UCHELGAIS PRIFDDINAS CAPITAL AMBITION

Resources Directorate
Internal Audit Section

CARDIFF CAERDYDD

Internal Audit Progress Report
(as at 30 September 2020)

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INTERNAL AUDIT PROGRESS REPORT

1. INTRODUCTION

1.1 Background

The Internal Audit Progress Report sets out performance in relation to the Internal Audit Plan. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings.

The Audit plan 2020/21 was accepted by the Audit Committee through a period of consultation between 23 March – 3 April 2020, and received formal approval on 28 July 2020. This progress report provides a summary account of audit activities, findings and progress against the Audit Plan in quarter two 2020/21. The quarter one position was reported to Audit Committee on 28 July 2020.

The Internal Audit 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.

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

Auditors completed their year-end personal reviews in line with corporate direction, have been formalising their objectives for 2020/21 in accordance with corporate timescales. Prior to discussing performance, auditors updated their skills assessment in application of the IIA Professional Competencies Framework.

The results of personal reviews and skills assessments informed the year-end Audit Manager's review against the Quality Assurance and Improvement Programme (Standard 1300), from which a generally strong baseline of knowledge and skills were recognised across the audit team. Areas of the IIA Professional Competencies Framework where auditors scored themselves comparatively lower are being targeted through in-house team training sessions, which commenced in May 2020.

2.   **SUMMARY OF WORK PERFORMED**

The following summary covers the work programme for 2020/21, and the associated activities, resources, findings and measures of performance as at quarter two 2020/21. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.

2.1   Current activities

COVID-19 related consultancy services

As Audit Committee was advised in the quarter one progress update, significant audit attention has been given to providing critical advice and support to management as the Council adapted services and established new systems in response to the crisis. Consultation and engagement was provided in cases where there was a need for fundamental process change, a risk to resilience, the need to respond to a significant obligation or challenge as a result of the crisis, or a particular fraud or control risk.

Audit consultancy services continued in quarter two, with the majority of support provided in respect of the administration of Welsh Government funds for a range of grant and relief payment schemes. As administration responsibilities are allocated to the Council for further schemes, audit colleagues will continue to be available to provide advice and guidance on the design and application of robust controls.

COVID-19 consultancy is recognised as three separate areas of audit work within the Audit Plan 2020/21, contained within the 100 days of bulk audit time available. The following table contains details of the COVID-19 consultancy work completed in the year to date.

Figure 1. COVID-19 consultancy work completed.

Scope	Area	Scope
1. New system checks. compliance, internal controls and counter-fraud	Start-up grants	Supporting a multidisciplinary team with advice and guidance on design of the system through which grants were administered and paid.
	Business grant administration	
	Supplier relief	Discussion and engagement with commissioning and procurement and schools
	Coronavirus childcare assistance scheme	Advice and guidance on processes and controls in the system for processing and administering payments.
	Childcare provider grant	
	Care workers £500 payment scheme	
	Wales culture recovery fund – freelancer support	
2. Resilience, continuity & control. Consultancy	Procure to pay	Advice and guidance in procurement systems and managed use of procurement cards.
	Procurement cards	
3. Counter-fraud prevention & post assurance checks.	Business grant administration	Active company checks, and validation of eligibility and fraud vulnerabilities for fraud prevention and detection.

Assurance audit engagements

As Audit Committee was advised in the quarter one progress update, at the outset of the financial year initial focus was given to the conclusion of audits which were already underway. Audits were progressed on a low impact on the capacity of the client, through an increased use of desktop testing, data and system interrogation, and a reduction in the level of management engagement during audit fieldwork where appropriate and feasible. Towards the end of quarter one, when Council services were moving to a documented and managed 'restart' across directorates, the audit team commenced a targeted delivery of assurance audit engagements from the Audit Plan.

Auditors have continued to complete their work while working remotely from home and, although it is noted that it can take longer than usual to receive all of the information and

documents necessary to complete an audit, the process is generally working well. This year any site visits will be considered on the basis of business necessity only, and will be supported by authorised risk assessments and control processes.

