



Resources Directorate Internal Audit Section



Internal Audit Progress Report (as at 31 October 2019)

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INTERNAL AUDIT PROGRESS REPORT

1. INTRODUCTION

1.1 Background

The Internal Audit plan for 2019/20 was approved by the Audit Committee at its meeting in April 2019. The plan provides the framework for audit work each year and is aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year.

The Internal Audit plan for 2019/20 is made up of a total of 2,706 days, with a total of 1,990 chargeable days for the audit team being agreed. This report serves to provide an update on progress against the plan to 31 October 2019.

1.2 Independence and objectivity

The Internal Audit section reports to the Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained, as the Audit Manager is not responsible for managing any functions beyond the Internal Audit and Investigation 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.

1.3 Continuing Professional Development

The Personal Reviews of performance during 2018/19 were completed by the end of May 2019. The Personal Review process enabled each member of the audit service to discuss progress against agreed objectives, and to consider and agree their overall performance for the year.

Prior to discussing performance, each auditor completed a skills assessment in application of the IIA Professional Competencies Framework. The results have informed both the Personal Review process, and the annual internal Audit Manager review against the Quality Assurance and Improvement Programme (Standard 1300), from which a generally strong baseline of knowledge and skills are held across the audit team.

The new objectives for 2019/20 were discussed with the members of the team and agreed in accordance with the Council's deadline of the end of June.

2. SUMMARY OF WORK PERFORMED

2.1 Current Activities

The report to Audit Committee in April 2019 set the scene for audit coverage for the year and the planned assignments have been set up in the audit planning, monitoring and control database. Priority has been given to any audits planned for 2018/19 but not completed during that year.

All Auditors have continued to be allocated at least three months' work in advance, with an expectation that their assignments will be effectively managed and delivered. This approach focuses on outcomes, improving performance and the timeliness of reporting.

Appendix A shows a list of audits and their reporting status in the current year until the end of 31 October 2019. The listing will include all reports finalised since April 2019, and all new and existing draft reports as at the reporting date.

The table below shows audit outputs separated into those which are new for 2019/20, meaning that a draft report had not been issued in the prior year, and those which were at draft status in 2018/19, but have since been finalised.

Figure 1. Audit outputs in 2019/20 (at 31 October 2019)

	Audit	Status as at 31.10.19
NEW Audit Outputs (for 2019/20)		
1	Ethics and values – Gifts and Hospitality	Draft output issued
2	Regional Partnership Board	
3	Bilingual Cardiff	
4	Education - Commissioning of independent investigations	
5	Insurance	
6	Ysgol Plasmawr – ICT Governance	
7	Treasury Management – In-year testing	
8	Audit of Scrutiny Functions	
9	Ethics and valuerks - Business and Personal Interests	
10	Stock systems (Tranman)	
11	Building Control	
12	Fly Tipping	
13	Strategic Estates - Processes	

14	Direct Payments	
15	Deprivation of Liberty Safeguards	
16	Learning Disabilities	
17	Main Accounting – In year testing	
18	Roath Park Primary	
19	Joint Committees - Prosiect Gwyrdd	
20	Joint Committees – Port Health Authority	
21	Joint Committees - Glamorgan Archives	
22	Cardiff Further Education Trust Fund	
23	Storey Arms	
24	Housing Rents	
25	Purchasing Cards (CTS)	
26	Resources – Budgeting and forecasting	
27	Personal Review Process	
28	Radyr Comp – ICT Governance	
29	Llanishen High – ICT Governance	
30	Fitzalan High – ICT Governance	
31	Cardiff High – ICT Governance	
32	Cathays High – ICT Governance	
33	Value for Money – Agency workers, interims and consultants	
34	Music Service – income review follow up	
35	Joint Equipment Stores	
36	Education – Income Processes	
37	Payroll – In-year testing	
38	Bulky Waste	
39	Responsive Repairs	
40	St. Teilo's - ICT governance	
41	VFM – enforcement	
42	Payroll overpayments	
43	VFM – overtime	
44	Into Work Grant Streams	
45	Bishop of Llandaff – ICT Governance	
46	Cantonian – ICT Governance	
47	Windsor Clive Primary School	

