CARDIFF COUNCIL
CYNGOR CAERDYDD

AUDIT COMMITTEE: 10 September 2019

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INTERNAL AUDIT PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 10.1

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Appendices F, G and H of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for this Report

1. Audit Committee's Terms of Reference requires that Members consider reports from the Audit Manager on Internal Audit's performance during the year.

2. A progress report has been prepared to provide Audit Committee Members with an update on the work of Internal Audit as at 16 August 2019 for the current financial year.

Background

3. The Audit Committee agreed the risk-based Audit Plan 2019-20 on 2 April 2019. A progress report is prepared for each Committee meeting to provide a meaningful update on the work and performance of Internal Audit over the reporting period. As part of progress updates, there is an opportunity to consider emerging risks, issues and sources of assurance, and to potentially refocus priorities. Prior to presentation to Audit Committee, the progress report is discussed with the Corporate Director Resources.

4. In accordance with PSIAS 2010 (Planning), the risk-based plan is linked to an Audit Strategy. The Audit Strategy provides the strategic intentions of the audit service, and outlines how the audit service is developed and delivered in accordance with the Audit Charter. Audit Committee considered the Audit Strategy in its meeting in June 2019.

5. The Internal Audit Section reports to the Audit Manager. To meet the provisions of PSIAS 1100 (Organisational Independence), the Audit Manager is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

Issues

6. The Internal Audit Progress Update **(Annex 1)** sets out performance in relation to the Internal Audit Plan, for the period to 16 August 2019. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings across the Council for the assurance of the Audit Committee.

7. **Appendix A** shows a list of audits and their reporting status in the current year until 16 August 2019. This includes all outputs finalised since April 2019, and all draft outputs issued at the reporting date.

8. There have been eighteen new audit outputs in the reporting period, and ten further reports have been concluded and finalised. Outputs have been issued with an opinion of effective or effective with opportunity for improvement in 87% of the audit opinions provided in 2019-20, as at 16 August. The Audit Manager has identified twenty-three audits, which are being targeted for draft audit delivery by the end of the quarter.

9. It is expected that around 19% of the audit plan will be delivered in quarter 2, marginally below the 20% quarterly target. Audit output is typically lower over for the summer period due to staff and client management availability. Study leave was also marginally higher than usual in the reporting period, resulting in the average productive days being slightly below target.

10. Through recent Relationship Manager and Senior Officer meetings:

    - Fifteen unallocated audit days within Social Services have been allocated to Planning, Transport and Environment. Audit Committee approval is sought to allocate this time to an audit of the abandoned shopping 'Trolleys' service, as an area where management has requested assurance on the operation of systems in place.

    - It is requested that Audit Committee approve 15 days allocated for value for money purposes to a proposed audit of Value for Money in Digital Initiatives. Given the strategic importance of digitalisation, it is considered an important area for assurance.

    - The Audit Manager has agreed a small amount of consultancy (advice and guidance) work on the processes proposed for processing Housing Benefits and Council Tax claims using a Risk Based Verification (RBV) approach, in accordance with DWP requirements. RBV is a method of applying different levels of checks to housing benefit and council tax support claims according to the risk associated with those claims.

11. The above updates are highlighted in 'green' in the Audit Plan (**Appendix B**). Additionally, the Audit Plan has been populated with all unsatisfactory audits, for which follow-up audit engagements will be required to seek assurance that agreed recommendations have been implemented. The target timeframe for follow-up audits is 6 months following the conclusion of the original audit, and these audits are highlighted in 'blue' in Appendix B.

12. The Audit Plan content has been expanded to show the inherent risk rating and scope of each audit, prior to the objective setting process in planning individual audits. The Audit Plan also now records if audits are addressing or responding to a national issue, in line with good practice.

Audit Findings

13. Section 2.3 of Annex 1 provides details of the critical findings and emerging trends from audit work for the reporting period ending 16 August 2019, with focus given to unsatisfactory and insufficient with major improvement audit assurance.

14. Firstly, from a control perspective, Audit Committee is advised that additional interim management support has recently been established in certain areas of the Planning, Transport and Environment Directorate. The Corporate Director, People and Communities has begun overseeing the Waste Management and Street Cleansing teams, supporting the Assistant Director. The Corporate Director Resources has been facilitating the same role in respect of Central Transport Services.

15. The Director for Planning Transport and Environment is focusing on planning, highways and transport. Audit reports and findings are being reported and considered through the above management channels. Audit Committee will have the opportunity to discuss these arrangements with the relevant directors through their attendance at Committee meetings as part of the Audit Committee Work Programme.

16. In respect of the audit findings over the reporting period, aside from the executive summary reports, as referenced in paragraph 17, three further reports were referred to within the critical findings or emerging trends within section 2.3 of the Annex 1. Each of the following reports had an opinion of insufficient with major improvement needed:

- An audit of Whitchurch High School identified that certain governance documents required approval and contracts required greater monitoring and review. Improvements were also required in transactional records, and the documentation of authorisations for purchases and school private fund transactions. A copy of the final report and agreed actions has been issued to the Headteacher and the Chair of Governors for delivery and oversight.

