



## AUDIT COMMITTEE - 14TH SEPTEMBER 2016

**SUBJECT: INTERNAL AUDIT SERVICES - ANNUAL OUTTURN REPORT 2015/2016**

**REPORT BY: INTERNAL AUDIT MANAGER**

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### 1. PURPOSE OF REPORT

1.1 To inform Members of the work carried out by Internal Audit Services during 2015/2016.

### 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 2015/16 Annual Audit Plan 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. Details of the visits undertaken during the year are provided in 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 2015/2016 Annual Audit Plan the Section's actual establishment was 8.24 fte (full time equivalent) staff, which equates to 2160 man days. Of this total, 1506 days were allocated to specific audits with the remaining 654 days being classified as overheads to cover holidays, sickness, training, management issues and other non-directly allocated time.

4.3 The following table provides an overview of the actual allocation of audit staff time for 2015/2016 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 (Days)	Actual Coverage (Days)	Variance (Days)	Variance (%)
Education & Lifelong Learning	298	341	+43	+14.4%
Social Services	124	145	+21	+16.9%
Environment	253	208	-45	-17.8%
Corporate Services	439	577	+138	+31.4%
Corporate	312	220	-92	-29.5%
Contingency	80	0	-80	-
<b>Total allocated time</b>	<b>1506</b>	<b>1491</b>	<b>-15</b>	<b>-0.9%</b>
Overheads	654	684	+30	+4.59%
<b>Total available days</b>	<b>2160</b>	<b>2175</b>	<b>+15</b>	<b>+0.69%</b>

4.4 The above table shows how actual coverage has varied from that originally planned prior to the start of the year. Variances arise due to a number of factors including but not limited to the following: -

- The actual audit reviews may take longer than planned (this is a particular issue with new or unfamiliar areas).
- Initial findings may be complex and additional audit work or further requests for information and explanations may be required.
- Additional time may also be incurred on audits where adequate information and explanations are not supplied promptly by management thus requiring further time to be incurred chasing explanations.
- Additional risk areas not originally scoped may be identified during audits which may require further work as part of an existing audit or an additional audit review.

4.5 The largest increase in actual audit days against planned days was in Corporate Services. This was as a result of a special review commissioned by the Acting Director of Corporate Services & S151 Officer, and a special investigation in relation to cash income and banking. Both of these were considered to be high risk thus leading to lower risk audits being deferred into the following year's audit plan.

4.6 As the Internal Audit Service becomes more responsive to the needs of the organisation the annual planning process is becoming more difficult to accurately predict what will be required over both the short and medium-term. Variances from the initial plan to outturn as noted above will not be unusual as new and emerging risk issues arise and this will inevitably result in re-prioritisation of audits within the plan. The pace of change in respect of structures and service delivery across the organisation will further complicate resource allocation and will inevitably lead to future audit plans becoming more generic in nature and thus more flexible to allow for new or emerging issues to be accommodated. As a result the Audit Committee will receive an in-year progress report on the agreed Audit Plan.

4.7 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 Service. Resource planning, time recording and benchmarking have long been used by Internal Audit to direct and inform the audit process. Performance measures are important for two reasons: -

- They enable progress over a period of time to be monitored (given that historic data is available to establish a sound base).
- They enable targets to be set for future improvement.

- 4.8 The main performance measures for Internal Audit for 2015/16 covered the following areas: -
- Sickness Absence.
  - Productivity.
  - Completion of audit plan.
  - Costs remaining within budget.
- 4.9 Details of actual performance against specific performance measures are provided below: -
- 4.9.1 **Sickness Absence** - The percentage sickness absence during 2015/16 was 1.06% (4.4% in 2014/15 due to the long-term absence of one member of staff).
- 4.9.2 **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 11.6 days (19.5 days in 2014/15). The target was not achieved but good progress has been made on the 2014/15 result.
- 4.9.3 **The level of directly allocated time to be 70% of total time available** - A level of 69% (65% in 2014/15) was achieved.
- 4.9.4 **To issue all final reports within 5 days of management clearing the draft report** - Based on a sample analysis an average of 4.9 days (2.8 days in 2014/15) was achieved.
- 4.9.5 **Audit staff to be available from 8.30 to 5.00, Monday to Thursday, 8.30 to 4.30 on Fridays** - This target was achieved.
- 4.9.6 **To draw up and have agreed an Annual Plan by the 31<sup>st</sup> March.** The 2015/16 audit plan was agreed by the Audit Committee on 11<sup>th</sup> March 2015.
- 4.9.7 **To ensure costs are in line with budget** - This was achieved.
- 4.10 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.
- 4.11 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.
- 4.12 During 2015/16 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.
- 4.13 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, which has been reflected in the Annual Governance Statement (AGS).
- 4.14 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 27 action plans relating to previous years systems audits were reviewed and four establishments identified as needing to improve during the previous year were visited again.

