

AUDIT COMMITTEE: 21 January 2020

INTERNAL AUDIT PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 10.1

Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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 December 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 December 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 December 2019. This includes all outputs finalised since April 2019, and all draft outputs issued at the reporting date.
8. There have been twenty-two new audit outputs in the reporting period, and twelve audit outputs have been concluded and finalised. Outputs have been issued with an opinion of effective or effective with opportunity for improvement in 75% of the audit opinions provided in 2019-20, as at 31 December 2019. There were 79 reports issued to at least draft report stage at the end of quarter three. Although this is below the proportionate target for this point in the year, it is in line with the quarter three position in 2018/19.
9. A small number of factors have affected 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. Additionally, an adjusted approach to delivering thematic audit engagements, through which senior team members have been allocated a lead role, has contributed to slippage in audit delivery. 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.
10. 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).
11. 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 also 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.
12. 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 objectives of the audits of wellbeing of future generations and delegations and decision-making are intended to be delivered in 2020-21.
- 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.

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 31 December 2019, with focus given to unsatisfactory and insufficient with major improvement audit assurance.
14. 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.
15. There were five draft reports issued, for which opinions of '*insufficient with major improvement*' have been allocated over the reporting period for which the findings are outlined below:
 - 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 was 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. Recommendations have focussed on the need to translate good risk management 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.
- Section 2.4 of Annex 1 provides the pertinent value for money findings over the reporting period, in which 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.

Performance

16. In respect of quarter 3 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.
17. 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.
18. Further information on quarter 3 performance is included within 3.2 of Annex 1.

Audit Recommendations

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

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

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

22. That the Audit Committee:

- Note and consider the contents of the Progress Report.

CHRIS PYKE
AUDIT MANAGER

The following are attached:

Annex 1	Internal Audit Progress Report
Appendix A	Report Status as at 31 December 2019
Appendix B	Audit Plan
Appendix C	Executive Summary – Fly Tipping
Appendix D	Red & red / amber open recommendations
Appendix E	Red & red / amber recommendations completed since last Committee