in July 2024.

### Internal Audit Standards

20. Internal Audit is required to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. Every 5 years an assessment against the PSIAS is required, to ensure ongoing compliance. This was overdue as a result of the resource challenges, however at the time of reporting this assessment was in progress.
21. New Global Internal Audit Standards (GIAS) are to be introduced from January 2025. The full impact of the changes that these new standards will bring is still to be determined.

## Performance of the Internal Audit Section 2023/24 (Appendix E)

22. Despite having substantial challenges regarding resource, the following performance can be noted:

- 79% of the approved audit plan was completed, against a revised target of 50% (usually 80%);
- On average draft reports were issued within 4 days of completion;
- On average final reports were issued within 3 days of receiving management comments;

23. The Internal Audit service, and the Interim Chief Internal Auditor in particular, looks to provide the greatest level of assurance to the Council it can, within the constraints of audit resources available. A key part of this is ensuring a wide coverage of audits across all parts of the Council which has a basis on risk assessment and resulting priorities. This was a challenge within 2023/24, as noted by the corporate risk raised regarding the potential failure to deliver a suitable amount of the Internal Audit Plan. Thankfully, over the second half of 2023/24, this risk was suitably mitigated against, to the point of now being able to de-escalate the risk off of the Corporate Risk Register.

### **Financial Summary**

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

### **Risks**

25. If Members are not involved in the endorsing the Annual Internal Audit Report it would weaken the overall governance arrangements of the Council and be non-compliant with the Public Sector Internal Audit Standards, which therefore, could be subject to adverse criticism from the external auditor, currently Audit Wales.

<b>Risk Title / Description</b>	<b>Risk Impact score of Risk if it occurs* (H/M/L)</b>	<b>Risk Probability of risk occurring (H/M/L)</b>	<b>Risk Mitigation Action(s)</b> What is the Council doing or what has it done to avoid the risk or reduce its effect?	<b>Risk Owner</b> Officer(s) responsible for dealing with the risk?
Members not involved with audit reporting process	M	L	Internal Audit attend all Governance and Audit Committee meetings and present reports on a regular basis	Interim Chief internal Auditor

\* Taking account of proposed mitigation measures

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

26. Giving Management assurance on the systems in operation provides them with confidence that there is sound financial management in place, that more effective and efficient services can be provided, and the risk of theft, fraud and corruption is minimised. Better service provision and looking after the public pound makes our City a better place to live for all our citizens, hence delivering an ambitious, fairer, greener Newport for everyone. (Corporate Plan 2022-2027).

### **Options Available and Considered**

27. This is a factual report and therefore there are no specific options to be considered. The annual report provides 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.
28. The Governance and Audit Committee is asked to note progress on delivery of the audit plan and the annual audit opinion given and ask questions, make observations and recommendations, as necessary.

### **Preferred Option and Why**

29. As per paragraphs above as it is requirement of the Public Sector Internal Audit Standards and ensures good governance.

### **Comments of Chief Financial Officer**

30. The annual audit plan, its delivery and results are key aspects of the assurance required by the s151 officer in fulfilling their statutory role. It is good to see that the plan was completed sufficiently to allow an overall opinion to be given and for that be a 'reasonable' assessment.

Further work has been completed on the Council's fraud and risk assessment and we will report on that separately to the Council's Executive Board and then Governance & Audit Committee. I am satisfied that within the resources available; we will have a reasonable level of focus on this aspect of the work of Internal Audit.

### **Comments of Monitoring Officer**

31. The Governance and Audit Committee is responsible, amongst other things, for ensuring that the Council has in place effective internal controls in order to ensure that resources are used efficiently and effectively. The work of Internal Audit is a key aspect of these controls. The report sets out the work carried out by Internal Audit in the previous financial year as well as its proposed program of work going forward. The Committee should satisfy itself that the program of work is sufficiently wide-ranging so as to ensure effective monitoring of activity across the organization.

### **Comments of Head of People, Policy & Transformation**

32. Despite the recruitment and retention issues encountered by the team in 2023/24, with the support of the Council's HR team, Internal Audit have been able to recruit new officers and will continue to support the team in 2024/25. The delivery of the Internal Audit Plan 2023/24 has provided the necessary assurance required to demonstrate the ongoing effectiveness of the Council's governance, internal control and risk management arrangements. This will support the Council's annual Corporate Well-being self-assessment of performance and its governance arrangements and the Annual Governance Statement.

### **Comments of Cabinet Member**

33. Not applicable.

### **Local issues**

34. No local issues.

## Scrutiny Committees

35. Not applicable.

## Equalities Impact Assessment

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

## Children and Families (Wales) Measure

37. Not appropriate.

## Wellbeing of Future Generation (Wales) Act

38. 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 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 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 Governance & Audit Committee provides assurance and oversight of an effective internal audit provision to carry out its duties.

## Consultation

39. Not applicable.


## Background Papers

40. 2023/24 approved Internal Audit Plan.

Dated:

## APPENDIX A

### Audit Opinions used in 2023/24

	SUBSTANTIAL	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
	REASONABLE	<b>There is a general sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.</b>
	LIMITED	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
	NO ASSURANCE	Immediately action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

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>



## APPENDIX B

### INTERNAL AUDIT - MANGEMENT INFORMATION – 2023/24 OUTTURN

Overall Council Opinion for 2023/24 is **Reasonable**.