- An audit of Gatehouse followed a period of consultancy on the controls for recording weighbridge activity in Lamby Way and Bessemer Close. The audit identified improvements in practices for recording waste movements on Gatehouse in general, but identified a need to improve recording of out of hours transactions, the completeness of reconciliations, and to eliminate any sharing of system passwords. A particular system-based concern was raised, relating to access control for the Gatehouse system, which did not offer a management record of the system administrator who had made amendments to system access or passwords. Management have set up a compensating control prior to resolution in the next procurement specification.

- An audit of Windsor Clive Primary School has identified a need to improve financial and governance processes to ensure that controls and oversight are robust. Recommendations have been raised respect of governance documents, policies and disclosures, and the need to modernise income processes, and improve the consistency of procurement processes and contract management practices. Arrangements are being made to discuss the findings with the Headteacher.

17. Section 2.4 of Annex 1 provides the pertinent value for money findings over the reporting period. The two value for money reviews completed over the reporting period have provided a broadly effective level of assurance, in respect of audits of 'Overtime' and 'Enforcement'. The finalised audit of Waste Management Contracts has raised value for money concerns based on the gaps in coordination and control required to provide sufficient assurance that contracts are being planned, co-ordinated and controlled effectively. Additionally, the lack of progress to date in managing income and debt recovery processes for the Music Service also raises value for money concerns on the operation of this important mechanism. Both of these audits will be subject to a follow-up audit, and progress will be monitored through management meetings and recommendation monitoring.

18. **Appendix C (Annex 2)** provides an Executive Summary of the audit of Waste Management Contacts and a follow up of Music Services Income.

Benchmarking & Performance

19. The audit team is a member of the Welsh Chief Auditors and Core Cities benchmarking groups. Benchmarking information for Cardiff has been submitted for both exercises, and the Welsh Chief Auditors Group output has been received, for which fourteen out of twenty-two councils participated, and comparative data is provided in Annex 1. The final output of the Core Cities benchmarking has not been received, and will be reported to a future Audit Committee meeting.

20. The Welsh Chief Auditors benchmarking information is positive in respect of productivity, and audit delivery costs, but it highlights a lower proportion of recommendations implemented in 2018-19 compared to the other local authorities. This reaffirms the importance of focussing on the timely management delivery of audit recommendations, and the requirement for audit advice and guidance to clients on setting realistic delivery dates when concluding audit engagements.

21. The percentage of audit recommendations implemented within the agreed timescale was significantly below target in quarter 1. The primary reason for this dip in performance has been the effect of a cleansing exercise for school recommendations, due to gaps in progress updates and a higher incidence of overdue recommendations than elsewhere. Through this exercise, a number of overdue recommendations were identified as complete and were closed down as appropriate. The Audit Manager has reiterated the importance of proactively monitoring recommendations to the audit team, and has tasked an audit support officer with proactively monitoring schools to improve and sustain audit recommendation delivery and update information.

22. Further information on the benchmarking results and the quarter 1 performance position is included within 3.2 of Annex 1.

PSIAS Action Plan & Audit Protocol Updates

23. An Audit Planning Pro forma has been developed and introduced in July 2019 to record the preliminary risk assessment for each audit in a consistent documented format. Each audit is subject to an initial risk assessment, and a pro forma document has now been introduced to record this information in a consistent format. This proposed process development was reported to Audit Committee in June, following an internal review against the Local Government Application Note 2019 through a PSIAS Action Plan.

24. The updated PSIAS Action Plan is included in **Appendix D**, and includes two further actions. The first was in respect of developing an Audit Strategy to link to the risk based plan and to outline the strategic intent of Internal Audit. This action has been completed and was reported to Audit Committee on 25 June. Additionally, in accordance with best practice, within the Audit Plan (Appendix B), it is now being recorded against relevant audits where the audit is considering / addressing a national issue.

25. Following the introduction of the Audit Strategy, the Audit Protocol, which covers the process flow within each individual audit, has been reviewed and subject to minor adjustment. The Audit Protocol is a concise document, designed to summarise the audit process, and it is provided for Audit Committee information in **Appendix E**. The Audit Planning Risk Assessment has been added, facilitated through the pro forma recently

introduced as outlined above. Additionally, the audit control stages and the audit response process has been included.

Audit Recommendations

26. The recommendations and progress at the reporting date are provided in the following appendices.

Appendix F	Contains the red and red / amber recommendations not yet complete.
Appendix G	Contains the red and red / amber recommendations completed since the last Audit Committee in June 2019.
Appendix H	Contains the open red and red / amber recommendations with revised action dates.

Legal Implications

27. There are no legal implications arising from this report.

Financial Implications

28. There are no direct financial implications arising from this report.

RECOMMENDATIONS

29. That the Audit Committee:

- Note and consider the contents of the Progress Report and appended documents;
- Approve the proposed assurance audits of the Trolleys service, and Value for Money in Digital Initiatives, for the Audit Plan 2019/20.

CHRIS PYKE
AUDIT MANAGER
10 September 2019

The following are attached:

Annex 1	Internal Audit Progress Report

Appendix A	Report Status as at 16 August 2019
Appendix B	Audit Plan
Appendix C	Executive Summary – Waste Management Contracts
	Executive Summary – Music Service Income Follow-up
Appendix D	PSIAS Action Plan Update
Appendix E	Audit Protocol
Appendix F	Red & red / amber open recommendations
Appendix G	Red & red / amber recommendations completed since last Committee
Appendix H	Red & red / amber open recommendations with revised action dates