

## Report of the Chief Auditor

Audit Committee – 18 August 2015

### INTERNAL AUDIT ANNUAL REPORT 2014/15

<b>Purpose:</b>	This report reviews the work of the Internal Audit Section during 2014/15 and includes the Chief Auditor's required opinion on the internal control environment for 2014/15 based on the audit testing completed in the year
<b>Policy Framework:</b>	None
<b>Reason for Decision:</b>	To allow the Audit Committee to discuss and review the progress against the Internal Audit Annual Plan 2014/15.
<b>Consultation:</b>	Legal, Finance and Access to Services
<b>Recommendation(s):</b>	It is recommended that Committee: 1. Review and discuss the work of the Internal Audit Section during 2014/15. 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 2014/15 and compares its performance against the Internal Audit Annual Plan

for the year which was approved by the Audit Committee on 24<sup>th</sup> April 2014.

- 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 2014/15 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 2014/15.

## **2. Review of 2014/15**

- 2.1 A summary of time spent in 2014/15 on the different categories of Internal Audit work is shown in Appendix 1. This shows a reduction of 348 days (12.9%) in the actual productive audit days achieved against the planned number of productive days. The loss in productive days is equivalent to almost 2 members of staff for the entire year.
- 2.2 The loss of productive days was mainly due to secondments, vacancies and maternity leave which totalled 421 days although this was offset by the use of the contingency budget and reductions in other activities e.g. holidays, sick leave and administration.
- 2.3 As a result of the loss of productive days, the Internal Audit Annual Plan was reviewed and a number of lower risk audits included in the Plan were deferred until 2015/16. The specific audits which were deferred were reported to the Audit Committee in February 2015. In most cases, any audits deferred in 2014/15 will be the first call on available resources during 2015/16.
- 2.4 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.
- 2.5 The original Internal Audit Annual Plan 2014/15 contained 175 audit jobs, of which 101 (58%) 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 99.3% of recommendations made were accepted by clients.
- 2.6 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 2014/15 along

with the level of assurance and the number of recommendations made and accepted is shown in Appendix 2.

- 2.7 The amount of time spent on special investigations and unplanned work in 2014/15 was 91 days which was less than the planned time of 110 days. A summary of the main investigations is shown in the following table.

Investigation	Outcome
Purchase Cards	A review of purchases using Council P Cards identified 1 personal purchase which had been reported by the card holder but had not been repaid until the transaction was highlighted as part of the investigation. The P Card was withdrawn and a misdemeanour warning was issued under the Council's Disciplinary Policy
Employment Training Learner Reviews	Following a staff re-structuring, a significant number of required Learner Reviews were not undertaken which potentially put the Council at risk of contract income being reclaimed. Discussions are ongoing with the Welsh Government to resolve the issue.
Road Surface Re-cycling Partnership	A review was undertaken of the accounts of a partnership involving the Council for the recycling of road surface materials at the request of the Head of Service to verify the income and expenditure charged to the partnership. Discussions are ongoing with the partners to finalise the partnership accounts.
Waste Disposal	An exercise was completed to validate significant amounts of expenditure on waste disposal assets. The exercise found that the expenditure was justified due to the risks faced by the Council if action had not been taken.

- 2.8 In addition to the investigations shown above, data was submitted to the Audit Commission during 2014/15 for the National Fraud Initiative (NFI) 2014 data matching 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
- 2.9 A total of over 18,000 matches were received from the NFI 2014 exercise – all of which could potentially be fraudulent. However experience has shown that the vetting of matches can quickly identify those which require further investigation. The investigation of appropriate matches arising from the NFI 2014 exercise will continue through 2015/16.

