

Report

Audit Committee



Part 1

Date: 28 January 2016

Item No: 07

Subject Internal Audit – Progress Against Unsatisfactory Audit Opinions Previously Issued [to December 2015]

Purpose To inform Members of the Audit Committee of the up to date position of audit reviews previously given an unsatisfactory / unsound audit opinion.

Author Chief Internal Auditor

Ward General

Summary The attached report identifies current progress of systems or establishments which have previously been given an unsatisfactory or unsound audit opinion. Although there will always be concerns over reviews given an unsatisfactory or unsound audit opinion, managers are allowed sufficient time to address the issues identified and improve the financial internal controls within their areas of responsibility.

In **2013/14**, 41 audit opinions were issued; no *Unsatisfactory* or *Unsound* opinions were issued

In July 2015 it was reported that 5 audit reviews had been given an Unsatisfactory audit opinion during **2014/15**: Amenity Funds, Financial and Administrative Procedures [Flexible Working and Travel and Subsistence Procedures] (Adult Services), CCTV / Security (Telford Depot), Discretionary Charging (Environmental Health) and SEN Assessments and Out of County Placements.

These reviews are due to be followed up during 2015/16; to date no follow ups have been undertaken.

In **2015/16**, to December 2015, 19 audit opinions had been issued; 3 were *Unsatisfactory*, no *Unsound* opinions were issued.

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

Action by Audit Committee

Timetable Immediate

Background

1. This report aims to inform Members of the Audit Committee of the current status of audit reviews previously given an *unsatisfactory* or *unsound* audit opinion and to bring to their attention any areas which have **not** demonstrated improvements within the financial control environment.
2. Since bringing this report to the Audit Committee there have been 13 reviews which had been given two consecutive *unsatisfactory* or *unsound* audit opinions and these have previously been brought to the attention of the Audit Committee by the Chief Internal Auditor; in each case the relevant Head of Service and Cabinet Member attended a meeting of the Audit Committee. The latest referrals are shown at Appendix A.
3. It is pleasing to report that improvements were made in all 13 areas. These reviews will now be picked up as part of the audit planning cyclical review and will be audited as part of that process.
4. Follow up audit work for the 5 2014/15 Unsatisfactory reviews has been planned for 2015/16 by the audit team and is recorded in the plan. Where the team come across obstacles in undertaking follow up work, for example managers stating that the issues will be addressed by the implementation of a new system, the Chief Internal Auditor will take a view as to the usefulness of a follow up review at the time and report back to the Audit Committee.
5. Definitions of the audit opinions are shown at Appendix B.

History of unfavourable audit opinions

6. In **2013/14**, 41 audit opinions were issued; no *Unsatisfactory* or *Unsound* opinions were issued.
7. In **2014/15**, 34 audit opinions were issued; 5 of which were deemed to be *Unsatisfactory* as shown in the following table. These have not yet been followed up due to insufficient resources within the audit team so we are not yet in a position to provide an update on the current audit opinion.

	Revised Opinion / Date of follow up	Current Status
Amenity Funds (Adult Services) Final	2015/16	Not yet followed up
Flexible Working and Travel and Subsistence Procedures (Adult Services) Draft	2015/16	Not yet followed up
CCTV / Security (Telford Depot) (Street Scene) Final	2015/16	Not yet followed up
Discretionary Charging (Public Protection – Environmental Health) Final	2015/16	Not yet followed up
SEN Assessments and Out of County Assessments (Education Services) Draft	2015/16	Not yet followed up

8. In **2015/16 to December 2015**, 19 audit opinions had been issued; 3 of which were deemed to be *Unsatisfactory*; a summary of the significant issues follows the table:

	Revised Opinion / Date of follow up	Current Status
Partnerships & Planning (Draft)	2016/17	
Looked After Children 16+	2016/17	
Kimberley Nursery	2016/17	

a) Partnerships & Planning (Draft)

Ref.	
1.02	Grants paid out in the current financial year (2015/16) had not been formally approved by the relevant Cabinet Member.
1.03	There were no documented and approved qualifying criteria for awarding

	discretionary grants to voluntary organisations.
1.04	There was no defined process for voluntary organisations to apply for discretionary grant funding.
1.05	Signed SLA's were not in place for all voluntary organisations that had received discretionary funding in 2015/16.
1.06	No monitoring of performance as detailed in the outline SLA's has been undertaken.

b) Looked After Children 16+

Ref.	
2.09	'Application for Financial Assistance' forms were not being scanned and indexed in the Information @ Work system in a timely manner; a significant proportion of forms were missing.
1.02	The 'Newport Aftercare Team Policy and Practice Protocols Statement' had not been reviewed since 2009.
2.10	Authorisation limits for financial assistance payments were not formally recorded.
2.11	'Application for Financial Assistance' forms were missing signatures and dates to confirm the receipt of cash by the young person and timely hand over.
2.12	Case notes were not being updated to record that financial support had been received by the young person.
2.13	Documentary proof of receipt was not always obtained / retained for purchases made on behalf of and delivered to young people, to support receipting on the iProcurement system.
2.14	Payments direct to young people's bank accounts were being made by cash deposit.

c) Kimberley Nursery

Ref.	
1.01	Receipts issued did not contain adequate detail, receipt books had been used out of sequence and there was no control record in place.
1.02	At the time of the review, the School did not have an approved safe, the Headteacher did not have independent access and there was no formal handover of cash in place between the School and the Private Kimberley Childcare facility.
1.03	For the period examined, nil returns were not being completed when no income had been received. For the sample of income returns examined, these were not always completed correctly or certified by the Headteacher. There was no independent review of the School paying-in books.
2.05	At the time of the review, when the South East Wales Framework was not used for the procurement of Supply Teachers there was no evidence of Governing Body approval to use a different supplier.

