



# Resources Directorate Internal Audit Section



## Internal Audit Progress Report (As at 28 February 2023)

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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.

This progress report covers the period from 1 January – 28 February 2023, and follows the updates provided in the last Committee meeting held on 24 January 2023. This report is structured to provide a summary account of audit activities, outcomes and progress made against the Audit Plan 2022/23.

The Audit Plan 2022/23 was approved by the Governance and Audit Committee on 15 March 2022. 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 Governance and Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

### 1.1 Continuing Professional Development

Auditors have completed their year-end personal reviews and formalised their objectives for 2022/23. 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.

#### 1.4 External Peer Assessment

The Public Sector Internal Audit Standards (PSIAS) requires an external assessment of conformance with the Standards to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The previous external peer assessment was completed by the Head of Audit from Rhondda Cynon Taf and reported to the Committee in March 2018.

Further to the details provided to Committee in July and November 2022 and January 2023, the assessment has been completed, led by the Chief Auditor in Monmouthshire / Newport Councils (Andrew Wathan) who was allocated to undertake the peer assessment of Cardiff Council's Internal Audit service.

The assessment has reported no partial or non-conformance. One optional action was proposed and has been implemented, relating to the communication of the audit scope and objectives along with the risk, within audit outputs. Further information and the full assessment are provided within agenda item 8.3, to be presented to Committee by the assessors.

## 2. SUMMARY OF WORK PERFORMED

The following audit summary covers the work programme for 2022/23, and the associated activities, resources, findings and measures of performance as at 28 February 2023.

### 2.1 Current Activities

During quarter four 2022/23 as at 28 February 2023, the priorities and approach of the audit team were to deliver a combination of management support through consultation and engagement in high-risk areas, and to further progress the delivery of assurance engagements from the Audit Plan.

The Internal Audit Team has continued to be available and to provide advice and guidance on the design and implementation of effective controls in the administration of Welsh and Central

Government grant schemes as well as for the Homes for Ukraine Scheme, to achieve compliance and control, and arrangements for the effective prevention and detection of fraud.

Work continues to be undertaken predominantly on a desktop basis, although site visits are taking place for establishment audits, and where there is a need to observe the operation of physical controls or operating practices.

The table below shows a list of audits and their reporting status in the current year until 28 February 2023, whereby 35 new audit engagements were completed to at least draft output stage and 22 audit engagements from the prior year have been finalised. A summary of the audit outputs and opinions in the year to date is shown below.

**Figure 1.** Audit outputs and opinions (at 28 February 2023)

Status	Number of completed audits	Opinion				
		Effective	Effective with opportunity for improvement	Insufficient with major improvement needed	Unsatisfactory	No opinion given
Draft	12	2	7	2	1	0
Final	45	7	25	6	0	7
TOTAL	57	9	32	8	0	7
	35	New Audit Engagements completed				
	22	Finalised Audit Engagements from 2021/22				

**Figure 2.** 2022/23 Audit outputs and opinions (at 28 February 2023)

No.	Assurance Audit Engagement	Audit Opinion
1.	Welsh Government Covid Grants - Assurance (2021/22) *	Effective
2.	Get me home service	
3.	ICF schemes (incl. Families First)	
4.	School Asset Management - Thematic (Albany)	
5.	Housing Benefit / Local Housing Allowance / Council Tax Reduction Scheme	
6.	Income and Debtors	Effective with opportunity for improvement
7.	Health and safety	
8.	Leisure Contract Governance	
9.	Shared Regulatory Services in Cardiff	
10.	Cantonian	