2.10 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 2014/15 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 August 2015 and to Cabinet for approval in September 2015 before being signed by the Chief Executive and Leader and published with the Statement of Accounts 2014/15.
- Certification of a number of grant claims on behalf of the Welsh Government and other funding bodies as required by the terms and conditions of the grant. The grants included Community Focused Schools, School Uniform, Foundation Phase, National Trading Standards Board grant and various ESF funded LSB grants.
- In addition, a grant audit has been undertaken on behalf of Neath Port Talbot for which a fee was charged.
- A considerable amount of time was spent towards the end of 2014/15 in carrying out sample checks on Equal Pay schedules prior to the payments being made to staff. A number of errors were identified and corrected which led to savings although it is not possible to identify the total saving. This work will continue into 2015/16 until all Equal Pay payments have been made.
- The Section's Computer Auditor took ER/VR at the end of March 2015 and due to the specialist nature of the post, a replacement was appointed in November 2014 so that a transfer of knowledge could take place.
- A monthly review of P Card purchases was 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 ICT, Education, Social Services and Contracts/Procurement. The Groups share best practice and are a source of expertise.
- Work has been ongoing to produce a guide to Contract Procedure Rules for schools in consultation with Education and Procurement however the final publication of the guide has been delayed as Contract Procedure Rules are in the process of being revised.

### **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 2014/15 was reported to the Audit Committee in March 2015 where the conclusion was extremely positive with 95% of agreed recommendations due to be implemented by the end of January 2015 being implemented.
- 3.3 During 2014/15, 7 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. A 2<sup>nd</sup> follow up of the audit where limited progress had been made showed that some progress had been made and a further full audit of the service is scheduled for the current year.

#### **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 2014/15, the Internal Audit Section met or exceeded the target set at the start of the year for 6 out of the 12 PI's. This is the first year where the Section has failed to meet its target for such a high number of PI's which is concerning.
- 4.3 As a result, a detailed analysis of the PI results for 2014/15 has been undertaken which has revealed that most of the PI which failed to meet their targets can be attributed to the vacant posts experienced during the year. The lack of resources meant that it was not possible to complete as many audits as planned and led to a reduction in the available productive time.
- 4.4 The Section also employed a number of new staff during 2014/15 which meant that there is a period of time where training and support is required to get staff to the required level in terms of quality and delivery of work. This has also impacted on the achievement of some PI targets.
- 4.5 It was also noted that for PI 4 i.e. audits completed within planned time, there were 8 audits which were within 30 minutes of being

completed within the planned time. If these audits had been completed within the planned time then the PI would have been 63% rather than 54%, although it is recognised that this still would not have met the target.

- 4.6 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.
- 4.7 It is proposed that a more detailed monitoring of PI's on a quarterly basis will be undertaken in 2015/16 to identify variances so that action can be taken in year to correct any issues identified.

## 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 31/03/14		As at 31/03/15		Variation	
	No.	%	No.	%	No.	%
Good/High	68	17.4	68	17.7	0	0.3
Satisfactory/Substantial	278	71.3	279	72.4	1	1.1
Adequate/Moderate	40	10.3	33	8.6	-7	-1.7
Unsatisfactory/Limited	4	1.0	5	1.3	1	0.3
Total	390	100.0	379	100.0	--5	0.0

- 5.5 The table shows a small reduction in the overall number of audits included in Internal Audit Plan which was made up of 14 audits which were no longer required and 9 new audits. Of the 14 audits which have been deleted from the Plan, 12 were rated as either good/high or satisfactory/substantial and 2 were rated as adequate/moderate.

- 5.6 A pleasing trend can be identified with a reduction in the number of adequate/moderate audits and an increase in the number of audits receiving a positive level of assurance although this is not immediately obvious from the table above due to the effect of the audits which were deleted.
- 5.7 There are 14 audits which are classed as fundamental which are undertaken on either an annual or bi-annual basis. Of the 14 fundamental audits, 10 have a high level of assurance, 2 have a substantial level of assurance and a further 2 have a moderate level of assurance.
- 5.8 Overall, based on the audit testing completed in 2014/15, the Internal Audit annual opinion for 2014/15 is that reasonable assurance can be given that the systems of internal control are operating effectively and that no significant weaknesses were identified in 2014/15 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 2014/15**

- Appendices:** Appendix 1 Internal Audit Plan 2014/15 – Summary  
Appendix 2 Internal Audit Section – Audits Finalised 2014/15  
Appendix 3 Internal Audit – Performance Indicators 2014/15  
Appendix 4 Audit Opinion Ratings / Levels of Assurance