



Resources Directorate Internal Audit Section



Internal Audit Progress Report (as at 31 December 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 December 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 December 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 December 2019)

	Audit	Status as at 31.12.19
NEW Audit Outputs (for 2019/20)		
1	Regional Partnership Board	Draft output issued
2	Insurance	
3	Ysgol Plasmawr – ICT Governance	
4	Treasury Management – In-year testing	
5	Audit of Scrutiny Functions	
6	Ethics and values - Business and Personal Interests	
7	Fly Tipping	
8	Strategic Estates - Processes	
9	Direct Payments	
10	Deprivation of Liberty Safeguards	
11	Learning Disabilities	
12	Roath Park Primary School	
13	Governance and Legal Services - Asset Management	

14	Income Collection in Schools		
15	Governance and Legal Services – Health and Safety		
16	People and Communities – Health and Safety		
17	Waste Management – Health and Safety		
18	Kitchener Primary - Counter-fraud arrangements		
19	Hawthorn Primary - Counter-fraud arrangements		
20	Allensbank Primary - Counter-fraud arrangements		
21	The Hollies - Counter-fraud arrangements		
22	Eastern High - Counter-fraud arrangements		
23	Corpus Christi - Counter-fraud arrangements		
24	Identification and Access Management		
25	IT inventory and Asset Management		
26	St. Francis Primary School		
27	Film Unit		
28	Domiciliary Care		
29	Education Improvement Grant 2018/19		Final output issued
30	Joint Committees - Prosiect Gwyrdd		
31	Joint Committees – Port Health Authority		
32	Joint Committees - Glamorgan Archives		
33	Cardiff Further Education Trust Fund		
34	Storey Arms		
35	Housing Rents		
36	Purchasing Cards (CTS)		
37	Resources – Budgeting and forecasting		
38	Personal Review Process		
39	Radyr Comp – ICT Governance		
40	Llanishen High – ICT Governance		
41	Fitzalan High – ICT Governance		
42	Cardiff High – ICT Governance		
43	Cathays High – ICT Governance		
44	Value for Money – Agency workers, interims and consultants		
45	Music Service – income review follow up		
46	Joint Equipment Stores		
47	Education – Income Processes		

48	Payroll – In-year testing		
49	Bulky Waste		
50	Responsive Repairs		
51	St. Teilo’s - ICT governance		
52	VFM – enforcement		
53	Payroll overpayments		
54	VFM – overtime		
55	Into Work Grant Streams		
56	Bishop of Llandaff – ICT Governance		
57	Cantonian – ICT Governance		
58	Windsor Clive Primary School		
59	Risk Based Verification		
60	St. Peter's Out of School Club and Governors' Fund		
61	Local Housing Allowances 2018/19		
62	Stock systems (Vectec)		
63	Ethics and values – Gifts and Hospitality		
64	Bilingual Cardiff		
65	Education - Commissioning of independent investigations		
66	Stock systems (Tranman)		
67	Building Control		
68	Main Accounting – In year testing		
69	Information Governance		
70	St Peter’s Private Fund		
71	St. Illtyd’s RC High School		
72	Payroll – CRSA		CRSA completed
73	Treasury Management - CRSA		
74	NNDR – CRSA		
75	Main Accounting - CRSA		
76	Pensions and Investments - CRSA		
77	Creditor Payments & Processing - CRSA		
78	Counter-fraud in schools - CRSA development	CRSA developed	
79	Contract guidance for schools	Guidance developed	
Concluded Reports from the prior year at 31.12.19			
80	Atebion Solutions	Final output issued	

81	Risk management arrangements
82	Sickness absence processes
83	County Hall Canteen
84	Education Improvement Grant
85	Youth Innovation Grant
86	Creditors 2018/19
87	St. Peter's R.C. Primary School
88	Willows High School
89	Ysgol Glantaf
90	Health and Safety Framework
91	Contracts in Waste Management
92	Gatehouse
93	Whitchurch High School
94	Norwegian Church Trust
95	Communities - Partnership & Collaborative Governance
96	Music Service Expenditure Review
97	IT Governance
98	Cloud Computing
99	Stock Check Observation - Lamby Way
100	Stock Check observation - Brindley Road

