

# Report

## Audit Committee

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### Part 1

Date: 28 January 2016

Item No: 06

**Subject** Internal Audit – Progress against audit plan 2015/16 Quarter 3

**Purpose** To inform Members of the Council's Audit Committee of the Internal Audit Section's progress against the 2015/16 agreed audit plan for the first nine months of the year and for information on audit opinions given to date and progress against key performance targets.

**Author** Chief Internal Auditor

**Ward** General

**Summary** The attached report identifies that the Internal Audit Section is making reasonable progress against the 2015/16 audit plan although just below expectations and internal performance indicators.

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

**Action by** The Audit Committee

**Timetable** Immediate

This report was prepared after consultation with:

- Chief Financial Officer
- Monitoring Officer
- Head of People and Business Change
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Please list here those officers and members you have consulted on this report.

**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 nine months of the year will be reported.
2. The report gives Members assurance (or otherwise) on the adequacy of the internal control environment operated within the Council by providing the audit opinions on work undertaken at the end of Q3.

### Internal Audit Staffing

3. The team currently operates with an establishment of 10 audit staff. At the start of the year there were 8 audit staff with two vacancies in the team. A Senior Auditor also left during quarter 1 who hasn't yet been replaced. One Principal Auditor and one Auditor left the team during Quarter 3.
4. The relationship with Monmouthshire County Council (for sharing of the Chief Internal Auditor) continues.

### Audit Plan

5. The Public Sector Internal Audit Standards (PSIAS) (IIA) came into force from April 2013 which the team will need to ensure it is compliant with. These standards replace the former Code of Practice for Internal Audit within Local Government (CIPFA).

### Performance

6. 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 already been involved with 9 special investigations which could have an impact on this year's achievement of the audit plan; so far there have been no unplanned reviews.
7. 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.
8. The performance for Quarter 3 2015/16 has been compared to the same period of the previous year (shown in brackets). The figures (**Appendix A**) are cumulative and show that:
  - a. 43% (51%) of the audit plan has been achieved so far which is below last year's performance and the profiled target of 50%;
  - b. The promptness of issue of draft report (comparing timescale between finalising all fieldwork and issuing the draft report to management) averages at 15 days (13 days) which is outside the target time of 10 days;

- c. The promptness of report finalisation (comparing timescale from meeting with client to discuss issues raised in the draft report to issue of finalised report to management) averages 3 days (2 days) which is within the target time of 5 days.
9. Coverage of the plan at this stage of the year is just below expectations; the target being 50%. This is mainly due to insufficient audit resource in the team available to undertake planned audit work, although this is better than expected given the team has not been so involved with special investigations as planned. Although performance may dip throughout the year, historically things have picked up in the final quarter; this year will depend on sufficient audit resources being available to complete the audit plan. All key financial systems will be reviewed by the year end. Audit Management have been involved with special investigations during the year. This has impacted on the timeliness of reviewing audit work and getting draft reports sent out post completion of the work.
10. To try and achieve as much of the plan as possible in the last quarter, we have taken on board a secondment from one of the firms, have explored the use of agency staff and are hoping to fill the auditor vacancies as soon as possible.
11. Given the current level of vacancies in the team, we are forecasting to achieve 70% of the audit plan by the 31<sup>st</sup> March 2016, against a target of 75%.
12. 52 (34) days have been spent finalising 15 (20) 2014/15 audit reviews; 13 of which have been finalised. 132 days have already been spent on 9 special investigations.
13. A vacancy / secondment provision was taken into account in the planning stage which related to the Chief Internal Auditor's work with Monmouthshire and the senior auditor vacancy.
14. Inevitably there will be some overruns on reviews undertaken within the team which may result in not as many reviews being undertaken as were planned for the year, but there has been a significant improvement in this over previous years. As at 31 December 2015 audit jobs had overrun by 71 days, primarily due to issues identified during the audit.

#### Quality Control

15. 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 2015/16.

#### Financial Training

16. In the Audit Section's continued efforts to ensure that Council's assets are safeguarded and to provide assurance to management that their internal controls are robust, further training specifically on financial regulations and contract standing orders is offered to all service areas. An overview of financial management is also part of the Corporate Induction Programme and the course is also available on a self nomination basis, quarterly, as part of the Corporate

Training Programme. Feedback from staff who have attended courses has been positive. During this year the financial training is continuing to be targeted to areas of previous poor performance, in line with the agreed protocol for dissemination of good practice.

17. The training programmes continue with 6 sessions delivered to 88 delegates up to 31 December 2015; these will continue to be provided as the year progresses.