No.	Assurance Audit Engagement	Audit Opinion	
11.	Schools with Surplus Balances - Thematic		
12.	Agency Staff Payments		
13.	Risk Management Arrangements		
14.	Procurement		
15.	Brindley Road Stores		
16.	Safeguarding		
17.	Cardiff Caravan Park		
18.	Cardiff Riding School		
19.	Cardiff Organic Waste Treatment Contract		
20.	Glyncoed Primary School		
21.	Catering in Opted out schools		
22.	Cardiff Dogs Home		
23.	ICT Audit - Cyber Security Governance		
24.	Follow up - Cardiff West Community High School		
25.	City Deal 2021/22		
26.	Contract Variations		Insufficient with major improvement needed
27.	Directorate PCI - DSS Compliance		
28.	Central Transport Service		Unsatisfactory
Audit Work with 'No Opinion'			
29.	CRSA - Purchases and Payments		Consultancy, certification, advice, guidance
30.	CRSA - Payroll and HR		
31.	Joint Committees - Prosiect Gwyrdd		
32.	Joint Committees - Port Health Authority		
33.	Joint Committees - Glamorgan Archives		
34.	Service / Process Consultancy		
35.	Education Improvement Grant 2021/22		
Concluded Audits from the Prior Year			
36.	Purchasing and Payments - in year testing	Effective	
37.	Commissioning and Procurement - People and Communities		
38.	Main Accounting		
39.	Resources - Income and Debtors		
40.	Cradle to grave audit	Effective with opportunity for	
41.	Telecare		

No.	Assurance Audit Engagement	Audit Opinion
42.	Information Governance	improvement
43.	Business Continuity and Incident Management	
44.	Performance management	
45.	Purchasing cards	
46.	Directorate Recovery Planning	
47.	Resources - Pre-Contract Assurance	
48.	Income and debtors - Social Services	
49.	School Health and Safety – Thematic	
50.	Value for money in Digital Initiatives	
51.	Pre-Contract Assurance - Adults, Housing and Communities	
52.	Children's Placements	
53.	Section 106 agreements	
54.	Mileage & Subsistence	
55.	Cloud Computing	
56.	Pre-contract assurance - Children's Services	
57.	PTE - Pre-Contract Assurance	

\*Arrangements were made for the audit of 'Welsh Government Covid Grants – Assurance' to be overseen by another Operational Manager within Accountancy, and to remove any involvement in the audit review from the Audit Manager, who has advised on the design and operation of controls in the administration of these grants.

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.** Completed audits without an assurance opinion (at 28 February 2023)

Audit	Comments
Joint Committees - Prosiect Gwyrdd	Work to support completion of Statement of Accounts, 2021/2022
Joint Committees - Port Health Authority	
Joint Committees - Glamorgan Archives	
Service and Process Consultancy – Homes for Ukraine Scheme and Welsh and Central Government grant schemes	Compliance, control, and counter-fraud guidance

Audit	Comments
Education Improvement Grant 2021/2022	Grant certification
CRSA - Purchases and Payments	Control Risk Self-Assessment completion exercises with clients
CRSA - Payroll and HR	

The position against the full Audit Plan is contained in agenda item 8.2 (annex 6) and is therefore not included as an appendix to this report to avoid duplication. However, the report status is shown in **Appendix A**.

## 2.2 Resources

The new Principal Auditor post that Committee was advised of in November 2022 has been successfully appointed to at 0.6 FTE. This post represents an additional member within the Audit Management Team and enhances a solid core of senior officers within the team. The post holder will commence in March.

The new Principal Auditor was an internal appointment, leaving a vacancy at the Senior Auditor level. There is a further vacancy at the Senior Auditor level, as the other post holder will be leaving the team after the year end for an opportunity within the Planning and Performance Team. Arrangements are being made to advertise the two Senior Auditor posts at the earliest opportunity.

Three CIPFA trainee posts have been advertised and, subject to successful appointments, there will be one CIPFA trainee on rotation within internal audit from quarter 3 2023/24 to support the delivery of the Audit Plan.

Committee has been advised of the impact of vacant posts on the progression of the Audit Plan in the year to date and, to support audit coverage in areas of IT and corporate governance this year, a contract has been awarded for the delivery of four audit engagements under the direction of the Audit Manager. At the time of reporting, the two IT audits have been completed to at least draft report stage, and the remaining two audits are in a position of active fieldwork. There have also been some instances of sickness which have had an impact on the available staff resources during quarter four to date.

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 1,105 chargeable days up to 28 February 2023, against a pro-rata plan of 1,318 days. The lower number of chargeable days to planned are primarily attributed to the vacant senior auditor post, but also impacted by greater use of administrative and management time, and staff engagement in development and corporate wellbeing initiatives. There have been some instances of short-term sickness, although the impact of this on staff resources has been relatively minor.

