

Report of the Chief Auditor

Audit Committee – 2 October 2014

INTERNAL AUDIT ANNUAL REPORT 2013/14

Purpose:	This report reviews the work of the Internal Audit Section during 2013/14 and includes the Chief Auditor's required opinion on the internal control environment for 2013/14 based on the audit testing completed in the year
Policy Framework:	None
Reason for Decision:	To allow the Audit Committee to discuss and review the progress against the Internal Audit Annual Plan 2013/14
Consultation:	Legal, Finance and Access to Services
Recommendation(s):	It is recommended that Committee: <ol style="list-style-type: none">1. Review and discuss the work of the Internal Audit Section during 2013/14;2. Consider the Chief Auditor's opinion on the internal control environment.
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1. Introduction

- 1.1 The Public Sector Internal Audit Standards defines Internal Audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 This report reviews the work of the Internal Audit Section in 2013/14 and compares its performance against the Internal Audit Annual Plan

for the year which was approved by the Audit Committee on 18th April 2013.

- 1.3 A series of Performance Indicators are used to measure the performance of the Section against agreed targets set at the start of the year and also in comparison with other Welsh Authorities. A review of the Performance Indicators in 2013/14 is included in this report.
- 1.4 This report also contains the Chief Auditor's required opinion on the overall standards of the control environment in operation in the Council based on the testing performed during 2013/14.

2. Review of 2013/14

- 2.1 A summary of time spent in 2013/14 on the different categories of Internal Audit work is shown in Appendix 1. This shows a reduction of 252 days (8.4%) in the actual productive audit days achieved against the planned number of productive days.
- 2.2 The loss of productive days was due to vacancies and maternity leave exceeding the planned time by 369 days (12.2%). This is equivalent to the loss of almost 2 members of staff for the entire year.
- 2.3 The impact of the loss of productive time was offset by the use of a contingency of 37 days included in the Annual Plan and reductions in staff training, holidays, sick leave and administration of 82 days.
- 2.4 As a result of the loss of productive days and an increase in the amount of time spent on projects and special investigations which is discussed below, the Internal Audit Annual Plan was reviewed and a number of lower risk audits included in the Plan were deferred until 2014/15.
- 2.5 Appendix 1 also shows the impact of the loss of productive days across directorates and other types of audit work such as systems and computer audits. In most cases, any audits deferred in 2013/14 will be the first call on available resources during 2014/15.
- 2.6 The original Internal Audit Annual Plan 2013/14 contained 165 audit jobs, of which 105 (64%) were completed to at least draft report stage during the year. Each job produced an audit report which was discussed and agreed with the client. The reports included recommendations to improve any weaknesses or areas of concern identified during the audit in relation to systems, procedures and controls. During the year 99.5% of recommendations made were accepted by clients.
- 2.7 A list of the audits finalised each quarter has been included in the Quarterly Monitoring Reports presented to the Audit Committee during

the year. A complete list of each audit finalised during 2013/14 along with the level of assurance and the number of recommendations made and accepted is shown in Appendix 2.

- 2.8 The amount of time spent on special investigations in 2013/14 was 187 days which exceeded the planned time by 47 days. A summary of the main investigations is shown in the following table.

Investigation	Outcome
Domiciliary Care provider	This is subject to an ongoing investigation
Employment Training Overspend 2012/13	A review of the cause of the overspend leading to a series of recommendations to improve budget monitoring. The service put together a recovery plan to prevent further overspending.
Primary School - VAT	A school had failed to charge VAT when collecting income from staff for private purchases. The VAT has now been recovered and a voluntary declaration made to HMRC. All schools were asked to declare any similar arrangements.
School Caretaker	A review of a caretaker working at 3 sites with excessive contracted hours. The caretaker subsequently resigned from one of the posts held.

- 2.9 In addition to the investigations shown above, work has been carried out to investigate the data matches identified by the Audit Commission as part of the National Fraud Initiative (NFI) 2012 exercise. NFI matches data between systems and across organisations in an attempt to detect and prevent fraud. The data submitted includes Housing Benefits, Payroll, Pensions, Creditors and Housing Rents
- 2.10 A total of over 18,000 matches were received from the NFI 2012 exercise – all of which could potentially have been fraudulent. However experience has shown that the vetting of matches can quickly identify those which require further investigation. At the time of writing this report (August 2014), 25 matches were found to be either fraudulent or errors with a total value of just over £68,000 of which action was being taken to recover £43,000.
- 2.11 As well as the planned audit work and special investigations, a number of other areas of work were undertaken during the year which are shown below
- The Annual Governance Statement 2013/14 was written in consultation with other officers. The Annual Governance Statement reviews whether the Council has complied with its Code of Corporate Governance. The draft Statement was reported to the

Audit Committee in July 2014 and to Cabinet for approval in September 2014 before being signed by the Chief Executive and Leader and published with the Statement of Accounts 2013/14. .

- Certification of an increasing number of grant claims on behalf of the Welsh Government as required by the terms and conditions of the grant. The grants included Community Focused Schools, School Uniform, Foundation Phase, Primary School Free Breakfast Initiative, Appetite for Life, School Based Counselling and Bus Service Operators.
- In addition, 2 grants received from the National Trading Standards Board were also certified during 2013/14.
- Verification of the methodology for calculating equal pay settlements prior to payment. This work led to a reduction in the overall cost of around £272k.
- Review and reconciliation of the data transfer to the new Business Rates System
- Involvement in the Social Services Finance Project providing advice on proposed changes to systems and procedures.
- Validation of fixed assets spreadsheets prior to the completion of the Annual Statement of Accounts.
- Monthly review of P Card purchases introduced to confirm appropriateness and authorisation of a sample of transactions.
- Participation in a number of specialist groups established by the South Wales Chief Auditors Group including IT, Education, Social Services and Contracts/Procurement. The Groups share best practice and are a source of expertise.