The table below shows the list of audits completed and their reporting status in the current year to 30 September 2020. There have been 27 new audit engagements completed this year, of which 12 audits have been finalised and 15 audits are at draft output stage. A further 11 draft audits from last year have been finalised in the year to date. A summary of the audit outputs and opinions in the year to date is shown below.

Figure 2. Audit outputs and opinions (at 30 September 2020)

Status	Number of completed audits	Opinion				
		Effective	Effective with opportunity for improvement	Insufficient (major improvement needed)	Unsatisfactory	No opinion given
Draft	15	1	12	2	0	0
Final	23	4	6	5	0	8
TOTAL	**38**	**5**	**18**	**7**	**0**	**8**
	27	*New Audit Engagements completed*				
	11	*Finalised Audit Engagements from 2019/20*				

Since the last reporting period, two draft audit outputs have been issued with opinions of insufficient with major improvement needed. Information on the findings of these audits is provided within Section 2.4 (Critical Findings or Emerging Trends).

Figure 3. Breakdown of audit outputs and opinions (at 30 September 2020)

No.	Assurance Audit Engagement	Audit Opinion
	Delivery of Audit Plan 2020/21	
1.	Governance and Legal Services – Commissioning & Procurement	Effective
2.	Codes of Conduct	
3.	Digital Services - Hybrid Mail	Effective with opportunity for improvement
4.	Health and Safety - Resources	
5.	Programme and Project Risk Management	
6.	Directorate Risk Management	
7.	Complaints and Compliments	

8.	City Deal 2019/20	
9.	PTE - Trolleys	
10.	Pensions and Investment In-year testing	
11.	Resources – Commissioning & Procurement	
12.	PTE – Commissioning & Procurement	
13.	People & Communities – Asset Management	
14.	Recruit	
15.	Economic Development – Commissioning & Procurement	
16.	PTE - Asset Management	Insufficient with major improvement needed
17.	Street Scene (Waste Management) - Asset Management	
18.	Social Services – Commissioning & Procurement	
19.	Bereavement Services	
Audit Work with 'No Opinion'		
20.	Joint Committees - Prosiect Gwyrdd	Consultancy, certification, advice and guidance
21.	Joint Committees - Port Health Authority	
22.	Joint Committees - Glamorgan Archives	
23.	New system checks - compliance, internal controls and counter-fraud	
24.	Resilience, continuity & control - Consultancy	
25.	Counter-fraud prevention & post assurance checks	
26.	Payroll CRSA	
27.	Creditor payments CRSA	
Concluded Reports from the prior year		
28.	Health and Safety - People and Communities	Effective
29.	Major Projects Governance	
30.	Creditors - mid year testing 2019/20	
31.	Health and Safety - Economic Development	Effective with opportunity for improvement
32.	Income collection - Cardiff High School	
33.	Governance Arrangements	
34.	Audit of performance management	
35.	Safeguarding - follow up	
36.	Econ Dev - Asset Management	Insufficient with major improvement
37.	IT inventory and asset management	
38.	Cardiff Film Office	

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

Figure 4. Completed audits without an assurance opinion (at 30 September 2020)

Audit	Comments
Joint Committees - Prosiect Gwyrdd	Work to support completion of Statement of Accounts, 2019/20
Joint Committees - Port Health Authority	
Joint Committees - Glamorgan Archives	
New system checks - compliance, internal controls and counter-fraud	COVID-19 advice and guidance on establishing new systems and processes.
Resilience, continuity & control - Consultancy	COVID-19 advice and guidance in procurement systems and managed use of procurement cards.
Counter-fraud prevention & post assurance checks	Participation in data analytics and follow up checks to identify ineligible / fraudulent business grant cases.
Payroll CRSA	Control Risk Self-Assessment (CRSA) responses received. The assertions made in the management responses will be followed up with detailed audit testing during the year, at which time an audit opinion will be allocated.
Creditor payments CRSA	

The report status for the year to date is shown in **Appendix A**.