Final output issued

48	Risk Based Verification	
49	St. Peter's Out of School Club and Governors' Fund	
50	Local Housing Allowances 2018/19	
51	Stock systems (Vectec)	
52	Payroll – CRSA	CRSA completed
53	Treasury Management - CRSA	
54	NNDR – CRSA	
55	Main Accounting - CRSA	
56	Counter-fraud in schools - CRSA development	CRSA developed
57	Contract guidance for schools	Guidance developed
Concluded Reports from the prior year at 31.10.19		
58	Atebion Solutions	Final output issued
59	Risk management arrangements	
60	Sickness absence processes	
61	County Hall Canteen	
62	Education Improvement Grant	
63	Youth Innovation Grant	
64	Creditors 2018/19	
65	St. Peter's R.C. Primary School	
66	Willows High School	
67	Ysgol Glantaf	
68	Health and Safety Framework	
69	Contracts in Waste Management	
70	Gatehouse	
71	Whitchurch High School	
72	Norwegian Church Trust	
73	Communities - Partnership & Collaborative Governance	
74	Music Service Expenditure Review	
75	IT Governance	
76	Cloud Computing	
77	Stock Check Observation - Lamby Way	
78	Stock Check observation - Brindley Road	

The opinions given in reports issued to 31 October 2019 are shown in the table below. The majority of audit opinions allocated through drafts issued have recognised a sufficient level of internal control and governance in the areas reviewed.

Figure 2. Audit outputs and opinions (at 31 October 2019)

Output Stage	Number of outputs	Opinion				No opinion given
		Effective	Effective with opportunity for improvement	Insufficient with major improvement needed	Unsatisfactory	
Draft	18	0	12	5	1	0
Final	60	1	35	8	3	13
TOTAL	78	1	47	13	4	13

Since the last reporting period, five draft reports and one final report have been issued with opinions of insufficient with major improvement needed, and one draft report has been issued with an opinion of unsatisfactory assurance. Information on the findings of these reports is provided within Section 2.3 – Critical Findings or Emerging Trends.

Further to the table above, the outputs that were not been given an assurance opinion and the reasons for this were as follows:

Figure 3. Outputs without an assurance opinion (at 31 October 2019)

Audit	Comments
Payroll – CRSA completed	CRSA completed and discussed with payroll colleagues
Treasury Management – CRSA completed	CRSA completed and discussed with Treasury Management colleagues
NNDR – CRSA completed	CRSA completed and discussed with Revenue Services colleagues
Main Accounting – CRSA completed	CRSA completed and discussed with Accountancy colleagues
Education – income processes	Consultation review consolidating discrete assurance reviews – no further audit opinion.
Joint Committees - Prosiect Gwyrdd	Work to support completion of Statement of Accounts, 2018/19
Joint Committees - Port Health Authority	
Joint Committees - Glamorgan Archives	
Cardiff Further Education Trust Fund	Completion of audit of accounts for 2017/18
Schools Contract guidance development	Guidance for schools on contracts, tendering, etc. and the publication of an exemplar policy.
Counter-fraud in schools – CRSA developed	Development of a counter-fraud CRSA for Schools.
Risk Based Verification	Consultancy on the draft policy and controls in the proposed Northgate Module.
St. Peter's Out of School Club and Governors' Fund	Audit certification.

2.2 Annual plan

The annual plan was agreed by Audit Committee at its meeting in April 2019 and was designed to be risk based and co-ordinated in application of the “three lines of defence” model. Assurance mapping exercises are carried out at periodic intervals during the year.

There have been two new audit engagements added to the audit plan since the last reporting period, and these are highlighted in ‘green’ in the Audit Plan (**Appendix B**). The new audits are relatively small, and accordingly have been agreed within the authority delegated to the Audit Manager (via the Audit Charter 2019-20). Information on the new audit engagements is provided below.

Firstly, time has been allocated to provide consultation, advice and guidance on the development of a proposed contractual arrangement with Fleetwheel, to provide and administer a stores service for Central Transport Service (CTS). This follows an audit of the stores within CTS, operated via a Tranman stock system, for which a need for significant improvement was identified in operational practices, as outlined within Section 2.3 – Critical Findings or Emerging Trends.

In addition, upon the request of the Governing Body of St. Peter’s RC Primary School, the Audit Manager has also agreed an audit of the School’s Private Fund. This follows the completion and presentation of audits of the Out of School Club and the Governors’ Fund for the school by the audit team.

