

Meeting of:	Governance and Audit Committee
Date of Meeting:	Monday 21 October 2024
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Internal Audit Follow Up Limited Opinion
Purpose of Report:	To provide members of the Governance and Audit Committee with assurance from senior management that action is being taken to demonstrate the necessary improvements in control.
Report Owner:	Head of the Regional Internal Audit Service
Responsible Officer:	Head of the Regional Internal Audit Service
Elected Member and Officer Consultation:	No Elected Members have been consulted. Legal Services and Head of Finance.
Policy Framework:	The proposals in this report are in accordance with the policy framework and budget.
<p>Executive Summary:</p> <ul style="list-style-type: none"> In line with the Public Sector Internal Audit Standards the Head of Internal Audit must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. The risk-based audit plan should cover the Council's overall control environment including risk, governance and internal controls as far as practicable. On behalf of the Head of Internal Audit, an audit assurance opinion is issued at the conclusion of each audit job within the plan, based on the strengths and weaknesses identified throughout the audit work. The opinions used by RIAS are those recommended by CIPFA and are used throughout Internal Audit within the public sector in the UK; <i>Substantial, Reasonable, Limited, No Assurance</i>. Progress v Internal Audit Plan 2024/25 was reported into Governance and Audit Committee on 23 September 2024. Members noted that a follow up audit of a previous <i>Limited Assurance</i> audit resulted in a further <i>Limited Assurance</i> opinion. Governance and Audit Committee therefore recommended that the relevant Director / Head of Service responsible for the Tender Evaluation & Award - Building Services (Project & Planned Team Services) be requested to attend the next meeting of the Governance and Audit Committee to provide a report and update on the actions being taken in response to the recommendations following the review of Internal Audit. 	

Recommendations

1. The Committee is recommended to consider and acknowledge the assurances provided, and progress on implementation, by senior operational management that action has been taken to make the necessary improvements in control and minimise the associated risk following a second consecutive *Limited Assurance* audit opinion within their service area and that a proper process is in place for making such improvements.

Reasons for Recommendations

1. To make the Governance and Audit Committee aware of why *Limited Assurance* audit opinions were issued by Internal Audit and for them to be reassured by the responses and actions of senior management that improvements in control will be made.

1. Background

- 1.1 The United Kingdom Public Sector Internal Audit Standards (Performance Standard) provides the framework within which an internal audit team should function and deliver its service.
- 1.2 In line with the Public Sector Internal Audit Standards (PSIAS) the Head of Internal Audit prepares an annual plan of audit workload sufficient and comprehensive enough to enable him to provide an overall opinion at the year on the adequacy of the governance arrangements, internal controls and risk management processes in place.
- 1.3 The scope of each audit sets out to ensure that there are appropriate processes in place that services are delivered economically, efficiently and effectively and that public funds and resources are safeguarded. Key controls are tested and conclusions reached based on the evidence obtained throughout the audit.
- 1.4 At the conclusion of each audit job within the plan an audit opinion is issued on the level of assurance gained from the work. The opinions are balanced and based on the number of strengths and weaknesses identified from the audit; the greater number of strengths the more positive the audit opinion. The audit opinions used by RIAs are those recommended by CIPFA and are used throughout Internal Audit within the public sector in the UK. The opinions, with definitions are shown below in Figure 1:

Figure 1:

AUDIT ASSURANCE CATEGORY CODE		RECOMMENDATION CATEGORISATION	
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.	Risk may be viewed as the chance, or probability, one or more of the systems of governance, risk management or internal control being ineffective. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results. The criticality of each recommendation is as follows:	
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.	High Priority	Action that is considered imperative to ensure that the organisation is not exposed to high risks.
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.	Medium Priority	Action that is considered necessary to avoid exposure to significant risks.
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.	Low Priority	Action that is considered desirable and should result in enhanced control.

- 1.5 Each audit recommendation made in the audit report is given a priority rating for implementation dependent on the level of risk.
- 1.6 Where identified weaknesses outweigh strengths then the level of assurance becomes *Limited* or *No Assurance*. The most recent Progress v Plan report presented to Governance and Audit Committee on 23 September 2024 showed that 2 *Substantial*, 5 *Reasonable* and 1 *Limited Assurance* opinions had been issued during 2024/25 (as at 31 July 2024).
- 1.7 It is the Head of Audit’s responsibility to report any weaknesses in control to senior management and for operational management to take appropriate action to improve the level of control and minimise or eradicate the associated risk. In terms of governance, it’s the role of the Governance and Audit Committee to ensure that there is a proper process in place to confirm such action is being taken.
- 1.8 Although recommendations are continually followed up the Internal Audit Team until implementation, a follow up audit is undertaken for all *Limited Assurance* audits.