The opinions given in outputs issued to 31 December 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 December 2019)

Output Stage	Number of outputs	Opinion				No opinion given
		Effective	Effective with opportunity for improvement	Insufficient with major improvement needed	Unsatisfactory	
Draft	28	3	16	8	1	0
Final	72	2	42	9	3	16
TOTAL	100	5	58	17	4	16

Since the last reporting period, five draft reports have been issued with opinions of insufficient with major improvement needed, and one draft report has been finalised 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 December 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
Creditor Payments & Processing - CRSA completed	CRSA completed and discussed with Finance 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.
Pensions and Investments - CRSA	CRSA developed and being completed by Finance colleagues
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.
St Peter's Private 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.

One new audit engagement has been added to the audit plan since the last reporting period, which is highlighted in ‘green’ in the Audit Plan (**Appendix B**). The audit is in respect of Bereavement Services, for which an assurance audit engagement of systems and processes has been requested by the Director to take place in quarter 4. The audit is relatively small, and

accordingly has been agreed within the authority delegated to the Audit Manager (via the Audit Charter 2019/20).

The approach to auditing health and safety within the People and Communities Directorate was subject to adjustment over the reporting period. During initial audit fieldwork, the decision was taken to audit and report upon waste management as a separate assurance engagement, as there were material differences in systems, and indicative audit opinion of the separate areas at this stage. The draft reports have issued in quarter 3, for which a lower assurance opinion has been provided in respect of waste management, for which further details are provided within the following section of this report.

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 final audit report has been issued with an '*unsatisfactory*' audit opinion, for which an outline of the draft findings were reported to Audit Committee in its meeting of 12 November 2019. Accordingly, the executive summary is attached in **Appendix C** to this report.

There were five draft reports issued, for which opinions of '*insufficient with major improvement*' have been allocated over the reporting period. Firstly, an audit of IT Inventory and Asset Management recognised a consistent regime for logging IT assets upon acquisition by central IT service for support and servicing purposes. However, limited IT inventory records were held and maintained at a directorate level. It has been reported that there is a need to communicate clear processes to reaffirm the responsibility to service management for maintaining a register of IT assets and a system of periodic independent checks, for assurance that all IT assets are properly accounted for and held by the officers to which they have been assigned.

An audit of the contract of Domiciliary Care, through which approximately £23.5m of care is provided per annum, identified generally effective contract management practices, and project-based arrangements to prepare for the commission a new contract. However, whilst there were checks in place to mitigate the risk of payments being made for service receipts (invoices) which exceeded an approved package of care, and to follow up on any changes of circumstance which may have an impact on care packages (e.g. hospital, respite stays, service termination etc.) there was no checking regime prior to payment to confirm the actual receipt of services. Management have been recommended to develop a process to systematically verify services delivered as part of control processes.

An audit of Health and Safety within Waste Management services recognised significant management attention and response to high-risk areas. There had been good joint working with the corporate health and safety team to review risk assessments to support a consistent and co-ordinated approach across the directorate. However, through discussions with, and observations of, operatives during audit visits, there were some gaps in their understanding and application of safe working practices. The auditor observed two cases during site visits where health and safety practices were not being followed, which were reported to operational management by the auditor. The cases observed illustrate the cultural challenges that management are focussing on, to translate good risk management awareness into consistent application across the service.

The audit team reviewed processes and systems within the Film Office, which operates as a traded and self-funding Cardiff Council Service within the Economic Development directorate to promote and facilitate filming in Cardiff. Whilst the service has delivered a balanced budget, there was insufficient guidance and training for operational staff, in key areas such as finance, procurement and information governance. A process to properly record and verify income due and received needed to be established. Concerns were also raised in respect of a web-based film application and permit system, for which a data protection impact assessment had not been completed. Management have been signposted to the information governance team, in order for all necessary requirements to be met.

