

Report of the Chief Auditor

Audit Committee – 8 August 2017

INTERNAL AUDIT ANNUAL REPORT 2016/17

Purpose:	This report reviews the work of the Internal Audit Section during 2016/17 and includes the Chief Auditor's required opinion on the internal control environment for 2016/17 based on the audit testing completed in the year.
Policy Framework:	None
Consultation:	Legal, Finance and Access to Services
Recommendation(s):	It is recommended that Committee: 1. Review and discuss the work of the Internal Audit Section during 2016/17. 2. Review and approve the preferred approach to the external assessment. 3. 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 (PSIAS) 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 2016/17 and compares its performance against the Internal Audit Annual Plan for the year which was approved by the Audit Committee on 19 April 2016.

- 1.3 A series of Performance Indicators are used to measure the performance of the Internal Audit 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 2016/17 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 2016/17.
- 1.5 This report and the annual opinion on internal control are key elements of assurance that are used in the Council's Annual Governance Statement.

2. Review of 2016/17

- 2.1 A summary of time spent in 2015/16 on the different categories of Internal Audit work is shown in Appendix 1.
- 2.2 As shown in the summary table, there has been a reduction of 170 days (6.2%) in the actual productive audit days achieved against the planned number of productive days.
- 2.3 The loss of productive days was mainly due to the increased level of sickness (+156 days) and a vacant post which was held vacant for longer than originally planned (+25 days). Both issues have been reported to the Audit Committee in the quarterly Internal Audit monitoring reports. The overall loss in productive days has been reduced by the use of the contingency (80 days) and reduced staff training (24 days).
- 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 2016/17 contained 167 audit jobs, of which 83 (50%) were completed to at least draft report stage during the year while a further 38 audits were in progress as at 31/03/17. Taking into account those audits that were in progress at the end of the year, 72% of the audit jobs in the Annual Plan 2016/17 had been completed or were in progress as at 31/03/17.
- 2.6 An audit report was produced for each audit 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 98% 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 2016/17 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 increased from 40 days in 2015/16 to 85 days in 2016/17. The responsibility for investigating any fraud allegations transferred to the Corporate Fraud Team on 01/06/15. However, the special investigations undertaken by the Audit Team in 2016/17 were not fraud related. An annual report for the Corporate Fraud Team appears elsewhere on the agenda for this meeting.
- 2.9 A summary of the main investigations undertaken by Internal Audit in 2016/17 is shown in the following table.

Investigation	Outcome
Housing Loans	Following the receipt of a whistleblowing letter, a review was completed to assess the adequacy of controls in place in relation to the administration of the various Housing Loan schemes that are in place across the Authority. A number of recommendations were made which are being addressed by Legal and Housing.
Bishop Vaughan Comprehensive School	At the request of the Head of Finance & Delivery and the Schools Accounting Manager, an investigation was initiated to review the administrative processes at the school. This investigation is ongoing.
Highways & Transportation P-Cards	The Head of Highways and Transportation requested a review of P-Card transactions. Some issues were identified in relation to following the guidance issued detailing card use. The issue is currently being dealt with by the Head of Service and Human Resources.
Employee Services Pension Records (PR) Backlog	At the request of the Head of Finance & Delivery, a review was undertaken to identify the reasons for a large backlog of outstanding PR forms (recording ex-employee deferred benefits). The backlog was largely due to the introduction of new pension legislation and auto-enrolment. A Pension Liaison Team was set up to address the issue and the backlog was promptly cleared.

- 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 2015/16 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 2016 and to Council for approval in September 2016 before being signed by the Chief Executive and Deputy Leader and published with the Statement of Accounts 2015/16.
- The following grants were audited and certified in 2016/17:
 - Pupil Deprivation Grant 2015/16
 - Education Improvement Grant 2015/16
 - School Uniform Grant 2015/16
 - Supporting People Programme Grant 2015/16
 - Supporting People Programme Grant Coordinator 2015/16
- In addition, we were asked to complete an audit of the annual accounts for Brynmill Angling Club for which a fee was charged.
- A total of 9 unplanned days was spent in 2016/17 carrying out sample checks on Equal Pay schedules prior to the payments being made to staff. No errors were noted in the samples tested.
- A sample review of Back Pay calculations continued in 2016/17 prior to payments being made to staff. This work was unplanned and took 21 days to complete. A number of errors were identified in the sample tested which led to savings totalling over £59,000.
- Periodic reviews of P Card purchases were undertaken to confirm the 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.

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 Any audits that receive a 'moderate' or 'limited' level of assurance are also reported to the relevant Directorate Performance and Financial Monitoring (PFM) meeting to allow senior management to monitor the implementation of the recommendations arising from the audit.
- 3.3 The Recommendations Tracker exercise carried out in 2016/17 was reported to the Audit Committee in February 2017 where the conclusion was positive with 86% of agreed recommendations implemented by the end of November 2016.
- 3.4 During 2016/17, 17 follow up visits were made and it was found that in all but two cases substantial progress had been made in implementing the agreed recommendations. Where substantial progress in implementing the agreed recommendations had not been noted, the Chair of the Audit Committee has written to and met with the relevant Head of Service to discuss the issues that were identified and further follow up visits are planned to take place.

