

**SUBJECT: INTERNAL AUDIT  
Progress Report for Quarter 2 (2023/24)**

**DIRECTORATE: Resources**  
**MEETING: Governance & Audit Committee**  
**DATE: October 2023**  
**DIVISION/WARDS AFFECTED: All**

## **1. PURPOSE**

To consider the adequacy of the internal control environment within the Council based on the outcomes of audit reviews and subsequent opinions issued to the 30<sup>th</sup> September 2023.

To consider the performance of the Internal Audit Section over the first 6 months of the current financial year.

## **2. RECOMMENDATION(S)**

That the Committee consider and note the audit opinions issued.

That the Committee note the progress made by the Section towards meeting the 2023/24 Operational Audit Plan and the Section's performance indicators at the 6 month stage of the financial year which are currently ahead of the profiled target.

## **3. KEY ISSUES**

- 3.1 Audit work has started in line with the 2023/24 agreed audit plan, considered and approved by the Governance & Audit Committee in July 2023.
- 3.2 This report gives brief details of the work undertaken in the year to date. The report also gives details of the Section's performance indicators for the 6 months to 30<sup>th</sup> September 2023.
- 3.3 The Public Sector Internal Audit Standards came into force in April 2013 (updated March 2017) which the Internal Audit team needs to demonstrate compliance with.
- 3.4 The year end opinion for 2023/24 will be based on the audit work undertaken during the year, cumulative audit knowledge from previous years on key financial systems along with any assurance gained from other parties where relevant.

3.5 As agreed during the Governance & Audit Committee on 29<sup>th</sup> June 2023, the opinions used by the Internal Audit team during 2023/24 (and beyond) have been revised to those recommended by CIPFA for use across the public sector. A copy of the opinions and risk ratings in use from 01<sup>st</sup> April 2023 can be seen in Appendix 2 of this report.

#### **4. REASONS**

4.1 Since the start of the financial year, the Internal Audit Section has completed 23 audit jobs to draft stage from its 2023/24 Operational Audit Plan; 15 of these being opinion related and are shown in the table at Appendix 1.

4.2 The following changes to the composition of the Internal Audit team occurred during Quarter 2 of the financial year.

- Following a successful recruitment exercise, a new Senior Auditor joined the team midway through the quarter (August).
- An external Internal Audit company (SWAP) have been engaged by the Council to conduct a small number of reviews (4). This has been funded from the vacancy savings arising from the vacant Chief Internal Auditor post and the 5 months vacancy period for the Senior Auditor post. As of 30/09/23, 2 of these reviews have commenced, however, due to the Councils budget situation the budget set aside to cover the other 2 reviews may need to be offered as a saving. The Acting Chief Internal Auditor is comfortable with this proposal and does not feel it will impact on his ability to issue an overall year-end opinion as sufficient coverage will be maintained.
- The Audit Manager continues to fulfil the vacant role of the Chief Internal Auditor / Head of Internal Audit while consideration is given to the long-term vision of the service and possible wider collaboration. This arrangement will likely continue for the whole financial year.

4.3 Two 'unfavourable' audit opinions have been issued during Quarter 2.

- Chepstow School – Limited Assurance
- Pupil Development Grant (PDG) – Qualified

4.4 The details and individual weaknesses of why the audit of Chepstow School was considered to be 'Limited Assurance' are included within Appendix 4.

It is important to note that it was the Headteacher of Chepstow School who contacted the Audit Manager during the summer term of 2023 with concerns they had regarding some of the financial practices at the school and requested that an audit review be undertaken. The Headteacher had only been in post since September 2022, firstly in an acting capacity before being made permanent in March 2023 and has been fully engaged with the audit process.

A follow-up review for this School will be included within the 2024/25 Internal Audit Plan.

- 4.5 With regards to the 'qualified' opinion issued for the Pupil Development Grant, the reason for this was the lack of a response to requests for information from the sampled Schools.

Testing was completed in accordance with the schedule provided to Internal Audit by Torfaen County Borough Council (the lead banker for the EAS region).

Two schools who were contacted for PDG grant information refused to provide the required documentation stating that the Headteacher was working under the ongoing Action Short of Strike (ASOS). Further detail regarding this is included within Section 5 of this report. We disagree with this approach from the National Association of Headteachers as it has impacted on the statutory work completed by the Internal Audit department in accordance with the Accounts and Audit (Wales) Regulations 2014. This increases the risk of ineligible expenditure or a lack of compliance with Contract Procedure Rules which could result in the clawback of grant funding by Welsh Government. The risk of theft, fraud or misappropriation of grant monies going undetected is also increased. In addition, 1 other School (not citing ASOS) failed to provide the requested information within the deadlines provided.