An audit of St Francis Primary School recognised recent improvements in financial controls, with a number of policies being ratified by the Governing Body, the development of an Authority List and improvements in some areas of record keeping. However, the auditor was unable to locate all records, as there was a gap in the documentation available in the school. Attention was

needed for the control of contracts and leases, for which the school did not have documented procedures, and there was no register of leases or contracts in place, or records of comparative quotes obtained prior to establishing contracts to demonstrate best value. Orders were also being raised retrospectively upon receipt of invoices, rather than using the invoice to match any payment to an approved order.

2.4 Value for Money findings

There were no value for money themed audits undertaken within the reporting period.

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 1,380 chargeable days to 31 December, against a pro-rata plan of 1,493 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.

Since the last progress report one member of the team has completed their final CIA exam and qualified with the IIA. Two members of the team continue to be supported through a CIA qualification with the IIA. One auditor is working towards their third and final exam, and 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, having passed all exams to date.

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 quarter 2, those planned for quarter 3 and any changes to internal controls that could affect the audit plan. The changes to the audit plan, informed by these meetings and wider considerations, are detailed in section 2.2 (Annual Plan).

Audit has issued 50 client questionnaires this year (as at 31 December) and has received 24 responses (a response rate of 48%). One question asked of clients is whether they considered that the audit work added value to their service; 21 out of the 24 clients responded to advise that it did. Since the last reporting period one client felt the audit did not add value, as they were aware of what they needed to address, and whilst the audit action plan did not provide anything new, the client considered that it helped them to structure their work. The client views in respect of two previous cases, one where the client considered the audit did not add value, and another in which the question was not answered, were reported to Audit Committee in the meeting of 12 November 2020.

In the reports issued to date (as at 31 December), there have been 574 recommendations made, of which audit clients have agreed 351, with 223 presently being considered through draft audit reports. These are summarised below:

Figure 4. Recommendations raised and agreed

Rating	Recommendations made	Recommendations agreed	Recommendations being considered
Red	30	18	12
Red / amber	280	178	102
Amber / green	214	121	93
Green	50	34	16
TOTAL	574	351	223

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, and the Core Cities position was reported on 12 November 2019.

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

Figure 5. Performance against targets for 2019-20 (to date)

Performance Indicator	2018/19 Outcome	2019/20 Target	Q1 Outcome	Q2 Outcome	Q3 Outcome
The percentage of audit reports delivered within six weeks	78%	85%	80%	71%	79%
The average number of audit productive days per FTE	142	170	42	86	132
The average number of finalised audits per FTE	12	12	3	6	8
The percentage of audit recommendations implemented within the agreed timescale	67%	90%	52%	59%	64%
The percentage of the audit plan completed	77%	80%	19%	35%	49%

For the quarter 3 position, the average number of productive days per auditor was strong and there was an improvement against the previous quarter on the level of audit reports delivered within six weeks. The level of audit recommendations implemented on time was improving, but continued attention is required in this area as performance remains significantly below target.

There were 79 reports issued to at least draft report stage at the end of quarter 3. Although this is below the proportionate target for this point in the year, it is in line with the quarter 3 position in 2018/19. In line with the below target delivery of the plan, the average number of finalised audits per FTE will need to improve in quarter 4.

A small number of factors have impacted on the delivery of the audit plan over quarter 3. Firstly, there has been an increase in the number of short-term sickness absences within the team. One long-term sickness case, which commenced in quarter 3, is ongoing. Whilst the audit team has benefitted from having low rates of sickness for some time, the recent increase in sickness has had an impact on the conclusion of fieldwork in a number of audit engagements.

This quarter an adjusted approach to delivering thematic audit engagements, has also contributed to slippage in audit delivery. The audits of 'asset management' and 'health and safety' have been delivered through empowering lead senior members of the audit team to co-

ordinate the audit engagements across all directorates. Lead auditors have supported initial risk assessments, the approach to planning and delivery, and have provided ongoing advice and guidance to operational auditors. The approach has offered developmental benefits for lead auditors, and supported co-ordinated delivery of audit engagements in key assurance areas. Whilst most audits are materially complete, a number of the thematic audits had not been issued by the end of the quarter as planned, and will follow in quarter 4.

