



## Report of the Chief Auditor

Audit Committee – 13 August 2019

### Internal Audit Annual Report 2018/19

<b>Purpose:</b>	This report reviews the work of the Internal Audit Section during 2018/19 and includes the Chief Auditor's required opinion on the internal control environment for 2018/19 based on the audit testing completed in the year.
<b>Policy Framework:</b>	None.
<b>Consultation:</b>	Legal, Finance and Access to Services
<b>Recommendation(s):</b>	It is recommended that Committee: <ol style="list-style-type: none"><li>1. Review and discuss the work of the Internal Audit Section during 2018/19.</li><li>2. Review the annual review of conformance with the Public Sector Internal Audit Standards.</li><li>3. Consider the Statement of Organisational Independence.</li><li>4. Consider the Chief Auditor's opinion on the internal control environment.</li></ol>
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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 2018/19 and compares its performance against the Internal Audit Annual Plan for the year which was approved by the Audit Committee on 10 April 2018.
- 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 2018/19 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 2018/19.
- 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 2018/19**

- 2.1 A summary of time spent in 2018/19 on the different categories of Internal Audit work is shown in Appendix 1.
- 2.2 As shown in the summary table, there was an increase of 37 days (2%) in the actual productive audit days achieved against the planned number of productive days. This arose as result of a redeployment situation whereby one additional member of staff joined the team for a period of 9 weeks to allow a suitable handover and training period prior to the retirement of one of the long-standing members of the team. Note that this meant 9 additional weeks have been accounted for in the year that were not expected when putting the original audit plan together. It should also be emphasised that the overall resources of the team have not been affected as the retiree has been replaced in year by the redeployee. There continues to be 9.1 FTE staff in the section.
- 2.3 There was an overall increase in the number of non-productive days of 8 days (1%). Actual sickness absence in the year was significantly higher than planned, totalling 148 days against a budget of 66 days (125% more than budgeted). It should be noted that in all cases, as reported to committee in the quarterly monitoring reports, these absences were not work related. The increase in the amount of sickness absence has been offset by the reduction in the amount of time taken by training and also by the use of the contingency budget.
- 2.4 Appendix 1 also shows the variances of the amount of time spent across the different directorates and types of audits.

- 2.5 The original Internal Audit Annual Plan 2018/19 contained 144 audit jobs, of which 125 (87%) were completed to at least draft report stage during the year while a further 5 audits were in progress as at 31/03/19. Taking into account those audits that were in progress, 90% of the audit jobs in the Annual Plan 2018/19 had been completed or were in progress as at 31/03/19.
- 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 99% 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 2018/19 along with the level of assurance and the number of recommendations made and accepted is shown in Appendix 2.
- 2.8 As well as the planned audit work, a number of other pieces of work were undertaken during the year which are summarised below:

- i) The following grants were audited and certified in 2018/19:

<b>Grant</b>	<b>Amount £</b>
Live Kilometre Support Grant 2017/18	34,769 (449,075 km)
Supporting People Programme Grant – Outcomes Jan-Dec 2017	n/a (9092 Outcomes)
Supporting People Programme Grant – Regional Coordinator 2017/18	42,374
Supporting People Programme Grant – Certification 2017/18	13,817,121
Education Improvement Grant 2017/18	9,771,837
Pupil Deprivation Grant 2017/18	7,300,230
School Uniform Grant 2018/19	52,832
Regional Consortia School Improvement Grant (Q3 Checklist)	n/a
Work Choice Programme Grant 2018/19 (Claim Process)	n/a

- ii) A total of 21 unplanned days was spent in 2018/19 undertaking 11 follow up reviews for those audits receiving moderate assurance audit reports. 5 follow up reviews were in relation to moderate audit reports issued in 2017/18 and 6 were in relation to moderate audit reports issued in 2018/19.
- iii) Continuation of the NFI 2016 work and preparation for the NFI 2018 exercise.

- iv) Completion of the internal review of the Swansea Bay City Deal Project in collaboration with Pembrokeshire Council (lead) Carmarthen Council, and Neath Port Talbot County Borough Council.
- v) Other pieces of work undertaken in year have been reported to Committee as part of the quarterly monitoring reports.