- 4.6 Work has been undertaken on the progress of the implementation of Internal Audit Recommendations from previously issued audit reports along with the provision of financial advice across directorates. During Quarter 2, the Internal Audit team have been working with the Digital Design & Innovation team to develop a 'Recommendation Tracker' application to allow operational managers and responsible officers to report when their agreed management actions have been completed and to highlight those which are overdue. It was planned that user acceptance testing of this new system would begin in Quarter 2, however, due to issues with the software this has not yet been possible. This is currently being worked through by the Digital Team with a view to rolling out the package to all managers as soon as possible. Progress on this and the implementation of recommendations will be reported to the Governance and Audit Committee and the Strategic Leadership Team (SLT) later in the year for consideration and timely action.
- 4.7 Other audit work in line with the plan has started and site visits have been undertaken to a number of establishments. At the end of Quarter 2, 56% of the agreed audit plan has been deemed as being started or in progress.

- 4.8 Where reports had been issued in draft, but not finalised, by the 31<sup>st</sup> March 2023, work has continued during Quarter 2 to finalise these. As of the 30<sup>th</sup> September 2023, it is pleasing to note that all have now been successfully finalised. This includes the 2 audit reviews where the Headteachers were previously refusing to engage with Internal Audit following advice from the National Union of Headteachers (NAHT) in relation to their 'Action Short of Strike'. Further information regarding the impact of ASOS is included within section 5 of this report.
- 4.9 One special investigation which commenced during Quarter 1 was finalised during Quarter 2. The matter was dealt with in accordance with the Council's Disciplinary Policy, whereby there was an investigation into the facts undertaken by an Investigating Officer. In this instance it was an externally nominated Investigating Officer. In consideration of the findings of the independent investigation report, the evidence and statements within, the Nominated Officer held a meeting under the Council's disciplinary procedure. The outcome is confidential.
- 4.10 One unplanned review commenced during Quarter 1. This was a review of all the till floats issued across the Council to ensure that the amounts held on each site balanced to the official records held on the Financial Management System / Internal Audit. This is currently on-going.
- 4.11 Appendix 3 of the report gives details of the Section's performance indicators as at the 30<sup>th</sup> September 2023.
- 4.12 36% of the 2023/24 Audit Plan has been completed as at 30<sup>th</sup> September 2023. This is ahead of target (30%) and better than the previous year's performance (28%).
- 4.13 The team co-ordinates the administration of the National Fraud Initiative (NFI) data sets on behalf of the Council. Work has continued during Quarter 2 reviewing the data matches returned by the Cabinet Office in early 2023. A draft memo was issued to the Deputy Chief Executive / Chief Officer Resources in August 2023 which stated that **Reasonable Assurance** was gained from our work in reviewing the published NFI matches.

## 5. ACTION SHORT OF STRIKE AT SCHOOLS

- 5.1 The Audit Manager, acting on behalf of the Welsh Chief Auditors Group, along with the Deputy Chief Executive / Chief Officer Resources and Chief Officer Children & Young People met with representatives from the NAHT between July and September 2023 to highlight the statutory basis of Internal Audit and the value which the service offers to the Council / each School. The NAHT have since agreed that they will no longer advise members not to engage with Internal Audit requests in relation to 'School Audit' visits.

- 5.2 However, the same cannot be said for other audit reviews which are included within the 2023/24 annual audit plan. A small number of reviews will require documentation and/or explanations from Schools, examples of these reviews are grant audits (RSIG / PDG) which are required to be completed as part of the grant terms & conditions, or cross-cutting reviews (such as Additional Learning Needs). In these instances, the NAHT have said they will continue to advise members not to engage with Internal Audit.
- 5.3 The Audit Manager has reminded the NAHT that Internal Audit is a statutory function under the Accounts and Audit (Wales) Regulations (Part 3, Regulation 7). These regulations require all officers of the Council (including Headteachers) to 'make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of the audit; and supply the body with such information and explanation as that body considers necessary for that purpose'.
- 5.4 The audit team will continue to make requests from Schools and will report back to the Committee accordingly of those Schools who refuse to engage.