2.2   Resources

Throughout the first financial quarter in particular, the COVID-19 crisis significantly affected the activities and capacity of audit clients, and it also had a material impact on the capacity of the audit team and the audit resources. The audit team has followed corporate guidance, whereby officers received special leave for periods that they have needed to care for dependants and have been unable to work. However, the team has shown significant personal flexibility in their commitment to limiting the use of special leave as far as possible.

In the previous audit progress report, Audit Committee was advised that available staff resources have also been impacted by an increased level of sickness and bereavement leave. One member of the team was also temporarily deployed for a number of weeks to support their personal development and assist the finance team in preparation of the Statement of Accounts 2019/20, which also affected the staff resource.

Two members of the audit team were off with cases of long-term sickness during quarter two, both of whom resumed normal duties by the end of the quarter in full following an initial phased return. Given the relatively small team size, the cases of long-term sickness affected the level of progress that could be made against the plan over the quarter.

As all operational auditors and the audit assistant record all actual time worked, there is useful management information available for planning, monitoring and reporting purposes. Timesheet data contained 688.6 chargeable days as at the end of quarter two, against a pro-rata plan of 955.8 days, showing that the team has been operating at a chargeable capacity of circa 72% of planned. The audit targets for delivery of the Audit Plan 2020/21, as set out in section '3.3 - Performance', are based on delivery at 75% of the level targeted under normal conditions, given the current environment.

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. Both auditors needed to delay their exam sittings due to COVID-19 related restrictions by the IIA. The auditors have continued with their studies and will take their next exams in due course. The audit team will receive a new CIPFA trainee placement from the beginning of quarter two, as CIPFA placements operate on a annual rotation across finance teams. As part of the trainee rotation there is a continuity of CIPFA placement resource for the audit team.

2.3   Annual plan

In considering the Audit Plan in March 2020, and in giving formal approval on 28 July 2020, the Audit Committee was advised that due to a range of factors linked with the COVID-19 crisis, delivery would be significantly lower than usual. The Plan was built on auditor and client availability and capacity in a normal operating environment, but targeted delivery of the Plan was set at 60% for the year, for which the typical target is 80%.

Audit Committee has been advised that the Audit Plan would be delivered in a targeted way to maximise assurance and prioritise high-risk areas, for which further details are now provided as follows. It is proposed to defer 32 audit engagements (24% of the original audit plan) which would not be subject to audit consideration in 2020/21. Audit resources could then target the

delivery of the three core categories of assurance from the Audit Plan, namely 'fundamental', 'corporate governance' and 'other assurance' audits. These audit areas are considered essential to providing the annual audit opinion on the Council's control environment, and would be prioritised.

Appendix B identifies the audits in the original plan which are proposed to be deferred, of which the majority of audits fall within 'service specific' audit categories. It is proposed that:

- All 'fundamental' and 'corporate governance' audits are prioritised for delivery, and that the only audit included in the 'other assurance' category of audits to be deferred is 'value for money on digital initiatives';
- Three thematic audits across directorates are deferred, namely performance management, information management and pre-contract assurance. It is considered that these audits can be deferred, as corporate audits of performance management and information governance were completed in 2019/20, with each receiving an assurance rating of effective with opportunity for improvement. The audit of pre-contract assurance, is proposed for deferral as commissioning and procurement thematic audits are being delivered this year, as well as individual contract audit work;
- A number of service specific audits are deferred, which have been considered and agreed with directorate management as part of recent Relationship Management meetings.

Two new audits have been added with the Audit Plan, which due to their size have been agreed within the delegation of the Audit Manager, to approve individual audit engagements which are of no more than ten audit days. One audit is of a consultancy nature, to provide advice and guidance on the development of effective controls in a private rental leasing scheme, and the second audit is to certify the use of the education improvement grant 2019/20.

Whilst set on an annual basis, the Audit Plan is adaptable and responsive and will be subject to ongoing risk assessment, prioritisation and review throughout the year to maximise assurance and management support. In-year changes may be introduced where appropriate, to respond to emerging risks and issues as the year progresses.