Opinions issued:

Outstanding From 2022/23					
Job Number	Service Area	Section or Team	Job Title	Risk Rating	Opinion Given
F2324-F4	People, Policy & Transformation	Climate Change	Health & Safety (Occupational Health) (2022/23)	H	Substantial
F2324-F7	Children Services	Fostering & Adoption	Fostering Panel (2022/23)	M	Substantial
F2324-F9	Education Services	Primary Schools	Gaer Primary School (2022/23)	M	Substantial
F2324-F10	Education Services	Primary Schools	Malpas Park Primary School (2022/23)	M	Substantial
F2324-F1	Finance	Accountancy	Capital Programme (2022/23)	H	Reasonable
F2324-F2	Finance	Benefits	Housing Benefits (Follow Up) 2021/22	H	Reasonable
F2324-F3	People, Policy & Transformation	Digital Services & Complaints	Internal Mobile Telephony (Follow Up) 2021/22	H	Reasonable
F2324-F13	Environment & PP	Public Protection	Newport City Dogs Home (Follow Up) 2021/22	H	Reasonable
F2324-F5	Law & Standards	Registration	Registration Services (2022/23)	M	Reasonable
F2324-F8	Education Services	Inclusion / ALN	Education Psychology (2022/23)	M	Reasonable
F2324-F11	Education Services	Primary Schools	Malpas Church in Wales Primary School (2022/23)	M	Reasonable
F2324-F6	Social Services	Childrens Services	Adoption Allowances Follow Up #2	H	Limited
F2324-F12	Infrastructure (City Services)	Transport	PTU – Taxi Contracts Follow Up #1	H	Limited

2023/24 Reviews					
Job Number	Service Area	Section or Team	Job Title	Risk Rating	Opinion Given
P2324-P33	Infrastructure (City Services)	Transport	PTU – Taxi Contracts Follow Up #2	H	Substantial
P2324-P37	Finance	Accountancy	Treasury Management Strategy	H	Substantial
P2324-P41	Finance	Cross Cutting	Authorisation Processes (Creditors/Treasury/Payroll)	H	Substantial
P2324-P48	People, Policy & Transformation	Transformation & Intelligence	Risk Management	H	Substantial
P2324-P50	People, Policy & Transformation	General	Corporate Governance Follow Up	H	Substantial
P2324-P54	Law & Standards	Democratic Services	Democratic Services & Governance	H	Substantial
P2324-P1	Regen & Economic Development	City Regeneration	Regeneration Initiatives	M	Substantial
P2324-P6	Education Services	Resources & Planning	School Admissions & Appeals	M	Substantial
P2324-P11	Education Services	Primary Schools	Jubilee Park	M	Substantial
P2324-P14	Education Services	Secondary Schools	Ysgol Gyfun Gwent Is Coed	M	Substantial
P2324-P15	Education Services	Special Schools	Ysgol Bryn Derw	M	Substantial
P2324-P72	Prevention & Inclusion	Integrated Family Support Service	Community Connectors & Carers	M	Substantial
P2324-P2	Regen & Economic Development	Economic Development	Skills & Work Contract	M	Reasonable
P2324-P3	Regen & Economic Development	Planning, Building Control & Development	Planning Obligations (S106)	M	Reasonable
P2324-P8	Education Services	Resources & Planning	Breakfast Clubs	M	Reasonable
P2324-P10	Education Services	Primary Schools	St Mary's	M	Reasonable
P2324-P13	Education Services	Primary Schools	Pillgwenlly	M	Reasonable
P2324-P32	Infrastructure (City Services)	Transport	Parking Services	M	Reasonable

P2324-P47	People, Policy & Transformation	Transformation & Intelligence	Database System Administration	M	Reasonable
P2324-P60	Children Services	Residential & Operations	Rosedale	M	Reasonable
P2324-P65	Adult Services	Adult Social Work Teams	Occupational Therapy Service	M	Reasonable
P2324-P25	Housing & Communities	Environmental Health Housing	Private Sector Housing (HMO)	M	Limited
P2324-P58	Children Services	Children's Social Work Teams	Asylum Seekers Imprest Account	M	Limited
P2324-P22	Housing & Communities	Strategic Housing	Private Sector Leasing	H	Consultancy
P2324-P43	Finance	General	NFI	H	Consultancy
P2324-P26	Housing & Communities	VPRS	VPRS	M	Consultancy
P2324-P18	Education Services	Other – School Related	CRSA	M	No Critical Risks
P2324-P61	Children Services	Residential & Operations	CRSA	M	No Critical Risks
P2324-P67	Adult Services	Residential & Day Services	CRSA	M	No Critical Risks
P2324-P16	Education Services	Grants	School Improvement Grant 2022/23	M	Unqualified
P2324-P17	Education Services	Grants	Pupil Development Grant 2022/23	M	Unqualified
P2324-P24	Housing & Communities	HSG/ Supporting People	Housing Support Grant 2022/23	M	Unqualified
P2324-P29	Environment & PP	Public Protection	Scambusters Grant Claim 2022/23	M	Unqualified

## APPENDIX C

### Internal Audit Performance Indicators 2023/24

	2022/23 Target	2022/23 Actual	2023/24 Target	2023/24 Actual
Proportion of planned audits complete	80%	77%	50%	79%
Promptness of draft report issue: end of fieldwork to draft report issue date	10 days	5 days	10 days	4 days
Promptness of report finalisation: client response to final report issue date	5 days	2 days	5 days	3 days