### **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:
  - i) 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.
  - ii) Non Fundamental audits which receive a 'moderate' or 'limited' level of assurance have historically received 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 2018/19 was reported to the Audit Committee on 11/12/18 where the conclusion was positive with 78% of agreed recommendations due for implementation being implemented by the end of September 2018. The report also noted that three medium risk recommendations that had been partly implemented related to the Accounts Receivable audit. This audit continues to be completed on an annual basis and the issues highlighted were reviewed as part of the 2018/19 audit. The remaining 7 recommendations that had not been implemented were classed either low risk or good practice.
- 3.4 The Accounts Receivable Fundamental Audit for 2018/19 was finalised in March 2019. It is unfortunate to note that as reported to committee in the Quarter 4 Monitoring Report, this audit was given a moderate assurance rating with a number of issues being highlighted, primarily in relation to the monitoring of invoices categorised as being 'on dispute', the escalation of unpaid invoices and the communication with staff in the

Legal department regarding invoices referred for court action. The primary reason provided by the service for these failings was a lack of adequate resources. As noted in the previous annual report, continuity and maintenance of core grip with changing, and more often diminishing, resources was a recognised clear challenge across the Authority and this continues to be the case.

- 3.5 During 2018/19, 11 moderate audit follow up reviews were completed and it was found that in all cases, suitable action had been taken to address the issues that had been highlighted and all recommendations had been adequately addressed as previously reported to Committee via the quarterly monitoring reports.

#### **4. Performance Indicators**

- 4.1 A series of 11 Performance Indicators (PI's) are used to measure the work of the Internal Audit Section as agreed by the Welsh Chief Internal Auditors Group (WCIAG). 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 presented in detail in Appendix 3 which shows that in 2018/19, the Internal Audit Section met or exceeded the target set at the start of the year for 10 out of the 11 PI's. This is an improvement on 2017/18 where 9 of the 12 PI's were met or exceeded by the Section. (Note that the WCIAG agreed to decommission one historical PI from 2018/19 onwards).

- 4.3 The PI that was not achieved in 2018/19 was:

- PI 9 – average cost per directly chargeable day.

- 4.4 As agreed by the WCIAG, average cost for this performance indicator is made up of total salary, NI and pensions costs of the Internal Audit Team. These costs have seen an overall increase of 7.5% in 2018/19 when compared to 2017/18. The number of directly chargeable days has increased from 1,415 in 2017/18 to 1,553 in 2018/19. As a result, average costs per directly chargeable day has decreased overall in 2018/19 to £294, from £300 in 2017/18. Efforts will continue throughout 2019/20 to maximise the number of directly chargeable days in year.

- 4.5 As in previous years, where available PI data has been compared to the average results of other Local Authorities in Wales, as shown in Appendix 3. However, at the time of writing this report the results from a number of suitable comparator authorities had not been received. The average results shown in Appendix 3 are taken from the results of the 13 Local Authorities that had responded to the WCIAG at the time of writing this report.

- 4.6 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. In addition, consideration should be given to the variances in size of both the Local Authorities and their internal audit departments when comparing the results of Swansea's PI's with the group averages provided.
- 4.7 It should also be noted that the WCIAG is currently reviewing the PI's that are currently used and these may be subject to further change.

## **5. Quality Assurance & Improvement Programme and Statement of Conformance with the PSIAS**

- 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 The preferred method adopted in Swansea was a self-assessment review subject to external validation using the peer review group established by the Welsh Chief Auditors Group.
- 5.4 The outcome of the peer review was presented to the Head of Financial Services & Service Centre, the Director of Resources and the Chief Executive on 28/03/18 and to Audit Committee on the 10/04/18. In summary, the peer review concluded that the City and County of Swansea's Internal Audit Section is broadly compliant with the PSIAS and CIPFA Application Note with no significant deviations from the Standards being noted. Some areas for improvement were highlighted as part of the review and the recommendations arising from these have been included in the PSIAS Compliance Report in Appendix 4.
- 5.5 The results of the annual internal assessment of compliance with the PSIAS using CIPFA's detailed Local Government Application Note completed in July 2019 can be found in Appendix 4. In summary there are 336 best practice lines within the PSIAS. The self-assessment review of conformance against the PSIAS revealed that the Internal Audit Section is 99.1% compliant with the best practice of the PSIAS.
- 5.6 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 2019/20 can be found in Appendix 5.

