



## Report of the Chief Auditor

Audit Committee – 14 August 2018

### Internal Audit Annual Report 2017/18

<b>Purpose:</b>	This report reviews the work of the Internal Audit Section during 2017/18 and includes the Chief Auditor's required opinion on the internal control environment for 2017/18 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 2017/18.</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 2017/18 and compares its performance against the Internal Audit Annual Plan for the year which was approved by the Audit Committee on 28 March 2017.
- 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 2017/18 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 2017/18.
- 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 2017/18**

- 2.1 A summary of time spent in 2017/18 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 194 days (7.9%) 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 (+88 days), an increase in administration (+73 days) and an unplanned vacancy (+60 days). It should be noted that in addition, an additional 89 days were lost from the planned productive days due to one member of the team being granted flexible retirement and a reduction in hours early in the financial year. However, this has largely been covered by the use of the planned contingency budget. The overall loss in productive days has also been reduced by less days being spent on training (-23 days) and annual leave (-17 days).
- 2.4 Appendix 1 also shows the impact of the loss of productive days across directorates and other types of audit work.
- 2.5 The original Internal Audit Annual Plan 2017/18 contained 156 audit jobs, of which 121 (78%) were completed to at least draft report stage during the year while a further 13 audits were in progress as at 31/03/18. Taking into account those audits that were in progress at the end of the year, 86% of the audit jobs in the Annual Plan 2017/18 had been completed or were in progress as at 31/03/18.

- 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 2017/18 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 decreased significantly 2017/18 to 8 days, as in most cases such investigations are now undertaken by the Fraud Function.
- 2.9 A summary of the main investigations undertaken by Internal Audit in 2017/18 is shown in the following table.

Investigation	Outcome
Bishop Vaughan Comprehensive School	At the request of the Head of Financial Services & Service Centre and the Schools Accounting Manager, an investigation was initiated to review the administrative processes at the school. This investigation started in 2016/17 and was concluded in 2017/18. A number of recommendations were made as a result of the investigation and the follow up visit confirmed that good progress had been made in implementing the recommendations with 19 of the 22 recommendations being fully implemented. The implementation of the outstanding 3 recommendations will be checked as part of the next full audit due in 2019/20.
Cwmglas Primary School	At the request of the Head of Financial Services & Service Centre and the Schools Accounting Manager, an investigation was initiated to review the administrative processes at the school. This investigation is currently ongoing.

- 2.10 As well as the planned audit work and special investigations, a number of other pieces of work were undertaken during the year which are shown below:
- i) The Annual Governance Statement 2016/17 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 on 11/07/17 and to Council for approval on 28/09/17 before being signed by the Chief Executive and Deputy Leader and published with the Statement of Accounts 2016/17. It should be noted the Chief Auditor is no longer responsible for compiling the Annual Governance Statement and from 2017/18 this is the responsibility of the Head of Legal, Democratic Services and Business Intelligence.

- ii) The following grants were audited and certified in 2017/18:
  - Pupil Deprivation Grant 2016/17
  - Education Improvement Grant 2016/17
  - School Uniform Grant 2014/15 - 2016/17
  - Supporting People Programme Grant 2016/17
  - Supporting People Programme Grant Coordinator 2016/17
  - Supporting People Programme Grant Outcomes 2016/17
  - Live Kilometre Grant 2016/17
- iii) A total of 27 unplanned days was spent in 2017/18 undertaking follow up work for those audits receiving moderate assurance audit reports.
- iv) In addition, a total of 129 days were spend completing audits that had been carried forward from 2016/17, and 49 days were spent on audits that had initially been deferred for completion in 2018/19 but were undertaken in 2017/18 due to issues experienced in commencing some audits that had been included on the 2017/18 audit plan.
- v) Sample testing of back pay calculations at the request of Employee Services was undertaken, taking 5 days.
- vi) The sections audit software, Galileo, had to be upgraded in the year which took a total of 15 days.
- vii) A review of the new cashless school meals system, sQuid, was undertaken to ensure our audit testing was appropriately updated following the system's introduction, taking 3 days.