2.3 Critical findings or emerging trends

In accordance with PSIAS, Internal Audit is required to report to Audit Committee on critical findings or emerging trends. Within this section, particular attention is drawn to the findings of the reports which provided audit opinions of lower assurance over the reporting period, with findings reported on an exception basis. A number of the reports referred to below are at a draft status, for which the findings will be discussed with management, and once the reports are finalised, the final opinion and recommendations will be reported to Audit Committee.

Since the last reporting period, one draft audit report has been issued with an ‘*unsatisfactory*’ audit opinion. The audit of Fly Tipping operations within the Waste Education and Enforcement Team identified significant gaps in processes, which require management attention. There is a

need to strengthen the recording of the fly tipping activities and recovery, and to improve the approach to performance measurement and management. The Audit Committee will receive an Executive Summary of the audit in the next Committee meeting once the report has been finalised.

There were five draft reports and one final report issued, for which opinions of *'insufficient with major improvement'* have been allocated over the reporting period. Firstly, an audit of ICT Governance in Cantonian High School has been finalised. The audit recognised that the Network Manager had identified a number of areas where improvements were required, for targeted delivery. Primary areas identified for improvement comprised implementing an access control protocol, an information asset register, clear processes for the acquisition and disposal of ICT, and reviewing the location, security and temperature controls for servers.

An audit of the fleet management stock processes for Central Transport Services (CTS), utilising 'Tranman' (stock management system) identified a need for process improvements. Most notably, stock count sheets could not be located for the financial year-end 2018/19, and there was a lack of separation between the stock count and stock authorisation processes. In addition, during out of hour periods, controls for allocating stock in Coleridge Road were insufficient. Operationally, there is a need to review processes for write offs, disposals, stock returns, and to formalise working arrangements currently in place with Fleetwheel, who were managing a consignment of stock from the Coleridge Road site. The Audit Manager has agreed a further consultancy audit engagement, to provide advice and guidance on a proposed contractual arrangement with Fleetwheel, to provide and administer a stores service for CTS.

The audit team reviewed processes within Strategic Estates, through which it was considered that whilst systems were operating broadly effectively in respect of three portfolios (non-operational assets, investment estate and land), controls were still being developed to provide the necessary assurance in relation to Cardiff Market (an operational asset). At the time of the audit, management were addressing three instances of the unauthorised transferring of market stalls. Management were working with Legal Services to resolve these cases at the time of the audit, and recommendations have focussed on strengthening and maintaining a system of ongoing checks for stallholder compliance with their Tenancy Agreements, and prompt escalation of any discrepancies or concerns.

An audit of the Deprivation of Liberty Safeguards (DOLS) arrangement with Cardiff and the Vale of Glamorgan Councils, and the University Health Board recognised that DOLS assessments were operated in compliance with the required statutory guidelines. However, there was a need to progress audit recommendations from the Vale of Glamorgan Council, to formalise governance arrangements between the partners, and manage the risks to capacity and resource for the current and future demand for the service. A draft letter of understanding had not been signed by the three partners, to provide clarity on the terms of the arrangement, and the relative contributions and outputs.

The audit of Roath Park Primary School recognised a need to achieve an effective division of duties in all income, expenditure and governance activities. A number of policies and procedures required completion or ratification, some governors needed to record their declarations of interests, and a process needed to be established to record gifts and hospitality. Transactional records and processes also required improvement, such as income recording and verification processes, to provide assurance that all income received was duly banked. In respect of arrangements managed through SLAs or contracts, the school needed to improve its due diligence, and verify that appropriate insurance and DBS disclosures are held by third parties.

The audit of direct payments processes, identified many areas of good practice, such as the delivery of previous audit recommendation, and the process for managed banking, whereby a third party provided an administration and assurance function in respect of direct payment use. However, there were gaps in right to work checks for those engaged through direct payments, the provision of up to date terms and conditions between the Council and service user, and there was a backlog of audits on funds allocated.

2.4 Value for Money findings

Since the last reporting period, the audits of value for money in enforcement, and overtime value for money have been finalised. The findings of these audits were detailed within the progress report for the September 2019 Audit Committee meeting.