## **6. SERVICE MANAGEMENT RESPONSIBILITIES**

- 6.1 Heads of Service and service managers are responsible for addressing any weaknesses identified in internal systems and demonstrate this by including their management responses within the audit reports. When management agree the audit action plans, they are accepting responsibility for addressing the issues identified within the agreed timescales.
- 6.2 Ultimately, managers within MCC are responsible for maintaining adequate internal controls within the systems they operate and for ensuring compliance with Council policies and procedures. All reports, once finalised, are sent to the respective Chief Officers and Heads of Service for information and appropriate action where necessary.

## **7. FOLLOW UP AUDIT REVIEWS**

- 7.1 Where 'unfavourable' (Limited Assurance / No Assurance) audit opinions are issued, they are followed up within a twelve month timescale to ensure that the agreed actions have been taken by management and that the internal control systems are improved.
- 7.2 During Quarter 2, the Internal Audit team have continued to follow-up reviews where an unfavourable audit opinion had been issued. Currently the Internal Audit team have 1 follow-up review which is outstanding at the end of Quarter 2.

7.3 During 2019/20, 8 reports were issued with a **Limited** opinion. 6 of these have previously been reported to the Governance & Audit Committee and follow-up reviews have indicated an improvement to the overall control environment.

Year	Assignment	Opinion	Revised Opinion/ Status	Date Issued
2019/20	Castle Park Primary School	Limited	Substantial	Final Issued September 2023
	Tintern Old Station	Limited	Reasonable	Draft Issued September 2023

7.4 During Quarter 2, the review at Castle Park Primary School was finalised with an improved opinion of Substantial Assurance.

7.5 The follow-up review of Tintern Old Station commenced in late June 2023 and a draft report was issued in September 2023 with an improved opinion of Reasonable Assurance. This report is in the process of being finalised.

7.6 Of the 20 opinions issued in 2022/23, 1 **Limited** opinion was issued. The details of why this was considered to be unfavourable was reported to the June 2023 meeting of the Governance & Audit Committee. A follow-up review for this School is planned during the latter part of the 2023/24 financial year.

Year	Assignment	Opinion	Revised Opinion/ Status	Date Issued
2022/23	Our Lady and St Michael's R.C. School	Limited	Q3/4 2023/24	Final issued May 2023

## 8. RESOURCE IMPLICATIONS

None.

## 9. CONSULTEES

Deputy Chief Executive / Chief Officer Resources

### Results of Consultation:

N/A

**10. BACKGROUND PAPERS**

Operational Audit Plan 2023/24

**11. AUTHORS AND CONTACT DETAILS**

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## AUDIT COMMITTEE OCTOBER 2023

### INTERNAL AUDIT SECTION PROGRESS REPORT 2023/24 – 6 MONTHS

#### APPENDIX 1

Internal Audit reviews from the 2023/24 Draft Operational Audit Plan where fieldwork has been completed and/or final reports issued since 01/04/23 are listed in the table below.

Internal Control Opinions give the auditor's overall conclusion on the control environment operating in each system/establishment under review. Opinions range from Substantial Assurance through to No Assurance (Appendix 2).

Draft issued indicates that a draft report has been issued and a response is awaited from the client before the report can be finalised.

### Status of reports as at 30<sup>th</sup> September 2023

#### Internal Audit Services - Management Information for 2023/24 – Quarter 2

Opinion Summary	Number
Substantial Assurance	5
Reasonable Assurance	6
Limited Assurance	1
No Assurance	0
Unqualified	2
Qualified	1
<b>Total</b>	<b>15</b>

Job number	Directorate	Service	Job Name	Risk Rating / Priority	Final / Draft	Opinion given
P2324-01	Resources	Finance - Corporate Accountancy	Insurances	High	Draft	Substantial
P2324-03	Resources	Finance - Revenues, Systems & Exchequer	Creditor Payments (2022/23)	Medium	Draft	Substantial
P2324-34	Social Care, Health & Safeguarding	Social Services Finance	Appointeeships & Deputyships (2022/23)	Medium	Final	Substantial
P2324-40	Communities & Place	Placemaking, Housing, Highways and Flood	Planning Applications (2022/23)	Medium	Final	Substantial
P2324-43	Communities & Place	Neighbourhood Services	Winter Maintenance (2022/23)	Medium	Final	Substantial