2.4   <u>Critical findings or emerging trends</u>

Over the reporting period, two audit reports were issued with adverse audit opinions for which further details are provided in the paragraph below. At the reporting date, the audits referred to below were at a draft status, for which the findings were being discussed with management, and once finalised, the final opinion and recommendations will be reported to Audit Committee.

The audit of 'Bereavement Services' recognised the high levels of accreditation held with the Institute of Crematorium Management (ICCM), and effective professional procedures, business continuity and pandemic planning arrangements were in place. However, it was considered that management need to prioritise necessary improvements to certain governance processes, and financial systems, and an opinion of insufficient with major improvement needed was assigned. It was considered that a clear cycle of maintenance and oversight of officer accommodation was required, as this was not formally set out, and systematic processes were needed to receive declaration of interest disclosures, as these had not been formally returned. At a transactional level, there was a need for increased attention to detail from those overseeing and approving procurement, payments and claims. For instance, single tender and off contract spend was noted, procurement card use was significant and not limited to the designated cardholder, and some claim discrepancies were noted (overtime, mileage and subsistence). Further recommendations have been raised to support management to resolve ongoing stock discrepancies and a particular Welsh language translation issue.

The audit of 'Social Services – Commissioning and Procurement', recognised that the commissioned service environment is complex, and appreciated that, in providing essential services to adults and children, direct awards can be considered a necessity in some circumstances. However, it was noted that a significant proportion of contracts had lapsed in Childrens Services (8 of 23 (35%)) and Adult Services (15 of the 37 (41%)), and an overall opinion of insufficient with major improvement needed was assigned.

It was considered that a targeted strategic approach is required to recover from the current position, whereby a number of contracts are out of date or subject to extension and direct award, on a managed and targeted basis. Early engagement with the Commissioning and Procurement Team in identifying and progressing commissioning and procurement activities is considered as essential to delivering sustained improvement and compliance.

2.5   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.

3.   AUDIT PERFORMANCE AND ADDED VALUE

3.1   Added value

Relationship Management meetings have continued to be held on a quarterly basis with senior officers in each directorate. Particular focus has been given to understanding the priorities and risks within each management team, and the changes to systems or processes planned or underway, in order to direct audit advice and inform the planning of audit engagements. Attention has also been given to discussing progress against the delivery of audit recommendations and the finalisation of audit reports.

Feedback from audit clients has been positive in the year to date. Ten questionnaire responses have been received in which across all areas auditors were assessed as either 'excellent' or 'good'. In all responses received clients advised that the audit 'added value'.

In the audit outputs issued to date (as at 30 September 2020), there have been 143 recommendations made, 80 recommendations have been agreed, and the remaining 63 are being considered by audit clients through draft audit outputs. These are summarised below:

Figure 5. Recommendations raised and agreed

Rating	Recommendations made	Recommendations agreed	Recommendations being considered
Red	9	7	2
Red / amber	59	33	26
Amber / green	63	34	29
Green	12	6	6
TOTAL	143	80	63

3.2   <u>Performance</u>

As outlined in section 2.1 ('Current Activities'), the focus of audit work at the start of the financial year was to provide audit consultancy and support to areas where Council services needed to change and adapt to the crisis. This was followed by a more formal commencement of assurance audit engagements and a managed return to business as usual in June 2020, at the time when services has commenced a formal 'restart' phase.

As outlined in 2.2 ('Resources'), there are various reasons why the audit service has been operating at a lower capacity, and in some cases efficiency, than usual. In recognition of the current environment which can impact on the capacity and availability of both auditors and clients, performance targets were lowered from their usual levels, and set at stretching but more realistic levels for the year, and discussed with Audit Committee in July and shown in Figure 6. The average number of audit productive days to date is in line with expectations in the current environment.

Audit Committee was advised on 28 July 2020 that, during quarter one, the audit team stood down from seeking management responses and progress against recommendations raised, and finalising audits. This action was taken to give management the space to address crisis management matters. The normal regime resumed in quarter two, and the audit team have been working with management to finalise a number of audits, and pursuing updates and evidence of the completion of agreed recommendations. The positon is improving, but the finalisation of draft reports, and reinforcing the importance of the timely delivery of audit recommendations, are priority actions for quarter three.