Time is available for audit development purposes, and one Auditor has funding in place to study the Certified Information Systems Auditor (CISA) Qualification with ISACA.

### 2.3 Annual plan

The Audit Plan 2022/23 is set on an annual basis. It 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.

For the information of the Committee, all audits that were at draft status at the end of 2022/23 are highlighted in 'grey' in order to enable the finalisation of these audits to be tracked, whilst providing a visible separation from the audit engagements contained within the Audit Plan 2022/23.

Delivery of the Audit Plan 2022/23 has been significantly lower than targeted in the year to date, as at 28 February 2023. This is attributed in part to a reduced level of staff resources as outlined in section 2.2. 'Resources', and to some isolated delays in receiving the information requested in order to conclude audit fieldwork. The quarter three position in delivering the Audit Plan, as reported to Committee in January, is shown in section 3.2 'performance'.

In January 2023, the Committee received details of the audits that were being prioritised for completion by the financial year-end. The audits were targeted to provide a sufficient spread of assurance, that mitigates any impairment to the annual opinion of the Audit Manager on the Council's control environment for 2022/23. Delivering what was referred to as priority 1 audits, would ensure all fundamental areas of the plan are delivered, that core areas of corporate



governance have been reviewed, and that there is sufficient coverage at the directorate level. Delivering these audits would achieve 52% of the Audit Plan against a target of 70%.

The position in respect of these audits is set out in the table below, as at 28 February 2023, whereby 20 audits remain ongoing and are all at audit fieldwork stages or beyond. It is intended to complete the majority of these audit to draft report stage by the end of March 2023, with remaining audits to be completed early in the financial year 2023/24.

**Figure 4.** Prioritised audits for quarter four

Audit	Status (as at 28.02.2023)
Waste Management Enforcement	Report Writing / Review
Disposal of Land and Buildings	Audit Fieldwork
Council Tax	
Pensions and Investments	
Ethics and Values	
Partnership / Arms-length Assurance	
In-year testing - Purchases and Payments	
In-year testing - Payroll and HR	
Complaints and Compliments	
Alarm Receiving Centre	
Performance Management – Economic Development	
Eastern High	
International White Water	
Harbour Authority	
Health and Safety – Education & LL	
National Fraud Initiative	
Fitzalan High School	
Baden Powell Primary school	
Norwegian Church Preservation Trust 2021/22	
Cardiff Further Education Trust Fund 2021/22	

The position against the full Audit Plan is contained in agenda item 8.2 (annex 6) and is therefore not included as an appendix to this report to avoid duplication. However, the report status is shown in **Appendix A**.

#### 2.4 Critical findings or emerging trends (Q4 (as at 28 February) 2022/23)

During quarter four, as at 28.02.2023, one draft report has been issued with an opinion of 'unsatisfactory', and another has been issued with an opinion of 'insufficient with major improvement needed'. Management consideration and discussion will follow before the reports are finalised, at which time the assurance ratings and recommendations will be confirmed.

An audit of 'Central Transport Service (CTS)' has provided an opinion of 'unsatisfactory'. From the outset of the audit, the Operational Manager (OM), who had recently been tasked with overseeing CTS alongside their substantive post duties, engaged positively with Internal Audit, and discussed matters that they considered needed to be addressed from their initial observations and reviews. This assisted the audit, and it is noted that the OM has already taken positive steps to enhance systems and governance in place at CTS, including commissioning external reviews in several areas including Operational Licences ("O" licences), Health & Safety (Coleridge Road) and performance reporting elements within Tranman (the Council database used for monitoring vehicles and scheduling work).