Ref.	
2.06	Electrical works had been undertaken at the School without notification to Newport Norse. A copy of the NIC-EIC Minor Electrical Installation Works Certificate was not easily located at the School.
2.07	For the period examined, a number of invoices had been processed through the non-order facility where a purchase order should have been raised.
2.08	For the sample examined, there was no evidence of having obtained value for money for purchases under £3,000.
2.09	For the sample examined, not all invoices had been certified for payment by the Headteacher.
3.05	Pre-employment checks / paperwork were not always completed prior to new employees commencing work at the School.
3.06	For the sample examined, out of date sickness absence forms were being used. The management action taken in relation to the absence was not always in strict accordance with the Management of Attendance Policy and reasons were not provided as to why the action taken was appropriate.
4.05	At the time of the review, the School did not have a copy of the current School Private Fund (SPF) bank mandate / letter from the bank confirming the signatories on the account and the fund administrator (treasurer) regularly signed cheques on behalf of the fund.
4.06	Monthly reconciliations of the SPF account were not completed and there was no evidence to support that bank statements / income records had been reviewed by the Headteacher / independent person.
4.07	At the time of the review, the SPF for the 2013/14 academic year had not been independently audited. The Annual Statement of Account for the 2013/14 academic year had not been fully completed, balanced or presented to the Governing Body for review.
5.04	At the time of the review, the School's inventory did not contain adequate information and there was no evidence of an independent check being conducted on the record held.
5.05	At the time of the review, portable electrical equipment had not been security marked as belonging to the School / NCC.
7.04	At the time of the review, the structure of the Governing Bodies Sub-Committees was non-compliant with Governor Wales's statutory guidance.

9. Internal Audit will continue to cover the service areas and specific sections identified in the 2015/16 operational plan and will endeavour to revisit any areas which have been given an unsatisfactory or unsound audit opinion within a twelve month timescale.
10. 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.
11. 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.

12. Where managers are compliant with Council policies and procedures and sound financial management can be demonstrated then audit reviews should result in an improved audit opinion being given. If, as a result, improvements are made to internal controls then greater assurance can be given by Internal Audit to the Audit Committee, the Leader and the Chief Executive on the overall effectiveness of all the Council's internal controls.

Financial Summary, Risks and Links to Council Policies and Priorities

13. No direct financial implications for this report.
14. One of the key objectives of an audit report is to outline compliance against expected controls within a system, an establishment or the duration of a project or contract. The report should give management assurance that there are adequate controls in place to enable the system to run effectively, efficiently and economically. If adequate controls are not in place then there is greater exposure to the risk of fraud, theft, corruption or even waste.
15. Newport Internal Audit reports outline strengths of the system under review along with any weaknesses in internal control. The reports are discussed with operational management where the issues identified are agreed. The operational manager will then add his / her action plans to the report which will address the agreed issue and mitigate any further risk.
16. Reduced audit staff reduces the audit coverage across service areas which provides reduced assurance to management.
17. Risk table – N/A for this report
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
 - To make our city a better place to live for all our citizens
 - To be good at what we do
 - To work hard to provide what our citizens tell us they need

Options Considered / Available. Preferred choice and reasons

19. Not applicable

Comments of Chief Financial Officer

20. This report is compiled on behalf of the Head of Finance.

Comments of Monitoring Officer / Head of Law & Regulation

21. There are no legal implications. The report has been prepared in accordance with the Council's internal audit procedures and the Performance Management framework.

Comments of Head of People and Business Change

22. There are no direct Human Resources issues arising from this report. Internal Audit provide a critical function within the Council to provide assurance on financial systems and monitoring and to highlight weaknesses so that issues can be identified and addressed.

Local Issues and Consultation

23. Not applicable

INTERNAL AUDIT SERVICES


Progress of reports following call-in to Audit Committee as a result of 2 consecutive unfavourable audit opinions:

Review	Service Area	Status since Head of Service and Cabinet Member attended Audit Committee
Civic Centre Car Parking	Law & Standards	Reasonable (March 10)
Leaving care / after care	Children and Family Services	Reasonable (July 10)
Ysgol Gymraeg Casnewydd (Nov 2011)	Education Services	Reasonable (March 2013)
Recruitment & Selection (July 2012)	People & Transformation	Good (Feb 2014)

INTERNAL AUDIT SERVICES – OPINIONS

- 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:

	GOOD	Well controlled with only moderate 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