#### Audit Opinions 2015/16

18. Audit opinions issued so far in 2015/16 are shown at **Appendix B**. Definition of audit opinions currently given is shown at **Appendix C**.
19. 19 jobs completed to at least draft report stage by 31 December 2015 warranted an audit opinion: 4 x *Good*, 12 x *Reasonable* with 3 x *Unsatisfactory and no Unsounds*. Of the 6 community centre accounts undertaken, 3 were *Qualified*. Other reports have been completed which did not warrant an audit opinion or related to audit certification work. Other work completed related to the Annual Governance Statement, the Council's performance indicators, grant claims, provision of financial advice and external clients.
20. 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

21. 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.
22. 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

23. 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**

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

## Risks

25.

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	H	Taken on board a secondment from an accountancy firm; Continually exploring the use of agency staff to support the workload; minimising the volume of ad-hoc / unplanned work.	Chief Internal Auditor

\* Taking account of proposed mitigation measures

## Links to Council Policies and Priorities

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

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

## Options Available

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

28. 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

29. N/A

## Comments of Chief Financial Officer

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

## **Comments of Monitoring Officer**

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

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

32. There are no direct Human Resources issues arising from this report, other than the on-going resource issues highlighted. In terms of Corporate Policy & Performance, the report presents a review of audit activity during the period concerned and is set out in the context of performance framework. Clearly the work of the audit team is critical in giving assurance that the work of the Council is being undertaken within the set policies and procedures.

## **Comments of Cabinet Member**

33. N/A

## **Local issues**

34. N/A

## **Consultation**

35. N/A

## **Background Papers**

36. N/A

Dated:

**Appendix A**

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

<b>2014/15</b>	2014/15 Target	1 <sup>st</sup> Qtr 14/15	2 <sup>nd</sup> Qtr 14/15	3 <sup>rd</sup> Qtr 14/15	4 <sup>th</sup> Qtr 14/15	Comments
Proportion of planned audits complete	75%	19%	31%	51%	66%	[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	50%	33%	50%	Cumulative figures
Directly chargeable time against total time available	61%	52%	51%	54%	54%	Quarterly performance
Directly chargeable time against planned	84%	80%	85%	87%	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	11	2	5	5	9	Cumulative figures
Staff turnover rate (1 member of staff)	9%	0	0	0	2	Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	8 days	7 days	13 days	12 days	Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	2 days	2 days	2 days	2 days	Cumulative figures

<b>2015/16</b>	2015/16 Target	1 <sup>st</sup> Qtr 15/16	2 <sup>nd</sup> Qtr 15/16	3 <sup>rd</sup> Qtr 15/16	4 <sup>th</sup> Qtr 15/16	Comments
Proportion of planned audits complete	75%	16%	32%	43%		[Profiled Target 50%]
Proportion of planned audits complete within estimated days	65%	N/A	36%	22%		Cumulative figures
Directly chargeable time against total time available	61%	53%	53%	55%		Quarterly performance
Directly chargeable time against planned	84%	81%	77%	74%		Quarterly performance
Proportion of Special Reviews responded to within 5 working days	100%	100%	100%	100%		Cumulative figures
Number of sessions provided to train staff in all Service Areas on best financial practice	11	0	5	5		Cumulative figures
Staff turnover rate (number of staff)	1	1	1	2		Quarterly performance
Promptness of draft report issue (end of fieldwork to draft report issue date)	10 days	2 days	10 days	15 days		Cumulative figures
Promptness of report finalisation (date of client meeting to final report issue date)	5 days	1 day	3 days	3 days		Cumulative figures

**Appendix B**  
**Opinions as at 31 December 2015, Qtr 3**

Very Good	0
Good	4
Reasonable	12
Unsatisfactory	3
Unsound	0
Total	19

**Internal Audit Services - Management Information for 2015/16 Q3**

Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1516-P6	Finance	Local Taxation	Council Tax	Medium	Finalised	Good
P1516-P31	CS & DI	Customer Service	Housing Benefits	High	Finalised	Good
P1516-P41	Res & Plan	Primary Schools	St Woolos Primary	Medium	Finalised	Good
P1516-P58	Law & Reg	Public Protection Service	Community Safety Warden Service	Medium	Finalised	Good
P1516-P2	Finance	Strategic Procurement	Corporate Procurement	High	Finalised	Reasonable
P1516-P5	Finance	Income Collection	Debtors	High	Finalised	Reasonable
P1516-P13	People & Bus Change	Business Svc Development	Performance Indicators	Medium	Finalised	Reasonable
P1516-P19	Children & Young People Serv	Resources	Forest Lodge	Medium	Draft	Reasonable
P1516-P38	Res & Plan	Nursery Schools	Fairoak Nursery	Medium	Finalised	Reasonable
P1516-P39	Res & Plan	Primary Schools	Ysgol Gymraeg Bro Teyrnnon	Medium	Draft	Reasonable
P1516-P40	Res & Plan	Primary Schools	Maesglas Primary	Medium	Finalised	Reasonable
P1516-P43	Res & Plan	Primary Schools	Milton Infants & Nursery	Medium	Draft	Reasonable
P1516-P44	Res & Plan	Primary Schools	Glan Usk Primary	Medium	Draft	Reasonable