- 4.15 Those areas identified 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.
- 4.16 The following sections of the report provide further details of the variety of activities that the Internal Audit Service was involved in during the year:-
- 4.17 Establishment Audits
- 4.17.1 Establishments in receipt of an audit visit included 22 schools, 3 leisure facilities, 3 social services establishments and 5 other miscellaneous establishments (see Appendix A). All apart from three were reported to management as satisfactory or above. Follow-up audits have been undertaken or are planned shortly to follow-up on the required actions for those areas identified as being in need of improvement. As part of this follow-up process audit staff also attended a school governing body meeting to facilitate the required improvements in financial administration.
- 4.18 Systems Audits
- 4.18.1 Systems work is carried out on the main financial systems of the Council i.e. payroll, creditor payments, council tax and benefits together with other financial and non-financial systems. Systems audits are prioritised on a risk based approach with those involving cash handling, large values or high volumes of transactions being considered to be higher risk.
- 4.18.2 Systems audits assess the risks and controls in existence in a system, together with an opinion on the compliance to these controls. During 2015/16 a total of 35 system audits were completed generating 53 audit opinions of which 13 opinions were less than satisfactory. Analysis of reported findings and opinions from these audits has been undertaken which informs the planning, prioritisation and risk assessments of future plans.
- 4.18.3 All system audits with findings of moderate risk or above will result in an agreed action plan of recommended improvements and these are subject to review once the respective implementation dates have elapsed.
- 4.19 Other Compliance Audits
- 4.19.1 Compliance work was undertaken to assist with the ongoing IT security accreditation (BSISO/IEC27001:2013). Audit staff also participate in a working group and undertake periodic testing of our conformity with the Payment Card Industry (PCI) Standards. The Authority continues to be fully compliant with the PCI Standard and the working party is planning for the implementation of the updated Standard due later this year. This is an ongoing requirement.
- 4.20 Other Audit Work
- 4.20.1 A proportion of the work of the Internal Audit Service during 2015/16 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. This is reflected in the opinions reported in the Annual Governance Statement (AGS).
- 4.20.2 Internal Audit staff have continued 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. An interim consultation and review of the appropriateness of Financial Regulations and Standing Orders for Contracts was undertaken during the year

and this did not identify any major issues that required immediate attention. The Interim Head of Corporate Finance intends to follow-up this work with a fuller review which will be included in the Corporate Finance Service Plan for 2017/18.

- 4.20.3 The Internal Audit Manager is a member of the Corporate Governance Panel and facilitates the annual review process. During 2015/16 the Internal Audit Manager also participated in a safeguarding working group tasked with developing a new corporate safeguarding strategy in response to a recommendation in a Wales Audit Office (WAO) safeguarding report.
- 4.20.4 Internal Audit has been supporting the Welsh Housing Quality Standard (WHQS) project with the ongoing development of systems and processes.
- 4.20.5 Internal Audit staff facilitated the biennial National Fraud Initiative (NFI) data matching exercise, which is a national mandatory programme involving 1300 public sector organisations to help prevent and detect fraud. The NFI plays an important role in protecting the public purse and is one element of an effective anti-fraud strategy. The NFI is run by the Cabinet Office and WAO, and Internal Audit contributed to the successful completion of the exercise (99% of all matches were reviewed), by undertaking some of the investigative work. The nationally published NFI report contains several case studies in respect of the findings of Caerphilly's approach to the investigation of data matches and Caerphilly's approach is regarded as good practice.
- 4.20.6 During 2015/16 Internal Audit was also involved in a review of the Council's policy position on the use of data available via the vehicle tracking equipment fitted to fleet vehicles. The outcome of this review is currently being considered by management.
- 4.20.7 97 contractors' final accounts were audited during the year with a combined value of over £23m (2014/15 - 112 accounts with a value of £28m).
- 4.20.8 There were 76 anonymous letters logged by Internal Audit during the year which, where appropriate, were passed to the relevant departments for action (115 in 2014/15). These cover a wide range of issues from possible benefit frauds, neighbour disputes, antisocial behaviour, and other potential illegal behaviours. A summary of these and any known outcomes will be reported to Audit Committee for information once the data is collated.
- 4.20.9 The Internal Audit Manager is currently working towards compliance with the Public Sector Internal Audit Standard (PSIAS) and some changes in working procedures have been implemented. Further work is planned on this together with a self-assessment review in the current year. The Audit Committee will receive a report on these matters at its meeting in December 2016.
- 4.21 Training and advice
- 4.21.1 Two mandatory training sessions were provided to new members of the Audit Committee members on the role and purpose of the Committee.
- 4.21.2 Internal Audit staff have continued to participate in all Wales 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 continuing their professional development and are aware of the wider issues affecting the delivery of an effective Internal Audit Service.
- 4.22 Special Investigations
- 4.22.1 A review of the access and usage of the Department for Work & Pensions (DWP) data system was undertaken in order to provide assurances that the Council was acting in accordance with the Memorandum of Understanding (MoU) agreed with the DWP. Non-compliance with the MoU could lead to the revoking of the Council's access to the system which is required to be able to administer benefit claims. The review highlighted some minor areas for improvement but no significant shortcomings were identified.

## **5. CONCLUSIONS**

- 5.1 This report has been prepared as a review of Internal Audit activity during 2015/2016. It not only highlights the extent of the work completed but also the diversity.
- 5.2 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 the attention of management 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.

## **6. EQUALITIES IMPLICATIONS**

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

## **7. FINANCIAL IMPLICATIONS**

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

## **8. PERSONNEL IMPLICATIONS**

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

## **9. CONSULTATION**

- 9.1 All consultation responses have been reflected in this report.

## **10. RECOMMENDATIONS**

- 10.1 The Audit Committee is asked to note the content of this annual review of the operation of the Internal Audit Service.

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

- 11.1 To ensure that the Audit Committee is 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.

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Appendices:  
Appendix 1 Schedule of Visits 2015/2016