At a strategic level, a Fleet Strategy for the Council had not been finalised to support corporate priorities, the delivery of a sustainable fleet for the Council, and address current and future risks. A CTS Business Plan is required to define and set a sustainable business model with corporate and commercial aims and priorities for CTS, including charging and investment mechanisms. Further to this, a service area risk register was not in place and is considered necessary to escalate and manage risk. At an operational level, non-compliance was noted in contract controls and processes, although additional controls for spot hire contracts were promptly put in place in response during the audit. There was no complete and reconciled list of vehicles owned or leased by the Council for control, repair and maintenance assurance. Up to date and complete service level agreements were not available during the audit between CTS and service areas and require review and formalisation. Monitoring and oversight arrangements needed to be developed and enhanced in respect of CTS purchasing card use and authorisation, the system for taking vans home, the prompt raising of invoices, the monitoring of vehicle end of life, bunkered fuel processes and the alignment of overtime to business needs.

Once the management response has been received and the audit has been finalised, the Governance and Audit Committee will receive an executive summary report of the findings and actions for improvement in the following Committee meeting.

The audit, of Directorate Payment Card Industry - Data Security Standards (PCD DSS) Compliance has been issued in draft, with an opinion of 'insufficient with major improvement needed'. The audit has recognised that the Council has made a significant investment in improving its arrangements for complying with the PCI DSS standard in recent years including the creation of detailed policies, guidance and procedures for staff involved in payment processing. In particular, it is evident through the controls in place and feedback provided from audit site visits that the creation of the dedicated PCI DSS Compliance Officer role has been at the core of these improvements supported by the dedicated PCI DSS Working Group.

Testing during site visits sampled confirmed that all relevant staff, including their line managers, had completed the PCI DSS mandatory training. The Council is also taking an early proactive approach to compliance with PCI DSS v4, supported by informal comparisons made during the audit with other organisations. The majority of key mandatory changes require implementation by March 2025 and the PCI DSS Working Group and Compliance Officer are engaged with their PCI DSS Advisors to conduct a gap analysis workshop in March 2023. The risk of non-compliance has been captured and evaluated with mitigating actions identified.

The impaired audit opinion on directorate PCI compliance resulted from testing undertaken at St David's Hall, which identified that the venue has retained copies of cardholder receipts which contain the full unmasked 16-digit Primary Account Number (PAN) contrary to Requirement 3 of the PCI DSS Standard for protecting cardholder data. Whilst this isolated finding has resulted in an impaired audit opinion, management have confirmed that the receipts identified at St David's Hall with unmasked PANs have been securely destroyed, and communications have ramped up to mitigate any further non-conformance with the Council's governance arrangements on PCI compliance.

## 2.5 Value for Money findings (Q4 (as at 28 February) 2022/23)

There were no value for money themed audits completed 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.

### 3. AUDIT PERFORMANCE AND ADDED VALUE

#### 3.1 Added value

Relationship Manager meetings were held with Directors and their representatives during the development of the Audit Plan in quarter four 2021/22. Further meetings were then held quarterly during 2022/2023, with particular focus 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.

Feedback from audit clients has been positive in the year to date, with satisfaction rates at 100% from clients who have responded, 86% of whom advised that their audit 'added value'.

In the audit outputs issued to date (as at 28 February 2023), there have been 314 recommendations made, of which 153 have been agreed, and 161 are presently 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	4	0	4
Red / amber	123	55	68
Amber / green	177	92	85
Green	10	6	4
TOTAL	314	153	161

#### 3.2 Performance

As outlined in section 2.1 ('Current Activities'), the priorities and approach of the audit team were to deliver a combination of management support through consultation and engagement in high-risk areas, and to further progress the delivery of assurance engagements from the Audit Plan.

The performance position in respect of quarter three was provided to the Governance and Audit Committee in January 2023, with relevant commentary, and it is provided below for reference ahead of the quarter four statistics which will be collated following the financial year-end.

A core focus of the team during quarter four is to deliver the majority of the audit engagements listed in figure 4 to draft report stage. This will provide a good level of coverage for the annual opinion from the Audit Manager on the Council's control environment.

Alongside this work, focus is being given to finalising audits on a timely basis and the delivery of audit recommendations within the required timescales. The Audit Manager attended a Senior Management Team meeting on 21 February 2023 to provide relevant analysis, to discuss performance, and to emphasise the importance of continued management attention in these areas.

