



AUDIT COMMITTEE – 30TH JANUARY 2018

SUBJECT: INTERNAL AUDIT SERVICES – MID-YEAR PROGRESS REPORT

REPORT BY: INTERNAL AUDIT MANAGER

1. PURPOSE OF REPORT

- 1.1 To provide the Audit Committee with an overview of the work undertaken by Internal Audit Services in the first six months of the current financial year.

2. SUMMARY

- 2.1 In August 2016 the Wales Audit Office (WAO) issued a report on its review of arrangements within Caerphilly CBC to address external audit, inspection and regulation recommendations and proposals for improvement.
- 2.2 The WAO report contained a number of proposals for improvement, one of which was to provide summary reports to the Audit Committee highlighting the findings from the work of Internal Audit during the year.
- 2.3 This is the second such report and provides an overview of the work undertaken by Internal Audit Services in the first six months of the current financial year.

3. LINKS TO STRATEGY

- 3.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement. Strong corporate governance arrangements are an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

4. THE REPORT

- 4.1 The provision of summary reports to the Audit Committee highlighting the findings from the work of Internal Audit during the year was a proposal for improvement in the WAO report "Review of Arrangements to Address External Audit, Inspection and Regulation Recommendations and Proposals for Improvement – Caerphilly CBC". In response to this

proposal for improvement it has been agreed that in addition to the annual outturn report, a mid-year progress report will also be presented to the Audit Committee.

- 4.2 This report provides Members of the Audit Committee with an overview of the work undertaken by the Internal Audit Service during the first six months of the current financial year. The report provides an insight into the range of issues that the service is involved with in addition to the core audit work undertaken.
- 4.3 All appropriate audit reports are given an audit opinion based on the work undertaken and the findings arising from the audit. The audit opinions are collated and used as part of the end of year assessment which the Internal Audit Manager uses to form his overall opinion which is reported to the Audit Committee and in turn feeds the annual governance process.
- 4.4 Due to the diversity of the work undertaken reports and opinions are tailored to suit each situation. This approach has evolved over time based on experience and knowledge of the organisation. Reports arising from audit reviews of the Council's establishments use a three tier assessment consisting of (1) good (2) satisfactory and (3) in need of improvement. Audit reviews of systems although using the 1,2,3 system above, can include an assessment of both the system controls in place and the compliance with those controls, thus producing two opinions per review.
- 4.5 During the first six months of the financial year the audit resource has remained stable at 8.2 full-time equivalents, which is the level identified within the Internal Audit Services Annual Audit Plan agreed by the Audit Committee on the 8th March 2017. Sickness levels have remained low with an overall absence level of less than 1% during the first 6 months.
- 4.6 **Work carried forward from the previous year**
- 4.6.1 Eight establishment audit visits that were undertaken in the previous financial year have now been finalised with the final reports being agreed and issued.
- 4.6.2 Of these eight audits six were rated as 'satisfactory' and the remaining two were rated as 'in need of improvement'. The 'in need of improvement' establishments are both schools and these will be visited again during 2017/18 to establish if satisfactory improvements have been made. In order to assist both schools with their improvement actions Internal Audit staff have provided additional onsite training to key staff on specific areas of administration for one school and in respect of the other school a visit was made to a meeting of the governing body to both explain the key findings of the audit process and to stress the importance of them ensuring that the audit report recommendations are implemented.
- 4.6.3 Seven system audit reviews were brought forward from the previous year. 3 of these have since been finalised with final reports being agreed and issued. These audits produced 6 opinions of which 2 were 'satisfactory' and 4 were 'in need of improvement'.
- 4.6.4 The audits generating the 4 'in need of improvement' opinions were flexi compliance and Inventory records. Audit follow-up processes will revisit these areas to ensure that agreed improvements have been made.
- 4.7 **Work started within the period**
- 4.7.1 Thirteen establishment audit visits have been undertaken in the first six months of the current financial year with nine being finalised and reports agreed and issued. The remaining four are at the draft report stage awaiting final agreement from clients prior to the issue of the final reports.
- 4.7.2 In respect of the nine finalised audits four were rated as 'good', four as 'satisfactory' and one as 'in need of improvement'. In respect of the four audits at the draft report stage three are provisionally rated as 'satisfactory' and one as 'good'.