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 2016/17, the Internal Audit Section met or exceeded the target set at the start of the year for 8 out of the 12 PI's. This is a slight deterioration on 2015/16 where 9 of the 12 PI's were met or exceeded by the Section.
- 4.3 The PI's where the target was not met in 2016/17 were:
- PI 1 – audit assignments achieved against planned
 - PI 4 – audits completed within planned time
 - PI 5 – directly productive time against time available
 - PI 9 – average cost per directly chargeable day
- 4.4 The increased level of sickness and vacancy has contributed to the failure to achieve PI 1 although it should also be recognised that a further 38 audits were in progress as at the end of March 2017 but had not reached the draft report stage.
- 4.5 The Section also employed two new members of staff during 2016/17 which meant that there was a period of time where training and support was required. This has also impacted on the achievement of some PI targets. In addition, 45 days more than had been originally planned was spent on investigations. This, combined with the increase in the amount of sick leave and the delay in filling the vacancy which combined account for an additional 181 unplanned days explains why

some PI's have not been met. Further details can be found in Section 5 below which outlines the Quality Assurance and Improvement Programme.

- 4.6 The Comparator PI's show Swansea's PI results against the average results for comparable authorities in Wales by population. However, at the time of writing this report the results from a number of comparator authorities have not been received so this information is not currently available.
- 4.7 Unfortunately, the comparison with other Internal Audit Sections across Wales is becoming less meaningful over time as a number of authorities no longer collect the data or are only able to provide results for some of the PI's.

5. Quality Assurance & Improvement Programme

- 5.1 It is a requirement of the PSIAS that internal audit providers must maintain a Quality Assurance and Improvement Programme (QAIP) which covers all aspects of the internal audit activity and is intended to assist in raising standards across the public sector and ensuring consistency in improvement.
- 5.2 The QAIP allows internal audit providers to be assessed, both internally and externally, to show that the provider is fully complying with the PSIAS. Internal assessments are both ongoing and periodic and an external assessment must be undertaken at least once every 5 years.
- 5.3 Subject to Committee approval, it is proposed that the external assessment in Swansea will be undertaken during quarter 3 of 2017/18 and the preferred method is a self-assessment review subject to an external validation using the peer review group established by the Welsh Chief Auditors Group. A summary of the self-assessment review of conformance against the PSIAS was undertaken during June/July 2017 by the Chief Auditor, the results of which can be found in Appendix 4. The self-assessment indicates that the Audit Department is 94% compliant with the Standards, with 315 of the 334 best practice lines in the Standards being in place.
- 5.4 In addition to the self-assessment review, as part of the QAIP an action plan is compiled in order to set targets for improvement for the coming year in relation to those PI's that have not been achieved. A copy of the QAIP report and action plan for 2017/18 can be found in Appendix 5.

6. Statement of Organisational Independence

- 6.1 The PSIAS also require the Chief Auditor to confirm the organisational independence of the internal audit activity. As outlined in the self-

assessment review, the organisational independence of the Chief Auditor can be confirmed for the following reasons:

- The Chief Auditor reports to the Head of Financial Services & Service Centre, who is a permanent member of Corporate Management Team.
- The Chief Auditor reports functionally to the Audit Committee and has unrestricted access to the Committee.
- As a third tier officer, the Chief Auditor can influence the control environment, has sufficient status to pursue audit issues and provide credible, constructive challenge to management.
- The Internal Audit Charter is reviewed and approved by Audit Committee and the Corporate Management Team on an annual basis.
- The risk-based audit plan is reviewed and approved by Audit Committee on an annual basis.
- The performance of the Internal Audit Function is reported to Audit Committee on a quarterly basis via quarterly monitoring reports, annually as part of the Internal Audit Annual Report and also as part of the QAIP programme.
- The Chief Auditor has no other management responsibilities other than Internal Audit.
- The Chief Auditor also has unrestricted access to senior management and the Audit Committee and has the ability to report to all levels in his own name which allows the internal audit activity to fulfil its responsibilities.
- The Chief Auditor also has the right of direct access to the Chief Executive as agreed by the Section 151 Officer.

7. Internal Control Opinion

- 7.1 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.
- 7.2 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.
- 7.3 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 6.
- 7.4 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 31/03/16		As at 31/03/17		Variation	
	No.	%	No.	%	No.	%
Good/High	76	20.3	89	23.7	13	3.4
Satisfactory/Substantial	258	69.0	252	67.2	-6	-1.8
Adequate/Moderate	35	9.4	31	8.3	-4	-1.1
Unsatisfactory/Limited	5	1.3	3	0.8	-2	-0.5
Total	374	100.0	375	100.0	1	0.0

7.5 The table shows a small increase in the overall number of audits included in Internal Audit Plan as a result of the annual consultation exercise which results in some audits being removed from the plan that are no longer relevant, and some new audits being added.

7.6 A pleasing trend which has been identified for the past two years of an increase in the number of audits receiving a high level of assurance has continued this year. There has also been a small decrease in the number of audits with a substantial, moderate or limited level of assurance.

7.7 There are 14 audits which are classed as fundamental which are undertaken on either an annual or bi-annual basis. Following the audits completed in 2016/17 all fundamental audits now have either a high or substantial level of assurance.

7.8 **Overall, based on the audit testing completed in 2016/17, I am satisfied that Internal Audit can provide reasonable assurance that the systems of risk management, internal control and governance established by the Council are operating effectively and that no significant weaknesses were identified in 2016/17 which would have a material impact on the Council's financial affairs or the achievement of its objectives.**

8. Equality and Engagement Implications

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

9. Financial Implications

9.1 There are no financial implications associated with this report.

10 Legal Implications

10.1 There are no legal implications associated with this report

Background Papers: Internal Audit Plan 2016/17

Appendices: Appendix 1 Internal Audit Plan 2016/17 – Summary
Appendix 2 Internal Audit Section – Audits Finalised 2016/17
Appendix 3 Internal Audit – Performance Indicators 2016/17

Appendix 4 Internal Audit - Summary of self-assessment of PSIAS
Conformance
Appendix 5 Internal Audit - QAIP Report & Action Plan 2017/18
Appendix 6 Internal Audit - Audit Opinion Ratings / Levels of
Assurance