



AUDIT COMMITTEE – 14TH DECEMBER 2016

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 report 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 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 (e.g. payroll) can include an assessment of both the system controls in place and the compliance with those controls, thus producing two opinions per review. A new category of ‘unsatisfactory’ is being considered for both establishment and systems audits from the 2017/18 financial year.
- 4.4 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 9th March 2016. Sickness levels have remained low with an overall absence level of less than 1% during the first 6 months.
- 4.5 **Work carried forward from the previous year**
- 4.5.1 Eleven establishment audits that were undertaken in the previous financial year have now been finalised with the final reports being agreed and issued.
- 4.5.2 Of these eleven audits one was rated as ‘good’, eight 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 in January 2017 to establish if satisfactory improvements have been made. In both schools attention has been drawn to the accuracy and completeness of the school meals records, expenditure control and documentation, and the administration of the school private funds. There are also some specific issues for each school which have been highlighted for the school management to focus upon.
- 4.5.3 Fifteen system audit reviews were brought forward from the previous year. Twelve of these have since been finalised with final reports being agreed and issued. These audits produced twenty opinions of which four were ‘good’, six were ‘satisfactory’ and ten were ‘in need of improvement’. The five audits generating the ten ‘in need of improvement’ opinions were Customer First cash offices, purchase ledger, purchase ledger feeders, Supporting People and school meal income and arrears. Actions plans have been agreed with management and the audit follow-up process will revisit these areas to ensure that agreed improvements have been made.
- 4.6 **Work started within the period**
- 4.6.1 Twelve establishment audits have been undertaken in the first six months of the new financial year with eight 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.
- 4.6.2 In respect of the eight finalised audits two were rated as ‘good’, four as ‘satisfactory’ and two 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 ‘in need of improvement’.
- 4.6.3 In respect of the finalised reports the two rated as ‘in need of improvement’ are again both schools. The themes identified for attention are school meals administration and records, income records and banking, payroll documentation, ordering procedures and the administration of school private funds.

- 4.6.4 At the request of one of our comprehensive schools an exercise has been undertaken to look into a potential irregularity within the school's financial administration. A draft report has been issued for the Headteacher to consider.
- 4.6.5 Two thematic reviews are underway looking at the administrative processes and controls in respect of outdoor education and school minibuses. Both are at the draft report stage with the fieldwork having been completed. A further thematic review has also been undertaken in relation to a contractual arrangement in the Welsh Housing Quality Standard (WHQS) programme. This review has identified a proposal for improvement which is being considered by management.
- 4.6.6 Thirteen new systems audits, six grant audits and three action plan reviews were started within the period. Five systems audits, four grant audits and the three action plan reviews have all been completed. The five completed systems audits resulted in six opinions which were all satisfactory or above. The four completed grant audits were found to be satisfactory and the grant certificates were signed accordingly. The action plan reviews were all signed-off in response to management assurances that improvements have been actioned.
- 4.6.7 Thirty six contractor final accounts have been reviewed with a total value of £21m. Apart from two minor overpayments and two 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.
- 4.6.8 A review of tendering documentation across all areas has been undertaken and is currently at draft report stage.
- 4.6.9 Two reviews are underway within the WHQS area, one looking at data accuracy and completeness and the other looking at the payment procedures. Both reviews are following-up on work previously undertaken and are part of an ongoing watching brief that was agreed with the previous Programme Manager.
- 4.6.10 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.
- 4.6.11 A review of the Authority's counter fraud framework was undertaken using a Chartered Institute of Public Finance (CIPFA) checklist to assess its potential for future reviews. The document has been completed in draft form and its future use is still being considered.
- 4.6.12 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 61 anonymous communications have been received and processed. Additionally, cheques returned to the Council are also scrutinised within Internal Audit Services to identify system and control issues. 45 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.

4.7 **Other advisory or miscellaneous work undertaken**

- 4.7.1 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: -
- An assurance framework has been drafted which is included separately on today's agenda.
 - 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).

- Internal Audit Services staff have attended the Learning from Complaints Group which compliments the work undertaken within Internal Audit in respect of anonymous referrals.
- Attendance at the Payment Card Industry (PCI) compliance forum contributing to the maintenance of the Authority's compliance with the PCI Standards.
- Advisory involvement in early discussions around cashless catering systems and procedures in relation to primary schools.
- Facilitation and preparatory work on the Annual Governance Review and production of the Draft Annual Governance Statement prior to consideration by the Audit Committee.
- A self-assessment of the Internal Audit Service has been undertaken and a report on this is included separately on today's agenda. The Internal Audit Manager has also been involved in a number of meetings to prepare for the external peer review process agreed for measuring compliance with the Public Sector Internal Audit Standards (PSIAS).
- The Internal Audit Manager has met with the Head of Internal Audit in Bridgend CBC to share best practice and explore lessons learned from Bridgend's roll-out of a formal governance review process in respect of educational establishments.
- Audit staff attended a WAO seminar considering the type of involvement and role Internal Audit Sections could have in the future in respect of The Well Being of Future Generations Act 2015.
- The Head of Corporate Finance has held an 'Away-Day' with the Internal Audit Team to consider the proposals for improvement relating to Internal Audit in the WAO report "Review of Arrangements to Address External Audit, Inspection and Regulation Recommendations and Proposals for Improvement – Caerphilly CBC".

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.

Author: Richard Harris, Internal Audit Manager

E-mail: harrirm@caerphilly.gov.uk Tel: 01443 864044

Consultees: Nicole Scammell, Acting Director of Corporate Services & Section 151 Officer
Stephen Harris, Interim Head of Corporate Finance

Background Papers:

- Audit Committee Report (09/03/16) – Internal Audit Services Annual Audit Plan.
- Cabinet Report (19/10/16) – WAO Review of Arrangements to Address External Audit, Inspection and Regulation Recommendations and Proposals for Improvement – Caerphilly CBC.