2. Key Issues for Consideration

- 2.1 All audit opinions issued following the completion of audit work in line with the agreed Internal Audit Plan for 2024/25 are reported into Governance and Audit Committee; these included *Substantial*, *Reasonable* and *Limited Assurance* opinions.

- 2.2 The latest report showed that 1 *Limited Assurance* opinion has been issued for 2024/25. This related to:
- **Tender Evaluation & Award Follow Up - Building Services (Project & Planned Team Services)**
- 2.3 This was a follow up of a previous *Limited Assurance* audit. Whilst some improvements had been made within this team there were still areas of improvement identified. The key issues were that compliance to the Council's Procurement Code of Practice and Contract Procedure Rules could not always be demonstrated so recommendations have been made and accepted to enhance the controls and mitigate the identified risks.
- 2.4 The Head of the Regional Internal Audit Shared Service provided a summary of why the audit team could only give *Limited Assurance* in these areas and reassured Members that management had agreed to implement the recommendations through the Management Action Plan and that a follow up audit would take place during 2024/25 to report on progress.
- 2.5 The agreed Management Action Plan within the original report is shown at Appendix A. The agreed Management Action Plan within the most recent report is shown at Appendix B and includes summarised findings from the audit. These show that some of the high risk recommendations made in the original report had not been implemented as they had to be made again in the 2024/25 report; the weaknesses originally identifies had not been fully addressed as expected.
- 2.6 Members felt it was important for them to hear from the Head of Service responsible for **Tender Evaluation & Award - Building Services (Project & Planned Team Services)** to provide assurances that action was being undertaken to address the weaknesses identified through the audit reports and to demonstrate improvements in the control environment, ensuring sound and effective governance arrangements were now in place.
- 2.7 Governance and Audit Committee therefore recommended that the relevant Director / Head of Service for this *Limited Assurance* audit, be requested to attend the next meeting of the Governance and Audit Committee to provide a report and update on the actions being taken in response to the recommendations following the review of Internal Audit.
- 2.8 The relevant Head of Service has subsequently provided an up to date position on the progress of the implementation of the agreed Internal Audit recommendations. These have been included at Appendix B.
- 2.9 The implementation of the audit recommendations should improve the internal control environment and minimise any associated risk.

3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 3.1** The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives as a result of this report.

4. Climate Change and Nature Implications

- 4.1** None as a consequence of this report

5. Resources and Legal Considerations

Financial

- 5.1** There are no resource implications as a direct consequence of this report, but effective audit planning and monitoring are key contributors in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

Employment

- 5.2** None as a direct consequence of this report.

Legal (Including Equalities)

- 5.3** The provision of an adequate and effective Internal Audit function is a legal requirement under the Accounts and Audit (Wales) Regulations 2014 as amended from time to time. There are no equalities implications as a direct consequence of this report.

6. Background Papers

None

Extract from Management Action Plan

Original Final Report issued 15 September 2021

Follow UP Final Report issued 23 August 2024

Report Ref & Priority	Original Recommendation	Management Comments	Responsible Officer	Date to be Implemented
5.3.2 Medium	In future instances, the Procurement Unit are to be consulted prior to the inclusion within the tender evaluation process, of any documents received after the deadline or outside of Sell2Wales.	The contractor in question had communicated to advise they were experiencing difficulties with the electronic portal provided by Sell2Wales and it is believed the procurement team were approached at the time for advice, although there is no written correspondence to corroborate this. This is an infrequent occurrence but could possible happen again so in future all correspondence with procurement is to be backed up in writing	All managers procuring works through tender.	Immediately.
5.3.3 High	Building Services is to review and decide on how to proceed with the Supply and Installation of Security Doors tender and contract award – with advice sought from Legal/Finance as required.	The Asset Manager has sought advice and has been advised to readvertise given the considerable cost savings to be made at the time.	Asset and Investment Manager	Completed.
5.4.2 Low	Documentation is to be maintained to demonstrate all those involved in scoring and evaluation are in agreement.	All officers met on the same day but due to Covid restrictions this was progressed online which restricts some of the interactions and flow of such meetings. The scoring evaluations, however, are already maintained. If all were meeting in person it would be	Asset and Investment Manager	Completed

