



## **AUDIT COMMITTEE – 29TH JANUARY 2019**

**SUBJECT: INTERNAL AUDIT REPORTS – “IN NEED OF IMPROVEMENT”**

**REPORT BY: CORPORATE DIRECTOR FOR EDUCATION AND CORPORATE SERVICES**

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### **1. PURPOSE OF REPORT**

- 1.1 Following the October Audit Committee and the ISA 260 report from External Auditors Grant Thornton in July, it was agreed that additional information would be provided to Audit Committee in respect of the audit assignments undertaken in order to better inform the Committee of the work being undertaken, risks identified agreed actions and any associated impact on the Authority’s Annual Governance Statement Process.
- 1.2 This report aims to inform members in line with the agreed processes and to allow members to seek clarification or explanation where there are areas of concern and to identify where further action is deemed necessary. Also this allows members to assess whether the recommendations made by Internal Audit and agreed management responses are reasonable and support an improvement in internal control processes.
- 1.3 This will ensure that the Audit Committee discharges its responsibilities in respect of reviewing and forming an opinion on the overall control environment in place across the Council, which underpins the Annual Governance Statement process at the end of the financial year

### **2. SUMMARY**

- 2.1 The October Committee received a report suggesting changes in the methodology of reporting opinions on audit assignments undertaken, and it was agreed that those classified as “In need of improvement” would be reported to audit committee and those classified as “effective with opportunity to improve” would be reported to committee if progress was not made in implementing recommended improvements.
- 2.2 The new system has been in place since October 2018 and has been applied to Audits completed and where reports have been agreed and issued to management between October and December 2018. In the period 2 reports were issued which were noted as being “in need of improvement” in line with the agreed criteria.
- 2.3 However it must be noted that the number of completed assignments in a reporting period may vary greatly from one committee cycle to the next and many factors influence this e.g. the size and complexity of the exercise, how many staff are involved and the urgency or sensitivity of the aspects under review and issues such as staff leave and other absences. As a result it will not be possible to accurately forecast the numbers of completed reports in any period and the opinion that will be given in the associated reports.

- 2.4 Members agreed that in line with the new processes lead auditors and relevant Heads of Service / Head teachers etc. will be invited to attend Committee meetings, where any reports are to be presented so that relevant and appropriate explanations or clarification can be provided to members in respect of the audit assignments under review.
- 2.5 As this is a new process and is likely to be a regular agenda item,(although the content / number of reports that will be included cannot be forecast) clarification is being sought from the Committee as to how these are to be reported in future and any other processes to support this,

### **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 globally responsible Wales.

### **4. THE REPORT**

- 4.1 The revised 4 tier methodology of assessing audit assignments has been in place since October 2018, and since that time changes in working practices and reporting have been required to accommodate those changes. Members will appreciate that these are relatively new and are still evolving. Primarily this now requires finalised and issued audit assignment reports falling into the criteria of "In Need of Improvement" or "Inadequate" to be reported to Audit Committee where Heads of Service / Service Managers or Head Teachers / Chairs of Governors together with relevant Internal Audit staff attend to offer further clarification on the issues raised as required.
- 4.2 Furthermore, it was also agreed in October Committee that any audit assignment reports where the overall opinion was "effective with opportunity to improve" would be monitored and the implementation of agreed reconditions reviewed. Any reports falling into this criteria where improvements have not been made with agreed timeframes will be reported to Audit Committee where Heads of Service or Service Managers together with relevant Internal Audit staff attend to offer further clarification on the issues raised as required.
- 4.3 Members will appreciate that the audit process involves planning the assignment, field work and testing, reporting on risks and weaknesses to Management, issuing recommended improvements and agreeing these within a formal report to management and evaluating an overall opinion in line with the revised 4 tier system and this takes some time.
- 4.4 In addition where report opinions fall into the "effective with opportunity to improve" criteria, adequate time will be needed to allow agreed recommendations to be implemented and evaluated. In addition where managers have given a future date to implement recommendations follow up evaluation can only take place once those dates have elapsed.
- 4.5 Given the newness of these processes only a small number of audit assignments have been fully completed under the new criteria and no follow ups have been undertaken. However as this process becomes embedded and audit assignments are completed these will be reported on in due course, and it is anticipated that the number of reports requiring referral to committee may increase.

- 4.6 Given the newness of this process and the uncertainty of the number or volume of these reports it is not known exactly how many (if any) reports falling into the 3 reportable criteria above will be brought to the Audit Committee within any cycle. In addition Service Managers, Heads of Service, Head Teachers and Chair of Governors may require notice to attend Committee, and it may not be possible to foresee the requirement for their attendance until the audit or follow up is completed and the overall opinion evaluated.
- 4.7 For the purposes of this committee 2 audits have been completed in the period since October 2018 and issued to managers which fall within the criteria of requiring to be reported to Audit Committee and these are as follows:-
- WHQS data validation progress. **APPENDIX 1.** The conclusion of this report was that control processes were **in need of improvement** and compliance with controls **was in need of improvement**. Management accepted the recommendations and are working towards implementing recommendations made.
  - Social Services Section 17 payments **APPENDIX 2.** The conclusion of this report was that the control procedures were **good** but compliance with controls was **in need of improvement**, as compliance with best practice was not always seen. Management accepted recommendations and are working towards implementing recommendations made.

## 5. WELL-BEING OF FUTURE GENERATIONS

- 5.1 This report contributes to the Well-being Goals as set out in Links to Strategy above. It is consistent with the five ways of working as defined within the sustainable development principle in the Act in that consideration is being given to improving the clarity and transparency of the future reporting to audit committee and this will lead to long term improvements in these processes.

## 6. EQUALITIES IMPLICATIONS

- 6.1 There are no equalities implications arising from this report.

## 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 All responses from consultations have been incorporated in the report.

## 10. RECOMMENDATIONS

- 10.1 The Audit Committee is asked to note the content of the attached Internal Audit reports and consider management comments in respect of issues noted and assess whether the recommendations made by Internal Audit will be effective in improving the systems of internal controls in operation in the council.

10.2 The Audit Committee is asked to consider the future process in relation to the reporting of completed and issued audit assignments to the committee.

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

11.1 To ensure that the Audit Committee adheres to its terms of reference in relation to the Annual Governance Statement process in the Financial Accounts and associated reporting.

## **12. STATUTORY POWER**

12.1 Local Government Act 2000.

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Dave Street Corporate Director Social Services  
Shaun Couzens Chief Housing Officer  
Gareth Jenkins – Assistant Director Children’s Services

Appendices:

Appendix 1 Audit Report WHQS Validation Progress 2018/19

Appendix 2 Audit Report Section 17 Payments 2017/18