- 5.7 **The result of the external peer review and the updated internal assessment of conformance against CIPFA's detailed Local Government Application note confirm that the Internal Audit Section of the City and County of Swansea conforms with the International Standards for the Professional Practice of Internal Auditing and all engagements are undertaken in conformance with the Public Sector Internal Audit Standards.**

## **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:

- I) The Chief Auditor reports to the Chief Finance Officer (Section 151 Officer), who is a permanent member of Corporate Management Team.
- II) The Chief Auditor reports functionally to the Audit Committee and has unrestricted access to the Committee.
- III) 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.
- IV) The Internal Audit Charter is reviewed and approved by Audit Committee and the Corporate Management Team on an annual basis.
- V) The risk-based audit plan is reviewed and approved by Audit Committee on an annual basis.
- VI) 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.
- VII) The Chief Auditor has no other management responsibilities other than Internal Audit and the Corporate Fraud Function.
- VIII) 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.
- IX) 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 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 The Internal Audit Section give levels of assurance for all reviews undertaken. The basis used for each level of assurance is shown in Appendix 6.
- 7.4 The table below provides a summary of the assurance levels across all audits in the audit universe as at the 31/03/19, compared to the assurance levels as at 31/03/18.

Opinion / Level of Assurance	As at 31/03/18		As at 31/03/19		Variation	
	No.	%	No.	%	No.	%
High	110	28.4	127	34.5	17	+6.1
Substantial	244	63.1	224	60.9	-20	-2.2
Moderate	31	8.0	17	4.6	-14	-3.4
Limited	2	0.5	0	0	-2	-0.5
<b>Total</b>	<b>387</b>	<b>100.0</b>	<b>368</b>	<b>100.0</b>	<b>-19</b>	<b>0</b>

- 7.5 Note that as a result of the consultation exercise, departmental restructures and other changes across the Council, the total number of audits in the audit universe will vary each year.
- 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 audits. The fundamental audits are the systems that are considered to be so significant to the achievement of the Council's objectives that they are audited either annually or bi-annually. Following the audits completed in 2018/19, 12 of the 14 fundamental audits have a high level of assurance, one has a substantial level of assurance (Accounts Payable) and one has a moderate level of assurance (Accounts Receivable). It is disappointing to note that one of the fundamental audits received a moderate assurance rating in 2018/19. As detailed in the Quarter 4 Monitoring Report and above, the reasons provided by the service for the weaknesses identified in this area were in relation to reduced resources. As noted in the previous annual report, continuity and maintenance of core grip with changing, and more often diminishing, resources was a recognised clear challenge across the Authority and this continues to be the case.
- 7.8 Despite this, it should be noted that of the 14 fundamental system audits, 12 have a high assurance level and one has a substantial assurance level. In addition, the increase in the number of audits receiving a high level of assurance in the overall audit universe and the results of the

work undertaken in 2018/19 provides reasonable assurance that across the Authority, the systems of internal control are operating effectively.

7.9 Throughout the year, a significant amount of effort has been directed at further strengthening the systems of risk management across the Authority. Audit Committee now have access to the Corporate Risk Register and also receive regular update reports from the Strategic Delivery and Performance Manager outlining the status of key risks to further strengthen assurance in this area. The Corporate Management Team and Risk Owners have also reviewed the risk register entries regularly throughout the year to ensure the register is up to date and all mitigating controls have been captured and remain effective.

7.10 In addition, the appointment in year of the Deputy Chief Executive, tasked with overarching responsibility for ensuring existing corporate governance arrangements are effective, has further strengthened assurances in this area. A diagram illustrating the sources of the key areas of corporate governance assurance and how they interrelate can be found in Appendix 7.

7.11 **Overall, based on the work undertaken in 2018/19, 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 2018/19 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 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

8.2 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 2018/19

**Appendices:** Appendix 1 Internal Audit – Plan 2018/19 Summary  
Appendix 2 Internal Audit – Audits Finalised 2018/19  
Appendix 3 Internal Audit – Performance Indicators 2018/19  
Appendix 4 Internal Audit – PSIAS Compliance Report  
Appendix 5 Internal Audit – QAIP Report & Action Plan 2019/20  
Appendix 6 Internal Audit – Audit Levels of Assurance  
Appendix 7 Internal Audit – Governance & Assurance Map