

AUDIT COMMITTEE: 12 November 2019

INTERNAL AUDIT PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 11.1

Appendices C and D of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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 31 October 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 31 October 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.

Audit Delivery

7. **Appendix A** shows a list of audits and their reporting status in the current year until 31 October 2019. This includes all outputs finalised since April 2019, and all draft outputs issued at the reporting date.
8. There have been nineteen new audit outputs in the reporting period, and nineteen audit outputs have been concluded and finalised. Outputs have been issued with an opinion of effective or effective with opportunity for improvement in 74% of the audit opinions provided in 2019-20, as at 31 October 2019.
9. Whilst the delivery of the audit plan at the quarter 2 position is comparable with previous financial years, the delivery at 35% was below the target of 38%. The Audit Manager has allocated a greater level of audits to the team for delivery in quarter 3, to start to recover the position as we move into quarter 4. 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.
10. 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). The audits are to provide:
 - An audit of St. Peter's RC Primary School's Private Fund, upon request of the Governing Body of the school.
 - Audit consultation on the development of a proposed contractual arrangement with Fleetwheel, for the provision and administration of a stores service for the Central Transport Service (CTS).

Audit Findings

11. Section 2.3 of Annex 1 provides details of the critical findings and emerging trends from audit work for the reporting period ending 31 October 2019, with focus given to unsatisfactory and insufficient with major improvement audit assurance.
12. 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.
13. One audit was finalised with opinion of insufficient with major improvement needed. The audit of Cantonian High School ICT Governance reported the need to implement a formal access control protocol, and to establish clear processes for the acquisition and disposal of ICT. Improvements were also required for the location, security and temperature controls for servers, and there was a need to establish an information asset register.

14. Five draft reports have been issued over the reporting period with opinions of 'insufficient with major improvement needed', for which the findings are outlined below:

- Fleet management stock processes for Central Transport Services (CTS), utilising 'Tranman' (stock management system) required improvement. 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.
- An audit of processes within Strategic Estates 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 processes (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 had not made declarations of interests, and there was no process for recording 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.

15. Section 2.4 of Annex 1 provides the pertinent value for money findings over the reporting period, in which it is reported that 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 report also refers to the six audit engagements completed which were allocated audit opinions of ‘insufficient with major improvement needed’ and the audit of ‘fly tipping’ for which unsatisfactory assurance was provided. Within each of these audits, 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.

Benchmarking & Performance

16. 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.

17. The Core Cities output has subsequently been received, and the position 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.

18. In respect of quarter 2 performance, the reports issued and finalised were on target, as were 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.

19. Further information on the benchmarking results and the quarter 2 performance position is included within 3.2 of Annex 1.

Audit Recommendations

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

Appendix C	Contains the red & red / amber open recommendations
Appendix D	Contains the red and red / amber recommendations completed since the last Audit Committee in September 2019.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

23. That the Audit Committee:

- Note and consider the contents of the Progress Report.

CHRIS PYKE
AUDIT MANAGER
12 November 2019

The following are attached:

Annex 1	Internal Audit Progress Report
Appendix A	Report Status as at 31 October 2019
Appendix B	Audit Plan
Appendix C	Red & red / amber open recommendations
Appendix D	Red & red / amber recommendations completed since last Committee