Although there has been slippage on audit delivery, 60% of the audit plan has been actively worked upon, and materially progressed at the end of quarter 3. The remaining quarter 3 allocation is due to be issued in January 2020, and further information on the work targeted for quarter 4 is provided in section 3.3 – Audit Plan Delivery.

3.3 Audit Plan Delivery

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.

All audits have been assigned for quarter 4, and although the performance target was set to deliver 80% of the audit plan, the priority is extensive audit coverage and assurance. A substantial number of audit engagements have already been completed with a good breadth of audit coverage.

If there is a continuation of the current rates of sickness in quarter 4, or other factors which could affect the productive audit resource, the team will deliver a lower proportion of the audit plan than 2018/19. The Audit Manager considers that reasonable slippage can be accepted, as the audit plan has been delivered in a targeted, risk-based manner, to ensure that throughout the year, a comprehensive assurance opinion is being developed.

Audit Committee will be aware from the benchmarking information provided in September and November 2019 (Welsh Local Authorities and Core UK Cities) that there are a higher number of audit engagements delivered annually in Cardiff Council than the average for each benchmarking group. In allocating 80% of the audit plan, the Audit Manager is targeting actual delivery comparable with 2018/19, with the expectation that the audits not delivered will be materially progressed, with indicative audit opinions formed to support the annual opinion.

Further information on audit progress, and the audits targeted for delivery in quarter 4 are provided below:

- There has been significant progress in the delivery of the thematic audits of asset management and health and safety across all directorates. These audits will be concluded in early quarter 4, and thematic work on commissioning and procurement will then commence. The final thematic study of income and debtors is targeted to be carried forward to 2020/21.
- Many fundamental audits have been completed, and the audits to be completed in quarter 4 are payroll in-year testing, recruit, and pensions and investments in-year testing. It is intended to carry forward fundamental audits of establishment reviews and creditor year-end testing, for completion in 2020/21 based on the creditors work already completed this year, and the level of roll out of the DigiGOV establishment review module.
- The delivery of corporate governance audits has been relatively strong, and audits of governance, performance management and ICT Project audits are targeted for delivery in quarter 4. The audits of wellbeing of future generations and taxation are intended to be carried forward to 2020/21. The audit of delegation and decision making is deferred for the time being, but it is intended for the objectives to be delivered as part of a proposed thematic audit of 'pre-contract assurance', as referred to in summary audit plan for 2020/21, within agenda item 10.3.
- A range of follow up audits are targeted for delivery in quarter 4, for assurance on the progress made in addressing the improvements required from unsatisfactory audits. These audits are highlighted in blue in the Audit Plan (Appendix B). A number of other assurance and directorate-level audits are also planned for delivery.

3.4 Recommendations

Included within **Appendix D** are the red and red/amber open recommendations including the current management response for the information and monitoring of the Audit Committee. **Appendix E** 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 31.12.19). 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 6. 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	43	12	31
Social Services	18	13	5
Resources	7	4	3
Housing and Communities	6	5	1
Planning Transport and Environment	9	8	1
Street Scene	37	24	13
Central Transport Services	3	3	0
Economic Development	14	9	5
External and grants	0	0	0
Fundamental	5	0	5
Corporate Governance	2	2	0
Governance and Legal Services	1	0	1
Other assurance	9	3	6
	154	83	71
Schools	114	54	60
TOTAL	268	137	131

4. **CONCLUSION**

4.1 Summary

Whilst the delivery of the audit plan at the quarter 3 position is comparable with last financial year, it is below target. Slippage on the audit plan has been caused by a spike in sickness, and the conclusion of two sets of thematic audit engagements. Through the thematic audits, a new approach has been trailed to develop senior members of the team to co-ordinate and supervise each directorate audit. This approach is considered to be positive for development and co-ordinated delivery, but has caused some slippage in issuing the respective draft reports to a number of directorates.

Audits have been allocated for delivery in quarter 4 to provide a breadth of assurance in inherently high-risk areas. A series of follow up audits are also planned for assurance on the implementation of control improvements for audit reports where unsatisfactory audit opinions have been provided, in accordance with the Audit Protocol.