3. Follow Ups

3.1 It is important that action is taken to ensure that management have implemented the recommendations agreed following each audit. The Internal Audit Section uses a risk based approach to follow up audits as shown below

- Fundamental audits are subject to a Recommendations Tracker exercise mid way through the year to confirm that the agreed recommendations have been implemented. The results of the Recommendation Tracker exercise are reported to the Audit Committee.
- Non Fundamental audits which receive a 'moderate' or 'limited' level of assurance receive a follow up visit usually within 6 months to test whether the 'high' and 'medium' risks recommendations have been implemented. The results of any follow up visits for non fundamental audits are included in the quarterly monitoring reports presented to the Audit Committee.

3.2 The Recommendations Tracker exercise carried out in 2013/14 was reported to the Audit Committee in January 2014 where it found that 76% of agreed recommendations had been implemented by 30/11/13.

A further report on the position as at 31/03/14 was reported to the Audit Committee in June 2014 where it was noted that 89% of agreed recommendations had been implemented but that progress with the outstanding recommendations had been delayed due to the involvement of key staff in projects linked to the Sustainable Swansea – fit for the future initiative.

- 3.3 During 2013/14, 5 follow up visits were made and it was found that in all except 1 case substantial progress had been made in implementing the agreed recommendations. The issues for the audit where limited progress had been made was resolved following escalation to the relevant Head of Service.

4. Performance Indicators

- 4.1 A series of 12 Performance Indicators (PI's) are used to measure the work of the Internal Audit Section. The PI's measure output, quality and cost and are also measured by other local authority Internal Audit Sections across Wales to provide comparable statistics.

- 4.2 The PI's are shown in detail in Appendix 3 which shows that in 2013/14, the Internal Audit Section met or exceeded the target set at the start of the year for 9 out of the 12 PI's. This is an excellent performance and all staff within the Section should be congratulated on the PI results in 2013/14.

- 4.3 The PI's where the target set at the start of the year was not achieved were

- PI 1 Audit assignments achieved against planned
- PI 8 Directly productive time achieved against planned time
- PI 10 Staff turnover rate

- 4.4 The failure to achieve the above PI's are linked to the vacant posts experienced by the Section during 2013/14

- 4.5 The Comparator PI's showing Swansea's PI results against the average results for 5 comparable authorities in Wales have been included in this report in the past. However, the results from 2 comparator authorities have not been received to date so the comparison is not available at the present time.

5. Internal Control Opinion

- 5.1 The system of internal control is designed to help the Council to manage and control the risks which could affect the achievement of the Council's objectives. However it is not possible to eliminate all risks completely.

- 5.2 This means that Internal Audit can only provide 'reasonable' assurance that the systems of internal control within the areas of the Council reviewed are operating adequately and effectively.
- 5.3 Prior to 01/04/12, the Internal Audit Section gave an opinion rating at the end of each audit assignment however opinion ratings were replaced by levels of assurance at the start of 2012/13. The basis used for each opinion rating and level of assurance is shown in Appendix 4
- 5.4 This means that at the moment there is a mix of audits some of which have opinions ratings and some which have levels of assurance. Although the basis for the opinion ratings and levels of assurance are different, they have been combined in the following table for comparative purposes

Opinion / Level of Assurance	As at 31/03/13		As at 31/03/14		Variation	
	No.	%	No.	%	No.	%
Good/High	73	16.7	68	17.4	-5	0.7
Satisfactory/Substantial	304	69.6	278	71.3	-26	1.7
Adequate/Moderate	55	12.6	40	10.3	-15	-2.3
Unsatisfactory/Limited	5	1.1	4	1.0	-1	-0.1
Total	437	100.0	390	100.0	-47	0.0

- 5.5 The table shows a reduction in the overall number of audits included in Internal Audit Plan. This is due to a large number of Social Services establishment audits being subject to an self assessment audit which now appears as a single audit.
- 5.6 Although this may be slightly confusing, a pleasing trend can be identified from looking at the percentage of audits under each opinion rating / level of assurance. It can be seen that the number of audits receiving a positive rating / level of assurance has increased by 2.4% over the course of the year while the number of audits with a negative rating / level of assurance has decreased by the same figure.
- 5.7. Overall, based on the audit testing completed in 2013/14, Internal Audit can give reasonable assurance that the systems of internal control are operating effectively and that no significant weaknesses were identified in 2013/14 which would have a material impact on the Council's financial affairs.

6. Equality and Engagement Implications

- 6.1 There are no Equality and Engagement implications associated with this report.

7. Financial Implications

- 7.1 There are no financial implications associated with this report.

8 Legal Implications

8.1 There are no legal implications associated with this report

Background Papers: Internal Audit Plan 2013/14

Appendices: Appendix 1 Internal Audit Plan 2013/14 – Summary
Appendix 2 Internal Audit Section – Audits Finalised 2013/14
Appendix 3 Internal Audit – Performance Indicators 2013/14
Appendix 4 Audit Opinion Ratings / Levels of Assurance