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Job number	Directorate	Service	Job Name	Risk Rating / Priority	Final / Draft	Opinion given
P2324-07	Resources	Finance - Revenues, Systems & Exchequer	Revenues Shared Service (2022/23)	Medium	Final	Reasonable
P2324-12	People & Governance	Electoral Registration	Electoral Registration	High	Draft	Reasonable
P2324-19	Children & Young People	Primary Schools	Archbishop Rowan Williams Church in Wales Primary	Medium	Draft	Reasonable
P2324-48	Mon Life	Heritage	Old Station, Tintern (Follow-up)	High	Draft	Reasonable
P2324-57	Corporate	Corporate	National Fraud Initiative (NFI)	Medium	Draft	Reasonable
P2324-59	Corporate	Corporate	Partnership Assurance (2022/23)	Medium	Final	Reasonable
P2324-25	Children & Young People	Secondary Schools	Chepstow School	Medium	Draft	Limited
P2324-17	Children & Young People	Finance & Support Services	School Improvement Grant	Medium	Draft	Unqualified
P2324-42	Communities & Place	Enterprise and Community Animation	Housing Support Grant	Medium	Draft	Unqualified
P2324-18	Children & Young People	Finance & Support Services	Pupil Development Grant	Medium	Draft	Qualified

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#### Non – opinion / Added Value Audit Work

<b>Job number</b>	<b>Directorate</b>	<b>Service</b>	<b>Job Name</b>
P2324-09	Resources	Resources General	Audit Advice
P2324-13	People & Governance	People & Governance General	Audit Advice
P2324-27	Children & Young People	CYP General	Audit Advice
P2324-37	Social Care, Health & Safeguarding	SCH & Safeguarding General	Audit Advice
P2324-45	Communities & Place	Communities & Place General	Audit Advice
P2324-51	Mon Life	Mon Life General	Audit Advice
P2324-54	Chief Executive's	Chief Executives General	Audit Advice
P2324-61	Corporate	Corporate General	Audit Advice

## AUDIT COMMITTEE OCTOBER 2023

### INTERNAL AUDIT SECTION PROGRESS REPORT 2023/24 – 6 MONTHS

#### APPENDIX 2

#### Internal Audit Opinions

Each report contains an opinion which is an overall assessment of the control environment reviewed.

OPINION	DESCRIPTION
SUBSTANTIAL ASSURANCE	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
REASONABLE ASSURANCE	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
LIMITED ASSURANCE	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
NO ASSURANCE	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

#### For grant claim audits:

**Unqualified** opinion - the terms and conditions of the grant were generally complied with;

**Qualified** opinion - the terms and conditions of the grant were not fully complied with; the identified breaches of terms and conditions will be reported to the grantor and internally to relevant Head of Service/Chief Officer.

## AUDIT COMMITTEE OCTOBER 2023

### INTERNAL AUDIT SECTION PROGRESS REPORT 2023/24 – 6 MONTHS

#### APPENDIX 3

#### Performance Indicators

N / A – not available

	<b>2022/23</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	11%	28%	52%	72%	80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	14 days	5 days	4 days	4.4 days	15 days
3	Average no. of days from receipt of response to draft report to issue of the final report	30 days	17 days	8 days	8.5 days	10 days
4	Percentage of recommendations made that were accepted by the clients	90%	100%	100%	100%	95%
5	Percentage of clients at least 'satisfied' by audit process	N/A	N/A	N/A	100%	95%
6	Percentage of directly chargeable time (actual v planned)	68%	67%	66%	73%	60%
7	Number of special investigations	0	0	0	0	

	<b>2023/24</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Target</b>
1	Percentage of planned audits completed	15%	36%			30% in Q2 80% pa
2	Average no. of days from audit closing meeting to issue of a draft report	2	4			15 days
3	Average no. of days from receipt of response to draft report to issue of the final report	N/A	4.2			10 days
4	Percentage of recommendations made that were accepted by the clients	N/A	100%			95%
5	Percentage of clients at least 'satisfied' by audit process	N/A	100%			95%
6	Percentage of directly chargeable time (actual v planned)	67%	Tbc			60%
7	Number of special investigations	1	0			

## AUDIT COMMITTEE OCTOBER 2023

### INTERNAL AUDIT SECTION PROGRESS REPORT 2023/24 – 6 MONTHS

#### APPENDIX 4

#### SUMMARY OF WEAKNESSES – CHEPSTOW SCHOOL (2023/24)

The tables below summarise the individual weaknesses identified during the review of Chepstow School which was issued with a Limited Assurance audit opinion.

RISK RATING	DESCRIPTION	TOTAL IDENTIFIED
CRITICAL	Major or unacceptable risk which requires immediate action.	1
SIGNIFICANT	Important risk that requires attention as soon as possible.	23
MODERATE	Risk partially mitigated but should still be addressed.	15
STRENGTH	No risk. Sound operational controls and processes confirmed.	30

Ref.	CRITICAL
2.05	The school were in a budget deficit position and did not have an approved budget for the 2023/24 financial year. The proposed budget included projections and assumptions which were found to be incorrect.

