



## AUDIT COMMITTEE – 9TH SEPTEMBER 2015

**SUBJECT: INTERNAL AUDIT SERVICES: ANNUAL OUTTURN REPORT 2014/2015**

**REPORT BY: INTERNAL AUDIT MANAGER**

---

### 1. PURPOSE OF REPORT

1.1 To inform Members of the work carried out by Internal Audit Services during 2014/2015.

### 2. SUMMARY

2.1 It is a requirement both of the Public Sector Internal Audit Standards and the Council's own Financial Regulations that an annual audit activity plan is prepared to ensure that there is an effective and efficient use of audit resources. In addition to producing the audit plan, it is also a requirement that the Internal Audit Manager produces an annual report on work carried out by Internal Audit Services during the financial year. This report summarises that activity.

### 3. LINKS TO STRATEGY

3.1 To ensure that the Council's strategies are delivered in a proper and transparent way.

### 4. THE REPORT

4.1 The Annual Plan for 2014/2015 was prepared on a risk-based approach and is structured around four key principles:

*Systems* System audits would be prioritised and there would be co-operation with the Council's External Auditors to satisfy them of our coverage in this area.

*Establishments* There would be a medium term strategy to ensure adequate coverage in this area in order that all establishments receive a periodic audit visit. (A schedule of actual against planned visits is shown as Appendix A).

*Regularity* The safeguarding of assets, income and control of expenditure would remain a priority.

*Advisory* A consultative approach to be encouraged in order to promote an open and transparent culture to include the sharing of best practice and early input from Internal Audit in developing processes and procedures.

4.2 At the time of preparing the 2014/2015 Annual Audit Plan the section's actual establishment was 9.02 fte (full time equivalent) staff, which equates to 22401 man days. Of this total 1698 days were allocated to specific audits, the remainder, 703 days, were classified as overheads to cover holidays, sickness, training, management issues and other non-directly allocated time.

4.3 The table below shows in summary form an overview of the allocation of audit staff time for 2014/2015 against the original plan. (One of the main performance measures currently adopted by Internal Audit is a comparison of how time is actually spent compared to the audit annual plan. This requires all staff to complete timesheets and allocate time spent against the appropriate client).

DIRECTORATE	PLANNED COVERAGE	ACTUAL COVERAGE
	Days	Days
Education, Lifelong Learning	262	339
Social Services	145	58
Environment	231	285
Corporate Services	677	542
Corporate	303	235
Contingency	80	-
Total directly allocated	1698	1459
Total Overhead	703	768
Lost days*		174
Total Days	2401	2401

\* One member of staff left during the year and the post was not filled. Staffing establishment reduced to 8.2 fte.

4.4 The above table shows how actual coverage has varied from that originally planned prior to the start of the year. As the service becomes more responsive to the needs of the organisation and is undertaking more consultative or thematic work the annual planning process is becoming more difficult to accurately predict what will be required in the future. The move away from the traditional financially focused audits will further complicate resource allocation and will inevitably lead to future audit plans being more generic in nature and thus more flexible to allow for new or emerging issues to be accommodated.

4.5 Due to the nature of internal auditing, performance monitoring and target setting have always been key drivers by which management can assess the effectiveness of the internal audit function. Resource planning, time recording and benchmarking have long been used by internal audit to direct and inform the audit process.

4.6 Performance measures are important for two reasons: -

4.6.1 They enable progress over a period of time to be monitored (given that historic data is available to establish a sound base).

4.6.2 They enable targets to be set for future improvement.

4.7 The main performance measures for Internal Audit for 2014/15 were as follows:

Sickness Absence  
Productivity  
Completion of audit plan  
Costs remaining within budget

4.8 Sickness absence – the annual rate was 4.4% however when adjusted for the long term element in respect of one member of staff the underlying rate was 0.7%.

4.9 Draft reports to be issued to management within 10 working days following the completion of the audit fieldwork. Based on a sample analysis the actual was 19.5 days (12.9 days last year). This increase was mainly due to workload and timing issues within one area of the teams work and has since improved significantly.

- 4.10 The level of directly allocated time to be 71% of total time available. A level of 65% (70% last year) was achieved. This drop is felt to be the result of reducing staff numbers however it is still in line with the Welsh average.
- 4.11 To issue all final reports within 5 days of management clearing the draft report. Based on a sample analysis an average of 2.8 days (3.8 days last year) was achieved.
- 4.12 Audit staff to be available from 8.30 to 5.00, Monday to Thursday, 8.30 to 4.30 Fridays. This target was achieved.
- 4.13 To draw up and have agreed an Annual Plan by the 31<sup>st</sup> March. The 2014/15 audit plan was agreed by the Audit Committee on 5<sup>th</sup> March.
- 4.14 To ensure costs are in line with budget. This was achieved.
- 4.15 In addition to the above, client questionnaires are sent out after every audit. Despite the fact that the response rate has fallen off considerably all those received back have been satisfied with the way the audit is conducted and the benefit derived from it.
- 4.16 **AUDIT WORK 2014/2015**
- 4.16.1 A proportion of internal audit work has required involvement in the development of new and existing systems and procedures. Whilst this work does not form part of the assurance work undertaken it is considered beneficial for early audit involvement to avoid future problems due to control weaknesses. All opportunities are taken to proactively promote good practice and to strengthen both existing and new control processes and as such resource and time is allocated to this advisory/ consultancy role.
- 4.16.2 Additionally, Internal Audit staff continue to provide advice and support to staff on Standing Orders for Contracts, Financial Regulations and financial best practice including tailored training or instruction as and when required.
- 4.16.3 The following is a summary of activities Internal Audit was involved in during the year: -
- 4.16.3.1 Audit resource continued to provide an internal audit review of Local Service Board and Regional Development Plan grants administered by the Authority for both internally run projects and for external projects. Audit staff time being recharged at cost to the grant funding body. Internal audit reviews of WG grants have also been performed in line with the Terms & Conditions of these grants.
- 4.16.3.2 Establishments in receipt of an audit visit included four comprehensive schools, fifteen primary schools, two leisure facilities and five social services establishments (see Appendix A).
- 4.16.3.3 Audit reviews (including follow-up audits) have been carried out across a wide variety of areas in order to gain an overall opinion on the effectiveness of the internal control system operating within the Council. A list showing a variety of the financial activities reviewed is shown in Appendix B.
- 4.16.3.4 Audit staff assisted Caerphilly Homes with the stocktaking at the Council's stores and assisted with the introduction of new procedures relating to van based stocks in anticipation of changes to operational working practices. Additionally staff have participated in a working party on the transition to single source supplier for housing maintenance.
- 4.16.3.5 112 contractors' final accounts were audited with a combined value of over £28m (Last year 102 accounts with a value of £16m).