It is positive to report that draft audit outputs are being delivered promptly after the conclusion of audit fieldwork, and performance against the Audit Plan is improving. However, delivery of the Audit Plan needs to accelerate over the remaining two financial quarters in order to meet the target set. Each auditor has been assigned a basket of audits that they are responsible for delivering over the remainder of the year. Audits have been allocated and prioritisation in order to maximise assurance with the resources available, as set out in section 2.3 ('Annual Plan').

The last area of the Audit Plan to recommence relates to school audits. An updated Control Risk Self-Assessment (CRSA) has been developed, for which an overview is due to be provided to the

School Budget Forum by Audit Management at the end of November 2020, following which all schools will be asked to respond. A number of CRSA style school audits are planned, through which there will be direct testing on the assertions made in the self-assessed responses, and a number of full school audit engagements are also planned, to commence from quarter three. An approach has been developed to deliver audit fieldwork remotely and on a desktop basis, in order to safeguard schools and audit staff during the pandemic.

Figure 6. Performance against targets for 2020-2021 (to date)

Performance Indicator	2019/20 Outcome	2020/21 Target	Q1 Outcome	**Q2 Outcome**
The percentage of the Audit Plan completed	70%	60%	9%	**20%**
The average number of audit productive days per FTE	169	130	33	**67**
The average number of finalised audits per FTE	11	9	*0.54	**2.48**
The percentage of draft audit outputs delivered within six weeks	86%	85%	100%	**100%**
The percentage of audit recommendations implemented within the agreed timescale	60%	80%	**0%	**50%**

* *Draft reports not chased up to be finalised in Q1, to allow for attention on COVID-19 priorities.*
** *Implementation of recommendations not chased up in Q1, to allow for attention on COVID-19 priorities.*

3.3   Recommendations

A summary of the open audit actions is included within **Appendix C**, to support the Audit Committee to monitor and review the management response to recommendations raised.

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 they were last considered by Audit Committee. Amber / green and green recommendations are provided to Committee via a separate route.

The position against recommendations is reported, to monitor progress and target discussions on the effective management of risk management, in relationship management meetings each quarter.

The table below shows the instances where implementation dates have been revised, typically by audit clients on SharePoint (as at 30.09.20). However, as Audit Committee was advised in July, the target dates for all 'open' school recommendations which were due / shortly due, were automatically extended (revised) until 31 October 2020. This decision was made to allow schools to focus their attention on the safe return of pupils in the autumn term. All schools with outstanding recommendations were written to reminding them that the normal regime for monitoring and delivery of recommendations would resume in quarter three.

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	38		10	28
Social Services	14		11	3
Resources	5		4	1
Housing and Communities	2		2	0
Planning Transport and Environment	5		3	2
Waste Management	45		25	20
Central Transport Services	9		0	9
Economic Development	19		11	8
External and grants	0		0	0
Fundamental	8		6	2
Corporate Governance	8		1	7
Governance and Legal Services	1		0	1
Other assurance	18		2	16
	172		75	97
Schools	191		50	141
TOTAL	363		125	238

4.   CONCLUSION

4.1   Summary

Quarter two has seen a continued, albeit lower need to deploy audit resources for advice, guidance and support services to management as systems and processes have responded to the crisis. The majority of COVID-19 related consultancy services now relate to the provision of advice and guidance on the application of effective controls in administration of a range of Welsh Government funds.

Following the 'restart' of Council services towards the end of quarter one 2020/21, assurance audit engagements progressed, and are a focus of priority for the remainder of the year.

The Audit Plan has been refocussed for Audit Committee consideration and approval to ensure resources are deployed in order to provide assurance in core areas, and with sufficient breadth to limit any potential impairment to the annual opinion on the Council's control environment for 2020/21. The delivery of the audit plan needs to ramp up over the remainder of the year, and each auditor has been allocated a basket of audits for targeted delivery.

The regime of chasing up management responses to recommendations and finalising audits recommenced over the quarter, after the team had stood down from this work initially to allow management the space they needed to respond to more immediate challenges associated with COVID-19.