Ref.	SIGNIFICANT
1.04	Invoices for goods and services were raised with incorrect VAT information quoted and VAT received was sometimes treated as income.
1.05	Items were sold without appropriate approval. No written agreements were in place for the sale of goods.
1.06	There was a lack of independent approval of the staff free meals rota and entitlement. There was no reconciliation between staff meal costs and the rota
1.07	The code to the key safe was not regularly changed and a keyholder list was not in place.
1.08	The school did not have a lettings policy. There was no evidence that the Governing Body had approved the lettings fees & charges.
2.06	The Governing Body had not established and minuted an agreed spend and virement limit for the Headteacher.
3.04	The school was issuing contracts of employment in their own name in addition to those issued by the Council.
3.05	For the sample tested, records of additional hours worked were not supported by employees' timesheets.
3.06	Driver checks for staff driving school / LEA owned vehicles or their own vehicles on School business were not undertaken in line with MCC policy.

## AUDIT COMMITTEE OCTOBER 2023

### INTERNAL AUDIT SECTION PROGRESS REPORT 2023/24 – 6 MONTHS

Ref.	SIGNIFICANT
	Minibus Driver Awareness Scheme (MiDAS) training certificates records were incomplete and no MiDAS training or refreshers were evidenced.
4.06	Procurement procedures as per Financial Instructions for Schools were not consistently followed.  There was a lack of effective contract monitoring in some cases. The school may be owed for cleaning hours invoiced but not delivered.
4.07	Purchase Orders were not consistently raised in advance of spend.
4.08	Staff were making significant purchases using the schools imprest account.  Staff were gaining personal benefits via loyalty cards on purchases made on behalf of the School.
4.09	There was inappropriate expenditure on the schools Procurement Card.
4.10	The school's Procurement Card had been shared between members of staff.
5.02	A complete inventory register was not maintained.
5.03	IT equipment loaned to members of staff was not documented.
6.05	Cheque signatory arrangements for the School Private Fund were inadequate.
6.06	The School Private Fund was used to make payments relevant to official school budget expenditure. Income due to the Authority was incorrectly banked into the Private Fund.
6.07	The School Private Fund had a credit card facility which was not in accordance with the School Private Fund Regulations. There was no evidence to support that this account had been closed.
6.08	Audited School Private Fund accounts were not being presented to the Governing Body.
7.04	The school did not hold a complete set of business interests forms for Governors, the Headteacher or for any other staff who may influence financial decisions.
8.02	Daily vehicle (minibus) fault checks were not always evidenced and where a problem was noted, no follow-up action was recorded.
9.07	For the sample reviewed, HR files did not consistently include evidence of all safer recruitment checks.

Ref.	MODERATE
1.09	Agreements for the hire of the school were not always fully completed.
1.10	Cash relating to a charity collection had not been banked as at time of the audit visit.
1.11	Duplicate receipts were not used to record income.

## AUDIT COMMITTEE OCTOBER 2023

### INTERNAL AUDIT SECTION PROGRESS REPORT 2023/24 – 6 MONTHS

Ref.	MODERATE
1.12	The school did not use the central Sundry Debtors service. A record of invoices raised and aged debt reports were not maintained.
2.07	The School Development Plan and the Child Protection and Safeguarding Policy was not published on the school's website.
2.08	In one case late submission of a payroll amendment form for a change in hours resulted in an overpayment.
3.07	For the sample tested, return to work forms were not completed in full and in some cases, there was no indication that absence triggers were reviewed and acted upon.
4.11	A number of long outstanding purchase orders were still open on system.
4.12	Imprest signatory information was not updated to take account of recent leavers.
6.09	There was a lack of detail within the School Private Fund cashbook to provide a clear link to the original transaction.
6.10	The reconciliation of the Private Fund bank account was secondarily checked by someone who was also a cheque signatory and held both a debit and credit card for the account.
7.05	School record keeping did not clearly show whether statutory policies were adopted or were reviewed periodically by the Governing Body in line with Welsh Government guidelines.
8.03	School minibuses were occasionally used for personal use by staff.
9.08	Training records showed that volunteers and catering staff (Aramark) had not received safeguarding level 1 training.
9.09	For the sample tested, trips were not approved in accordance with timescales set out in the MCC Educational Visits policy.