- 4.16.3.6 Issues were resolved in respect of 152 cheques, which, for various reasons had been returned to the Council, 3 of which related to duplicate payments, the value of which was £765 (the previous year's total 262 and 1 duplicate totalling £240). This should be viewed against an estimated 6,800 issued cheques with an estimated value of approximately £5.2m.
- 4.16.3.7 Continuation of our participation in specialist practitioners groups dealing with topical audit issues and the development of a best practice approach. This is seen as an important ingredient in ensuring internal audit staff are aware of the wider issues affecting the delivery of an effective internal audit service.
- 4.16.3.8 There were 115 anonymous letters logged by Internal Audit which, where appropriate, were passed to the relevant departments for action (134 last year).

#### 4.17 OUTCOMES

- 4.17.1 The regularity work carried out by Internal Audit Services is designed to assess overall compliance with management policies and procedures. This work is supplemented and complemented by system reviews to measure and recommend on the level and effectiveness of internal controls.
- 4.17.2 Internal audit reviews concentrate on the negative aspects and this can sometimes give a misleading picture of the financial control environment of an organisation. Whilst there may be, in an organisation as large as Caerphilly CBC, areas of concern in relation to the detailed financial administration there are also many examples of good practice.
- 4.17.3 During 2014/15 all appropriate audit reports were given an audit opinion on the adequacy of the systems reviewed, the controls in place, and compliance with those controls to provide an overview of the whole control environment and evidence to support the financial element of the Council's annual governance review process.
- 4.17.4 During the year there were 16 systems based audits which generated 32 opinions and there were 28 establishments audited. Of these, 43 opinions were found to be at least satisfactory. There were however 17 opinions which were identified as being less than satisfactory, details of which are as follows:
- |                  |    |
|------------------|----|
| - Establishments | 4  |
| - Systems based  | 13 |
- 4.17.5 In the majority of cases management and the auditees have accepted the recommendations made by Internal Audit. Recipients of audit reports (excl. establishments) are required to submit action plans to the internal audit section to ensure proposals have been actioned or are being adequately progressed. During the year 8 action plans relating to previous years audits were reviewed.
- 4.17.6 Those areas identified in 4.16.4 as not being satisfactory have been or are being dealt with via an ongoing audit process thus ensuring issues are resolved appropriately. None of the issues identified are considered to be material in the context of the whole authority and are not felt to be significant enough to warrant disclosure within the annual review of the Council's governance arrangements.
- 4.17.7 There have been no materially significant special investigations undertaken by Internal Audit during the year.

## **5. EQUALITIES IMPLICATIONS**

- 5.1 This report is for information purposes only, therefore the Council's full equalities impact assessment process has not been applied.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 There are no direct financial implications arising from this report.

## **7. PERSONNEL IMPLICATIONS**

- 7.1 There are no direct personnel implications arising from this report.

## **8. CONSULTATION**

- 8.1 Any comments received have been reflected in this report.

## **9. CONCLUSIONS**

- 9.1 This report has been prepared as a review of Internal Audit activity during 2014/2015. It not only highlights the extent of our work but also the diversity.
- 9.2 No fundamental issues have come to light as a result of audits carried out on both the major financial systems and other financial and administrative systems and procedures. Where issues have been identified and brought to management's attention an action planning process is in place to drive through the necessary improvements. Overall it is considered that the Council continues to operate within a control environment that should minimise the risk of loss to the Authority.

## **10. RECOMMENDATIONS**

- 10.1 Members are asked to note the contents of this annual review of the operation of Internal Audit Services.

## **11. REASONS FOR THE RECOMMENDATIONS**

- 11.1 To ensure Members are aware of the level of internal audit coverage and the overall opinion derived from undertaking this work.

## **12. STATUTORY POWER**

- 12.1 Local Government Act 2000.

Author: Mr R M Harris, Internal Audit Manager  
Consultees: N Scammell, Acting Director of Corporate Services and Section 151 Officer  
S Harris, Acting Head of Corporate Finance

Appendices:  
Appendix A - Schedule of actual against planned establishment visits  
Appendix B - Audit Coverage: Systems