

## Report of the Chief Auditor

Audit Committee – 30 August 2016

### INTERNAL AUDIT ANNUAL REPORT 2015/16

<b>Purpose:</b>	This report reviews the work of the Internal Audit Section during 2015/16 and includes the Chief Auditor's required opinion on the internal control environment for 2015/16 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 2015/16 and to consider the Chief Auditor's opinion on internal control.
<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 2015/16. 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 2015/16 and compares its performance against the Internal Audit Annual Plan

for the year which was approved by the Audit Committee on 9 April 2015.

- 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 2015/16 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 2015/16.
- 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 2015/16**

- 2.1 A summary of time spent in 2015/16 on the different categories of Internal Audit work is shown in Appendix 1. Overall there was an increase in total days available of 53 days, this is due to a 53<sup>rd</sup> week being recorded in 2015/16 on the Galileo Audit Management System although the original Audit Plan was based on 52 weeks.
- 2.2 Although the total number of days has increased there has been a minor reduction of 24 days (1.9%) 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 (+177 days) and a vacant post which was held vacant for longer than originally planned (+46 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 (115 days) and reduced staff training (52 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 2015/16 contained 155 audit jobs, of which 78 (50%) were completed to at least draft report stage during the year while a further 26 audits were in progress as at 31/03/16. A number of audits planned 2015/16 could not be started due to operational issues in the service area therefore 9 audits due in 2016/17 were brought forward and added to the 2015/16 Audit Plan.
- 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 98.9% 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 2015/16 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 reduced from 110 days in 2014/15 to 40 days in 2015/16 as the responsibility for investigating any fraud allegations transferred to the Corporate Fraud Team on 01/06/15. 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 is shown in the following table.

Investigation	Outcome
Payroll	A review of the increase in manual payroll payments was completed at the request of the Head of Finance and Delivery. It was found that teething problems experienced following the introduction of a new Universal Timesheet had led to an increase in the number of payroll errors which required manual payments to staff. The teething problems have now largely been overcome.
Payroll – anonymous allegations	An anonymous letter was received making a number of allegations against Payroll management. The allegations were investigated and were unfounded.
Pupil Referral Unit	A review of the financial controls in place at one of the Pupil Referral Units was completed at the request of the Department. Recommendations to improve control were made as a result of the review.
Community Safety	A review of the system for recording staff attendance and absences was completed at the request of the Head of Service. A number of recommendations were made to improve control following the review.

- 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 Deputy Leader and published with the Statement of Accounts 2014/15.

- Additional unplanned time was spent auditing a number of grant claims at the request of ERW. The Annual Plan included 13 days for Education grant audits but the actual number of days spent was 60. The following grants were audited and certified in 2015/16 although for 2016/17 only the grants highlighted in bold require auditing.
  - School Effectiveness Grant 2014/15
  - Welsh in Education Grant 2014/15
  - 14 – 19 Learning Pathways Grant 2014/15
  - **Pupil Deprivation Grant 2014/15**
  - **Education Improvement Grant 2015/16**
- In addition, a grant audit has been undertaken on behalf of Neath Port Talbot CBC for which a fee was charged.
- A total of 47 unplanned days was spent in 2015/16 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 of almost £5,000 from this work.
- A sample review commenced of back pay calculations in 2015/16 prior to payments being made to staff. This work was unplanned and took 13 days to complete. An error was identified in one of the sample tested which led to a saving of £6,500.
- A financial appraisal of a prospective partner to develop an integrated purpose built Primary Care and Family Centre in Mayhill was completed during 2015/16
- A monthly review of P Card purchases was 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 2015/16 was reported to the Audit Committee in February 2016 where the conclusion was positive with 79% of agreed recommendations implemented by the end of December 2015.
- 3.4 During 2014/15, 4 follow up visits were made and it was found that in all cases substantial progress had been made in implementing the agreed recommendations.

#### **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 2015/16, 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 improvement on 2014/15 where only 6 of the 12 PI's were met or exceeded by the Section.
- 4.3 The PI's where the target was not met were
- PI 1 – audit assignments achieved against planned
  - PI 4 – audits completed within planned time
  - PI 6 – average period from management response to final report
- 4.4 The increased level of sickness has contributed to the failure to achieve PI 1 although it should also be recognised that a further 26 audits were in progress as at the end of March 2016 but had not reached the draft report stage.
- 4.5 The Section also employed a number of new staff during 2015/16 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.

4.6 The Comparator PI's show Swansea's PI results against the average results for 5 comparable authorities in Wales by population. However, at the time of writing this report the results from 3 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. 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 31/03/15		As at 31/03/16		Variation	
	No.	%	No.	%	No.	%
Good/High	68	17.7	76	20.3	8	2.6
Satisfactory/Substantial	279	72.4	258	69.0	-21	-3.4
Adequate/Moderate	33	8.6	35	9.4	2	0.8
Unsatisfactory/Limited	5	1.6	5	1.3	0	0.0
<b>Total</b>	<b>385</b>	<b>100.0</b>	<b>374</b>	<b>100.0</b>	<b>-11</b>	<b>0.0</b>

5.5 The table shows a small reduction in the overall number of audits included in Internal Audit Plan due to 16 audits being deleted as no longer required which was partially offset by 5 new audits being added to the Plan.

5.6 A pleasing trend which was identified last year for an increase in the number of audits receiving a high level of assurance has continued this year. There has also been a small increase in the number of audits with

a moderate level of assurance but this increase is not something to cause concern at this time.

5.7 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 2015/16, for the first time, all fundamental audits now have either a high or substantial level of assurance as a result of the Payroll and Accounts Receivable audits moving from a moderate to substantial level of assurance.

5.8 **Overall, based on the audit testing completed in 2015/16, 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 2015/16 which would have a material impact on the Council's financial affairs or the achievement of its objectives.**

## **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 2015/16

**Appendices:** Appendix 1 Internal Audit Plan 2015/16 – Summary  
Appendix 2 Internal Audit Section – Audits Finalised 2015/16  
Appendix 3 Internal Audit – Performance Indicators 2015/16  
Appendix 4 Audit Opinion Ratings / Levels of Assurance