The vast majority of audits undertaken by the Internal Audit Team have objectives which cover value for money assurances, from which a general satisfactory level of assurance can be provided for the reporting period. However, within the audits of a lower assurance opinion, there were control gaps, which need to be addressed to provide assurance that the objectives of these

services are being run with proper attention to a combination of economy, efficiency and effectiveness.

2.5 Resources

There have been 1,039 chargeable days to 31 October, against a pro-rata plan of 1,148 days, which includes all operational auditors and the audit assistant. As outlined in previous progress reports, it has been agreed for a senior auditor to reduce their hours temporarily from 37 to 32 hours per week for the financial year 2019-20, for which the planned days have been adjusted.

Three members of the team are being supported through a CIA qualification with the IIA. Two of these auditors have progressed to working towards their third and final exam, one auditor is working towards their second exam. The team also contains a CIPFA trainee who is progressing well in their second year of the three year professional qualification.

3. AUDIT PERFORMANCE AND ADDED VALUE

3.1 Added value

Relationship Manager meetings have been arranged with every Director and diarised for quarterly meetings throughout 2019/20. These are useful in progressing matters relating to audits completed and planned; and for discussing corporate and directorate risks, issues and areas for potential audit input. Meetings were held with Directors in October / November 2019 to review the audits undertaken in Q2, those planned for Q3 and any changes to internal controls that could affect the audit plan. The changes to the audit plan, informed by these meetings, are detailed in section 2.2 (Annual Plan).

Audit has issued 38 client questionnaires this year (as at 31 October) and has received 16 responses (a response rate of 42.11%). One question asked of clients is whether they considered that the audit work added value to their service; 14 out of the 16 clients responded to advise that it did. In one case, this question was not answered, for which arrangements are being made to contact the relevant managers to discuss further, and one client felt that it did not add value. This was because the service had already identified most of the issues detailed within the audit report, but the manager also commented that it showed that the service had self-evaluated well.

In the reports issued to date (as at 31 October), there have been 434 recommendations made, of which audit clients have agreed 320, with 114 presently being considered through draft audit reports. These are summarised below:

Figure 4. Recommendations raised and agreed

Rating	Recommendations made	Recommendations agreed
Red	22	17
Red / amber	222	164
Amber / green	157	110
Green	33	29
TOTAL	434	320

3.2 Benchmarking and Performance

The audit team is a member of the Welsh Chief Auditors and Core Cities benchmarking groups. The position in respect of the Welsh Chief Auditors was reported to the Audit Committee in the progress report on 10 September 2019.

The Core Cities output has subsequently been received, for which, seven out of ten councils participated, and the comparative data is set out below.

Figure 5. Core Cities Benchmarking data 2018-19

	Cardiff	Group Average
AUDIT PLAN		
Number of Audits Planned	156.0	134
The percentage of the Audit Plan Completed	76.9	83
PRODUCTIVITY		
The percentage of Audit Productive time	80.1	80.2
CUSTOMERS		
The percentage of Client Surveys Returned	64.2	37
The percentage of returned Client Surveys rated "Satisfied" or better	98.5	99
COSTS		
Gross Audit Days per £1m Council Budget	3.6	2
Productive Audit Days per £1m Council Budget	2.8	2
Staff Costs per Productive Audit Day	£262.0	£290
Staff Costs per £1m Council Budget	£746.3	£451

The benchmarking information is positive in respect of the overall number of audits delivered in the year, and provides comparable rates of audit productive time and client satisfaction.

Given that the budgets of a number of the benchmarked councils were markedly higher than in Cardiff, the audit resources compared to the respective council budget were higher in Cardiff than the average for the group. However, the staff costs per audit day were lower than the average of the group.

The table below shows the actual performance achieved in 2018/19 and the targets and outcomes for 2019/20 to date.

Figure 6. Performance against targets for 2019-20 (to date)

Performance Indicator	2018/19 Outcome	2019/20 Target	Q1 Outcome	Q2 Outcome
The percentage of audit reports delivered within six weeks	78%	85%	80%	71%
The average number of audit productive days per FTE	142	170	42	86
The average number of finalised audits per FTE	12	12	3	6
The percentage of audit recommendations implemented within the agreed timescale	67%	90%	52%	59%
The percentage of the audit plan completed	77%	80%	19%	35%

For the Q2 2019/20 position, the performance relating to reports issued and finalised was on target, as was the average number of productive days per employee (FTE). The percentage of audit recommendations implemented within the agreed timescales has seen a level of improvement from the prior quarter, but continued attention is required in this area as performance remains significantly below target.