Report Ref & Priority	Original Recommendation	Management Comments	Responsible Officer	Date to be Implemented
		easy to obtain. However, in the interim evidence is provided through e-mail of all signing off on agreement.		
5.5.4 Medium	The breakdown used for scoring is to be identical to that stated in the Invitation to Tender document.	The officer recording the scoring breakdown used an old template from another project and failed to update the basis of analysis. This error has been addressed with the responsible officer	Asset and Investment Manager	Completed
5.6.2 Medium	The Council continues progression towards establishing a fully functioning internal contracts register.	A contracts register has been developed and now needs to be populated. Additional resource will be brought into the team to ensure this is completed.	Head of Finance	December 2021
5.10.2 Medium	A more communicative approach is to be adopted between Building Services' Project & Planned Maintenance Team and Property Services.	Project and Planned have never stopped communicating with colleagues in property. However, with the appointment of a new "Commercial and Consultancy Manager" improved working relationships and communication processes have developed. There is now agreement to provide greater clarity on which works will be asked for delivery by P&P and to improve lead in times for projects to enable time for quotes/tenders to be issued.	OM – Building/ Commercial and Consultancy Manager	Complete
5.10.6 High	The Project & Planned Maintenance Team must follow the Council's Contract Procedure Rules and Procurement Code of Practice.	Tendering is not always possible because of the short lead in times for some projects (this is recognised at 5.10.3/5.10.4). However, it is recognised delegated authority may be obtained to enable works to be progressed.	Project and Planned Manager	Immediately

Report Ref & Priority	Original Recommendation	Management Comments	Responsible Officer	Date to be Implemented
5.10.6 Medium	Officers are to undertake training on all relevant stages of the Council's procurement requirements.	Training has been provided to the Asset and Investment team and will be rolled out to the Project and Planned team.	OM - Building	October 2021 (new staff have been appointed and training will be provided once all in post)
5.10.6 Medium	Equifax reports and Finance advice is to be obtained prior to the acceptance of the successful tender.	Given the value of works and the payment mechanism (pay only on completion) annual checks have been performed. On larger value works where interim payments are necessary, this will be incorporated into procedures which will be included in training provision above.	See above	See above
5.10.6 Medium	Legal advice should be obtained regarding the findings of this report.	Legal advice will be requested on relevant findings.	OM Building Services	As soon as possible
5.11.1 Low	Building Services evaluate whether a procurement-compliant Framework or Dynamic Purchasing System (DPS) is viable and worthwhile to cover future works similar in nature to those covered throughout this review.	A framework for external contractors has been developed and with contracts being executed with appropriate parties once evaluated. This will be subject to appropriate interest contractors.	OM Buildings –	April 2022

Summarised Findings 2024/25 IA Follow Up Report:

Tender Evaluation & Award (Follow Up)

Report Ref & Priority	Summarised Findings	Recommendation	Management Comments	Date to be Implemented	Action Taken to Date - October 2024
<p>1.1</p> <p>Medium</p>	<ul style="list-style-type: none"> - documentation not retained to support the correct procurement process for 3/5 projects - advised a competitive process was not possible due to late notification and short timescales – no waiver to support this - no evidence retained to demonstrate value for money for 2/5 projects - expected e-tendering processes are not being utilised. 	<p>Project & Planned Team</p> <p>In accordance with the Contract Procedure Rules and Procurement Code of Practice, the correct procurement route must be used in all cases with notification to the Procurement Unit and advice sought where required. Any instances requiring a waiver must follow the Council's processes as set out in the Contract Procedure Rules.</p>	<p>Procurement guidance to be followed.</p> <p>Operational Manager – Building</p> <p>Senior Project Officer</p>	<p>Immediate</p>	<p>Implemented</p> <p>All new projects are following the appropriate procurements route. Notifications to the procurement unit will be made when new projects are set for procurement.</p> <p>Staff have been instructed and a process map is to be developed as set out at 2.2 below once the Service Manager has taken position.</p>