**Figure 6.** Performance against targets for 2022/23 (to date)

Performance Indicator	2021/22 Outcome	2022/23 Target	Q1 Outcome	Q2 Outcome	Q3 Outcome
The percentage of the Audit Plan completed	61%	70%	13%	25%	29%
The average number of audit productive days per FTE	147	150	37	68	103
The average number of finalised audits per FTE	7.4	9	1.43	3.13	4.82
The percentage of draft audit outputs delivered within four weeks	92%	90%	80%	84%	87%
The percentage of audit recommendations implemented within the agreed timescale	68%	80%	56%	71%	65%

### 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. Sections 2.1 – Current Activities and 2.3 – Audit Plan set out relevant details.

### 3.4 Recommendations

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

Full recommendation trackers on the recommendations open, and those completed since the last committee, are available for Governance and Audit Committee information and reference. This is in accordance with the decision made in the Committee meeting of 24 January 2023 that

the full recommendation trackers will be made available via a SharePoint site to Committee Members going forward, rather than being published as part of Committee papers.

The table below shows the instances where implementation dates have been revised typically by audit clients, for audits which are not recognised as fully addressed by management (as at 28.02.2023). The position against recommendations is reported, to monitor progress and target discussions on the effective management of risk, 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
Fundamental	20	17	3
Corporate	27	17	10
External and grants	13	13	0
Adult Services, Housing and Communities	37	21	16
Children' Services	25	18	7
Economic Development	39	24	15
Education and Lifelong Learning	81	57	24
Planning Transport and Environment	50	35	15
People and Communities	1	1	0
Resources	61	46	15
Governance and Legal Services	11	8	3
Waste Management	51	48	3
	416	305	111
Schools	201	153	48
<b>TOTAL</b>	<b>617</b>	<b>458</b>	<b>159</b>

**NB** - It should be noted that the table above represents the position as at 28 February 2023, whereas the recommendation tracker appendices show the detailed position against each recommendation at the closest possible date to each Committee meeting.

## 4. CONCLUSION

### 4.1 Summary

During quarter four, as at 28 February 2023, the priorities and approach of the audit team have continued to be the delivery of a combination of management support through consultation and engagement in high-risk areas, and delivery of assurance audit engagements from the Audit Plan.

The new Principal Auditor post that Committee were advised of in November 2022 has been successfully appointed to at 0.6 FTE. This post represents an additional member within the Audit Management Team and enhances a solid core of senior officers within the team. The post holder will commence in March.

The new Principal Auditor was an internal appointment, leaving a vacancy at the Senior Auditor level. There is a further vacancy at the Senior Auditor level, as the other post holder will be leaving the team after the year end for an opportunity within the Planning and Performance Team. Arrangements are being made to advertise the two Senior Auditor posts at the earliest opportunity.

Three CIPFA trainee posts have been advertised and, subject to successful appointments, there will be one CIPFA trainee on rotation within internal audit from quarter 3 2023/2024 to support the delivery of the Audit Plan.

Delivery of the Audit Plan 2022/2023 has been significantly lower than targeted in the year to date, as at 28 February 2023. This is attributed in part to a reduced level of staff resources as outlined in section 2.2. 'Resources', and to some isolated delays in receiving the information requested in order to conclude audit fieldwork.

In January 2023 the Committee received details of the audits that were being prioritised for completion by the financial year-end. The audits were targeted to provide a sufficient spread of assurance, that mitigates any impairment to the annual opinion of the Audit Manager on the Council's control environment for 2022/2023. Delivering what was referred to as priority 1 audits, would ensure all fundamental areas of the plan are delivered, that core areas of corporate governance have been reviewed, and that there is sufficient coverage at the directorate level.

As at 28 February 2023, 20 prioritised audits remain, and are at audit fieldwork stages or beyond. It is intended to complete the majority of these audit to draft report stage by the end of March 2023, with remaining audits to be completed early in the financial year 2023/2024. This will provide a good level of coverage for the annual opinion from the Audit Manager on the Council's control environment.

Alongside this work, focus is being given to finalising audits on a timely basis and the delivery of audit recommendations within the required timescales. The Audit Manager attended a Senior Management Team meeting on 21 February 2023 to provide relevant analysis, to discuss performance, and to emphasise the importance of continued management attention in these areas.