Following September's Audit Committee Meeting, the Chair wrote to three Directors who had recommendations outstanding which were originally agreed for implementation prior to 1 January 2019. The Chair requested an account of the reasons for delays, and a commitment to

delivery. On 2 October 2019, the Audit Manager attended a meeting of the Senior Management Team, to outline the current profile of recommendations across directorates and their implementation dates. The opportunity was also taken to reaffirm the role of the Audit Link Officers in each directorate to ensure that each Directorate Management Team reviews their recommendations on a regular basis, paying particular attention to those due in the next two months. The position will continue to be monitored and reported by the Audit Team through Relationship Management, Senior Management Team and Audit Committee meetings.

There has been some slippage in the percentage of the audit plan completed at the end of quarter two. Accounting for an anticipated lower level of audit delivery over the summer period, when both audit staff and client management take a greater proportion of their annual leave, a small number of audit reports targeted for delivery in the quarter had not been issued at the quarter end. Whilst the quarter 2 position is comparable with previous financial years, the Audit Manager has allocated a greater level of audits to the team for delivery in quarter three, to start to recover the position as we move into quarter four.

In addition to monitoring and managing the numbers of audits delivered, audit engagements are allocated in order to ensure that there is a breadth of assurance by the financial year-end, upon which to provide a complete audit manager annual opinion.

A lot of preparation has been underway to co-ordinate the thematic audits of 'health and safety', 'asset management' and 'commissioning and procurement'. These audits will take place across all directorates, and commence in quarter three, to provide a breadth of independent assurance on inherently high-risk areas. In respect of the Council's fundamental systems, many audit engagements have already taken place, and others are being targeted for delivery in the second half of the financial year.

3.3 Recommendations

Included within **Appendix C** are the red and red/amber open recommendations including the current management response for the information and monitoring of the Audit Committee. **Appendix D** contains the red and red/amber recommendations, which have been completed since the last Audit Committee Meeting. Amber / green and green recommendations are provided to Committee via a separate route.

The table below shows the instances where implementation dates have been revised by audit clients on SharePoint (as at 31.10.19). This reporting mechanism is used to monitor progress and target discussions on the effective management of risk management in relationship management meetings each quarter.

Figure 7. Revised recommendation implementation dates and status

Directorate / Audit Category	Number of recommendations with revised dates	Actions now implemented	Actions still open
Education and Lifelong Learning	36	12	24
Social Services	18	12	6
Resources	6	4	2
Housing and Communities	2	2	0
Planning Transport and Environment	8	6	2
Waste Management	36	19	17
Central Transport Services	3	2	1
Economic Development	13	9	4
External and grants	8	1	7
Fundamental	3	0	3
Corporate Governance	3	1	2
Governance and Legal Services	1	0	1
Other assurance	8	2	6
	145	70	75
Schools	85	41	44
TOTAL	230	111	119

4. **CONCLUSION**

4.1 **Summary**

Whilst the delivery of the audit plan at the quarter 2 position is comparable with previous financial years, the delivery was below target. The Audit Manager has allocated a greater level of audits to the team for delivery in quarter three, to start to recover the position as we move into quarter four. A number of thematic audits are also commencing across audit directorates in quarter three to deliver a breadth of assurance in inherently high-risk areas.

The benchmarking data received from the Core UK Cities has provided comparative assurance in respect of audit productivity, delivery, and client satisfaction. Given that the budgets of a number of the benchmarked councils were markedly higher than in Cardiff, the audit resources compared to the respective council budget were higher in Cardiff than the average for the group. However, the staff costs per audit day were lower than the average of the group.

Ongoing attention is being given to the timely delivery of audit recommendations by audit clients. The Audit Manager has attended a meeting of the Senior Management Team, to outline the current profile of recommendations across directorates and their implementation dates, and to reaffirm the role of the Audit Link Officers in each directorate to ensure regular Directorate Management Team monitoring and review. The position will continue to be monitored and reported by the Audit Team through Relationship Management, Senior Management Team and Audit Committee meetings.