- 4.7.3 In respect of the finalised reports the one rated as 'in need of improvement' is a school and Internal Audit staff have undertaken two training visits to assist with the improvement process and as is usual a follow up audit will be undertaken to verify that suitable progress has been made.
- 4.7.4 A themed exercise was completed that looked at the administrative arrangements operating across a number of schools in respect of their usage of minibuses in the transportation of pupils. Advice and guidance drawn from the findings was provided to the Education department and has since been distributed to all schools.
- 4.7.5 In response to a request from the Education department a grant funded service provider was visited to advise and assist them in establishing control systems and procedures following a breakdown in their own processes.
- 4.7.6 3 new systems audits, 9 grant audits, and 15 NFI data matching reviews were started within the period. In addition audit staff have continued to assist on working parties in relation to primary school meals income and creditor account set up processes, as well as one member of staff taking on the role of information governance steward for Corporate Finance. The 9 completed grant audits were found to be satisfactory and the grant certificates were signed accordingly.
- 4.7.7 Thirty one contractor final accounts have been reviewed with a total value of £4.5m. Apart from four procedural reporting issues the discipline of having to submit accounts for auditing is working well and is minimising the incidence of errors or procedural issues being overlooked.
- 4.7.8 As part of an ongoing rolling review process, two reviews have been undertaken within the IT department which contribute to ongoing BSI 27001 accreditation in respect of the security arrangements within the service area. Both reviews undertaken were determined to be satisfactory.
- 4.7.9 The auditor who undertakes the BSI reviews attended specific BSI provided training to further enhance the value of the ongoing work in this area.
- 4.7.10 Internal Audit Services receives and assesses all anonymous communications received by the Authority to ensure that they are properly considered. During the six month period covered by this report 42 anonymous communications have been received and logged by Internal Audit which, where appropriate, were passed to the relevant departments for action. These communications cover a wide range of issues from possible benefit frauds, neighbour disputes, anti-social behaviour and other potential illegal behaviours. However, Internal Audit Services focus on system control failures and staff related issues and only four such issues were raised in the period. Additionally, cheques returned to the Council are also scrutinised within Internal Audit Services to identify system and control issues. 55 cheques have been returned during the reporting period. Both these operations act as a barometer in respect of underlying issues and are used to inform the internal audit planning process in respect of identifying areas that require future coverage.

4.8 Other advisory or miscellaneous work undertaken

- 4.8.1 In addition to core internal audit reviews, the service has been involved in a range of other work during the first six months of the financial year: -
- 4.8.2 Internal Audit Services has led on the co-ordination of the Authority's response to the latest data collection exercise to support the National Fraud Initiative (NFI). The authority has also taken part in a pilot match of additional data (Credit Industry Fraud Avoidance system [CIFAS] fraud data to Housing Benefit data) due to the recognised historical good compliance shown in regard to NFI.

- 4.8.3 Audit staff involvement in the development and roll out of the new procedures in respect of the taxation requirements referred to as IR35 has continued.
- 4.8.4 One member of audit staff with experience of grant claim audits has continued to assist the Accountancy Grants Team to coordinate and collate grant claims ready for submission to the funding bodies.
- 4.8.5 Internal Audit Services staff have attended the Learning from Complaints Group which compliments the work undertaken within Internal Audit in respect of anonymous referrals.
- 4.8.6 Continued attendance at the Payment Card Industry (PCI) compliance forum contributing to the maintenance of the Authority's compliance with the PCI Standards.
- 4.8.7 The Internal Audit Manager is a member of the Corporate Governance Review Panel and facilitates the annual review process which takes place throughout the year culminating in the draft Annual Governance Statement (AGS) being presented to the Audit Committee for consideration. This year the draft AGS statement was presented to Audit Committee on 7th June 2017 and work has continued since to prepare for the 2017/18 review and to further develop the governance processes.
- 4.8.8 Internal Audit Services continues to participate in the South Wales Chief Auditor Group Training programme. During the reporting period one member of staff attended the 'Fundamentals of auditing' course, two attended a 'fraud in the public sector' course and four attended the 'Evaluating risks and controls' session.

5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met.

6. EQUALITIES IMPLICATIONS

- 6.1 This report is for information purposes, so the Council's Equalities Impact Assessment (EqIA) process does not need to be 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. CONSULTATIONS

- 9.1 There are no consultation responses that have not been included in this report.

10. RECOMMENDATIONS

- 10.1 The Audit Committee is asked to note the content of this report.

11. REASONS FOR THE RECOMMENDATIONS

- 11.1 To ensure that the Audit Committee is aware of the work undertaken by Internal Audit Services in the first half of the current financial year.

12. STATUTORY POWER

- 12.1 The Local Government Act 1972.

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