### **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 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 2017/18 was reported to the Audit Committee on 12/12/17 where the conclusion was positive with 86% of agreed recommendations implemented by the end of November 2017.
- 3.4 During 2017/18, 6 follow up visits were made and it was found that in all but one case, a number of recommendations had not been fully implemented. It should be noted that in all cases, the reason for failing to fully implement the recommendations related to lack of resources or was due to the fact that the relevant manager or senior manager responsible for implementation had retired since the report had been finalised. Continuity and maintenance of core grip with changing, and more often diminishing, resources is a recognised clear challenge across the Authority. The audits in question are included in the 2018/19 audit plan and hence are due to be reviewed in full this year.
- 3.5 In response to a number of moderate assurance reports being presented to Audit Committee as part of the quarterly monitoring reports, Committee requested that from April 2018 the relevant Head of Service and Service Manager attend the next Committee meeting when details of the report are discussed to update Members as to what action had been taken to address the issues identified.

#### **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 presented in detail in Appendix 3 which shows that in 2017/18, 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 a slight improvement on 2016/17 where 8 of the 12 PI's were met or exceeded by the Section.
- 4.3 The PI's where the target was not met in 2017/18 were:
- PI 5 – directly productive time against time available.
  - PI 8 – directly productive time against planned time.
  - PI 9 – average cost per directly chargeable day.
- 4.4 The increased level of sickness and administration has contributed to the failure to achieve PI 5 and PI 8. Sickness absence exceeded the planned budget by 88 days. In addition, administration exceeded the planned budget by 73 days. It should be noted that downtime experienced by the team due to the office move from the Civic Centre to the Guildhall plus

the introduction of new IT equipment were both significant contributing factors to the admin budget being exceeded.

- 4.5 It should also be noted that the approved plan for 2017/18 did not take into account the reduction in planned time that would be available due to one member of staff subsequently being granted flexible retirement and reduced hours early in the financial year by the previous Director of Resources. This resulted in the planned days being reduced by 89 days. In addition, an unexpected vacancy accounted for a further reduction of 60 days from the plan. Had the flexible retirement been accounted for in the original plan, PI 8 would be 93% which would mean the team would have exceeded the target of 90%.
- 4.6 The points above also apply in relation to PI 9 as the increased sickness absence and administration plus the reduction in days from the plan caused by the vacancy and reduced hours resulted in a significant reduction in the number of directly chargeable days. It should also be noted that overall staff costs in year were 8% lower than in 2016/17, in line with planned and agreed savings required to contribute to the overall rebalancing of corporate services budgets.
- 4.7 In previous years, PI data has been compared to the results of other comparable authorities in Wales based on population. However, at the time of writing this report the results from a number of suitable comparator authorities have not been received. This was also the case for the 2016/17 PI results. Because of this, no comparator data has been included in Appendix 3.
- 4.8 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 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 April 2018 can be found in Appendix 4. In summary there are 334 best practice lines within the PSIAS. The self-assessment review of conformance against the PSIAS revealed that 97% of the best practice of the PSIAS are in place.
- 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 2018/19 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.
- 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 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 31/03/17		As at 31/03/18		Variation	
	No.	%	No.	%	No.	%
Good/High	89	23.7	110	28.4	21	4.7
Satisfactory/Substantial	252	67.2	244	63.1	-8	-4.1
Adequate/Moderate	31	8.3	31	8.0	0	-0.3
Unsatisfactory/Limited	3	0.8	2	0.5	-1	-0.3
<b>Total</b>	<b>375</b>	<b>100.0</b>	<b>387</b>	<b>100.0</b>	<b>12</b>	<b>0.0</b>

- 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.

- 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 2017/18, 13 of the 14 fundamental audits have a high level of assurance and 1 has a substantial level of assurance.
- 7.8 **Overall, based on the audit testing completed in 2017/18, 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 2017/18 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 2017/18**

- Appendices:** Appendix 1 Internal Audit – Plan 2017/18 Summary  
Appendix 2 Internal Audit – Audits Finalised 2017/18  
Appendix 3 Internal Audit – Performance Indicators 2017/18  
Appendix 4 Internal Audit – PSIAS Compliance Report  
Appendix 5 Internal Audit – QAIP 2017/18  
Appendix 6 Internal Audit – Audit Opinion Ratings / Levels of Assurance