Job number	Service Area	Section or Team	Job Title	Risk Rating / Priority	Complete when FINALISED	Opinion given
P1516-P67	RI&H	CL&L	Library Service 2014/15	Medium	Finalised	Reasonable
P1516-P68	RI&H	CL&L	Adult Education Income & Enrolments	Medium	Draft	Reasonable
P1516-P79	Streetscene & City Svcs	Environmental Services	Refuse Collection 2014/15	High	Draft	Reasonable
P1516-P14	People & Bus Change	Partnership & Policy	Partnerships & Planning	Medium	Draft	Unsatisfactory
P1516-P20	Children & Young People Serv	Children's Teams	Looked After Children Team (16+)	High	Finalised	Unsatisfactory
P1516-P37	Res & Plan	Nursery Schools	Kimberley Nursery	Medium	Finalised	Unsatisfactory
P1516-P23	Adult & Comm Serv	Quality Assurance	Supporting People Grant Certification	Medium	Finalised	Unqualified
P1516-P60	Law & Reg	Trading Standards	Scambusters Grant Claim 2014/15	Medium	Finalised	Unqualified
P1516-P78	Streetscene & City Svcs	Transport Management	Bus Services Support Grant 2014/15	Medium	Finalised	Unqualified

## Non Opinion work 2015/16 Q3

Job number	Service Area	Section or Team	Job Title	Opinion given
P1516-P9	Finance	General	Annual Governance Statement	Not applicable
P1516-P10	Finance	General	Financial Advice	Not applicable
P1516-P15	People & Bus Change	General	Financial Advice	Not applicable
P1516-P16	People & Bus Change	General	Financial Regulations Training	Not applicable
P1516-P21	Children & Young People Serv	General	Financial Advice	Not applicable
P1516-P28	Adult & Comm Serv	General	Financial Advice	Not applicable
P1516-P33	CS & DI	General	Financial Advice	Not applicable
P1516-P51	Res & Plan	Other School Related	CRSA's / Healthcheck - Primary/Secondary/Nursery	Not applicable
P1516-P55	Imp & Inc	General	Financial Advice	Not applicable
P1516-P61	Law & Reg	General	Financial Advice	Not applicable
P1516-P66	RI&H	Community Centres	CC Accounts	Not applicable
P1516-P71	RI&H	General	Financial Advice	Not applicable
P1516-P83	Streetscene & City Svcs	General	Financial Advice	Not applicable
P1516-P86	Ext Audits	Caldicot & Wentlooge Levels Internal Drainage Board	Caldicot & Wentlooge Levels IDB (Annual Report / Return)	Not applicable
P1516-P87	Ext Audits	Caldicot & Wentlooge Levels Internal Drainage Board	Lower Wye IDB (Annual Report / Return)	Not applicable
P1516-P88	Ext Audits	WCAG	WCAG Training Programme	Not applicable


## Appendix C

### INTERNAL AUDIT SERVICES – OPINIONS

VERY GOOD	Very well controlled with minimal risk and minor recommendations
GOOD	Well controlled with some risks identified which require addressing
REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required
UNSATISFACTORY	Not well controlled; unacceptable levels of risk; changes required urgently
UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect

- The Internal Audit team is in the process of revising 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 is also piloting a new report format during 2015/16 where the Audit Opinion will be colour coded based on a traffic light system and the report will contain key issues which need to be addressed.
- This will be presented to the Audit Committee during the year.

#### REVISED AUDIT OPINIONS 2015/16:

	<b>GOOD</b>	<b>Well controlled with only moderate risks identified which require addressing; substantial level of assurance.</b>	<b>Green</b>
	REASONABLE	Adequately controlled although risks identified which may compromise the overall control environment; improvements required; reasonable level of assurance.	Yellow
	UNSATISFACTORY	Not well controlled; unacceptable level of risk; changes required urgently; poor level of assurance.	Amber
	UNSOUND	Poorly controlled; major risks exists; fundamental improvements required with immediate effect.	Red