Report Ref & Priority	Summarised Findings	Recommendation	Management Comments	Date to be Implemented	Action Taken to Date - October 2024
<p>1.2</p> <p>Medium</p>	<p>- Manager stated works are handed to the Project & Planned Team with short notice leaving limited time to adhere to the Procurement Code of Practice; no evidence of this</p> <p>- works planner did not include dates of work handed to the team, expected completion dates or in some cases budget costs.</p>	<p>Project & Planned Team</p> <p>Review the way in which the team liaises with fellow departments, both within Building Services and the wider Council, and maintain a project planner detailing the dates that work is handed to the team, the expected completion dates as well as retaining relevant documentation to aid the review of this process.</p>	<p>The team currently schedules monthly meetings with Property Services to identify future workloads, but it is not possible to court all potential client contacts. However, new clients will be advised of realistic timeframe for lead-in and notifications of contracts. Summary notes to be provided.</p> <p>Senior Projects Officer</p>	<p>Immediate</p>	<p>Implemented</p> <p>The team liaises with client teams to discuss future works. Currently, the Housing Teams are providing more frequent work streams and regular meetings are held between the team regarding works.</p> <p>E-mails between client teams relating to work enquiries and subsequent orders are retained to ensure records of agreement is being retained.</p>

Report Ref & Priority	Summarised Findings	Recommendation	Management Comments	Date to be Implemented	Action Taken to Date - October 2024
<p>1.3</p> <p>Medium</p>	<p>- The Project & Planned Team do not currently make use of competitive frameworks or a dynamic purchasing system for awarding works and did not seek support from the Procurement Team</p>	<p>Project & Planned Team</p> <p>Obtain advice from the Procurement Team and Managers within Building Services regarding the procurement frameworks available and seek to utilise or create them to aid adherence to the Councils Procurement Code of Practice and Contract Procedure Rules.</p>	<p>Advice will be sought where appropriate, but the current shared resource can be unresponsive.</p> <p>Senior Project Officer</p>	<p>Immediate</p>	<p>Partly Implemented</p> <p>Where procurement frameworks are available for the nature of the work, these are being considered for suitability</p>

Report Ref & Priority	Summarised Findings	Recommendation	Management Comments	Date to be Implemented	Action Taken to Date - October 2024
<p>2.2 High</p>	<p>- 4 suppliers were regularly used without demonstrable evidence that the expected procurement process had been followed or approval sought with very limited supporting documentation</p> <p>- documentation was unavailable to verify as the officer who had undertaken the procurement was absent – no central record control</p>	<p>Project & Planned Team</p> <p>Building Services must introduce robust and transparent procurement exercises, with suitable invitation, evaluation and award, in full compliance to the Procurement Code of Practice and Contract Procedure Rules. This must be done in order that it does not leave itself exposed to high risk where the same small group of suppliers are used multiple times with only minimal competition being demonstrated.</p>	<p>Process to be mapped and staff to receive training on importance of process and documented evidence.</p> <p>Service Manager – Building Operations</p>	<p>November 2024</p>	<p>Partly Implemented</p> <p>Building Services have a robust procurement process for projects of a planned nature and improvements have been taken to address issues in projects with minimal lead in time.</p> <p>Conversations have been held with some contractors in an attempt to increase the supplier market.</p> <p>Currently awaiting start date for Service Manager</p>
<p>2.3 Medium</p>	<p>- officers do not complete any declaration to state that either they do or do not have a personal interest in any of the bidding contractors.</p>	<p>Prior to undertaking evaluation of tenders, officers should complete a declaration to state whether they do or do not hold a personal interest in any of the bidding contractors. In addition, staff business interests are to be requested, retained, and reviewed annually, as per the Officer's Code of Conduct</p>	<p>Evaluation declaration proforma to be developed.</p> <p>Operational Manager – Building Services</p>	<p>November 2024</p>	<p>Partly Implemented</p> <p>This currently happens on an annual basis with officers declaring any interim changes</p>

Report Ref & Priority	Summarised Findings	Recommendation	Management Comments	Date to be Implemented	Action Taken to Date - October 2024
<p>3.1</p> <p>High</p>	<p>- limited documentation is being retained to fully evidence that 'Value for Money' is being sought; records that are retained lack standardisation leading to inconsistencies in retention processes.</p>	<p>Project & Planned Team</p> <p>Introduce a standardised file retention system for all procurement records that lead to a decision.</p>	<p>Process to be mapped and staff to receive training on importance of process and documented evidence.</p> <p>Service Manager – Building Operations</p>	<p>November 2024</p>	<p>Not Implemented</p> <p>Awaiting start date for Service Manager</p> <p>January 2025</p>