



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Audit of Financial Statements Report – **Caerphilly County Borough Council**

Audit year: 2016-17

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

The team who delivered the work comprised Barrie Morris, Engagement Lead and Grace Hawkins, Audit Executive.

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The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval.

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Summary report

Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Caerphilly County Borough Council at 31 March 2017 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the financial statements being misled.
- 3 The quantitative levels at which we judge such misstatements to be material for Caerphilly County Borough Council are £4,150,000 generally. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity, for example, the senior officer remuneration disclosures.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of Caerphilly County Borough Council, for 2016-17, that require reporting under ISA 260.

Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 19 June 2017, in line with our planned timetable. As at the 17 July 2017, our audit work is substantially complete, but we are completing our final testing in a small number of areas. Other than as reported in this report, we have not identified any issues in these areas and we aim to complete this work to enable the Council to approve the final version of the accounts at the special council meeting on 31 July 2017. The areas that are still outstanding are:
 - Testing Housing Benefit expenditure, income and other grants received by the authority
 - Testing of individual sample transactions within the Revenue and Expenditure Cycles
 - Review of the Narrative Report
 - Receipt and review of the pension assurances from the Pension Fund auditors
 - Receipt and review of the final financial statements
 - Completion of our Whole of Government Accounts audit work

7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with the Interim Head of Corporate Finance and Acting Director of Corporate Services. There have been a number of other, more minor amendments, that have been discussed, agreed and processed by the finance team during the audit.

Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

Response to financial audit risks

- 10 Our Audit Plan, which was presented to the Audit Committee in February 2017, set out the risks relating to the Council's financial statements. As part of our interim audit, we completed work in a number of areas to consider the risks and provided an update to the Council's finance team on our work on these risks.
- 11 As part of our final accounts audit, we have reviewed the remaining areas and have set out below our final conclusions on the work completed. Our review of the current issues facing the Council has not identified any additional audit risks that we need to bring to your attention.

Exhibit 1: response to financial audit risks

Financial audit risk	Response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	<p>We have:</p> <ul style="list-style-type: none"> • tested the appropriateness of a sample of journal entries, based on our risk assessment, and other adjustments made in preparing the financial statements; • reviewed accounting estimates for bias; and • evaluated the rationale for any significant transactions outside the normal course of business. <p>As a result of our audit work, we have raised two recommendations in regards to journals controls that are detailed within Appendix 4.</p>

Financial audit risk	Response
<p>Operating Expenses – Creditors related to core activities understated or not recorded in the correct period</p>	<p>We have:</p> <ul style="list-style-type: none"> • documented our understanding of the controls operating in the creditors system; • performed a walkthrough to confirm that the controls identified are in operation; • tested for completeness of operating expenses including agreeing to source documentation and reviewing invoices received after the year end, for a sample of payments; • obtained an understanding of the accruals process; and • tested for unrecorded liabilities, including review of payments made after the year end, on a sample basis. <p>Whilst our work in this area is still ongoing, we have not identified any issues from our testing performed.</p>
<p>Employee Remuneration and benefit obligations and expenses understated</p>	<p>We have:</p> <ul style="list-style-type: none"> • documented our understanding of the controls operating in the payroll system; • performed a walkthrough to confirm that the controls identified are in operation; • undertaken analysis of trends and relationships to identify any anomalous areas for further investigation; • reviewed and tested the reconciliation of payroll system to the general ledger; • performed substantive testing, on a sample basis, of staff and officer payroll payments, ensuring that payments are made in accordance with the individual's contract of employment; and • reviewed a sample of payments made to former employees to ensure all costs are accurately reflected in the notes to the financial statements. <p>As a result of our audit work, we recommended one amendment to the disclosures, detailed in Appendix 3, which has been processed by management.</p>

Financial audit risk	Response
Valuation of property, plant and equipment (net)	<p>We have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • reviewed the instructions issued to valuation experts and the scope of their work; • held discussions with the valuer about the basis on which valuations are carried out and challenged the key assumptions where appropriate; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; and • tested revaluations made during the year, on a sample basis, to ensure they are input correctly into the Council's asset register and correctly reflected in the financial statements. <p>Following our audit work, we have repeated the recommendation that we raised last year in respect of the depreciation calculation, which overstates the depreciation charge. Further detail is provided in Appendix 4.</p>

Financial audit risk	Response
<p>Changes to the presentation of local authority financial statements. CIPFA has been working on the 'Telling the Story' project for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed management's processes; • documented and evaluated the process for recording the required financial reporting change to the 2016/17 financial statements; • reviewed the reclassification of the CIES comparatives to ensure that they are in line with the authority's internal reporting structure; • reviewed the appropriateness of the revised grouping of entries within the MIRS; • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis note to the financial statements; and • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. <p>We have recommended an amendment in the presentation of the financial statements to move the Expenditure and Funding Analysis disclosure from the primary statements to the notes. This amendment has been made in the final version of the statement of accounts. Further information is provided in Appendix 3.</p>

Significant issues arising from the audit

Uncorrected misstatements

- 12 We are currently completing our work on the cash balances within the accounts and are discussing with management an issue that arose when the Council transferred its banking activities from the Co-Operative bank to Barclays Bank via the transfer of some cash and investment balances with the Royal Bank of Scotland in 2013-14. At the conclusion of the transfer, a net difference of £629,000 was identified that has been held as a reconciling item within the bank reconciliation. In our view, this does not represent a cash balance and should be removed from 'Cash' within the statement of accounts. However, officers are

unclear what this balance relates to and how treat the amount through the accounts. We recommend that officers further investigate this issue to correctly account for the transactions and remove this as an ongoing reconciling item.

- 13 Other than this issue, our audit work to date has not identified any other misstatements within the statement of accounts, which remain uncorrected.

Corrected misstatements

- 14 Our audit has identified a number of misstatements which have been corrected by management in the final version of the statement of accounts, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

Other matters issues arising from the audit

- 15 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the financial statements and report any significant issues arising to you.
- 16 **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable and easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
- 17 **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work.
- 18 **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
- 19 **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
- 20 **We did not identify any material weaknesses in your internal controls.**
- 21 **There are no other matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2016-17 financial audit work

- 22 The recommendations arising from our financial audit work are set out in [Appendix 4](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

- 23 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 24 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office, Grant Thornton UK LLP and Caerphilly County Borough Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

31 July 2017

Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Caerphilly County Borough Council for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness. We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and Code of Practice; in particular, the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with full access to:

- all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
- additional information that you have requested from us for the purpose of the audit; and,
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- Our knowledge of fraud or suspected fraud that we are aware of and that affects Caerphilly County Borough Council and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. There were no uncorrected misstatements.

Representations by the Audit Committee

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the Council on 31 July 2017.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Appendix 2

Draft proposed audit report of the Auditor General to the Members of Caerphilly County Borough Council

Auditor General for Wales' report to the Members of Caerphilly County Borough Council

I have audited the accounting statements and related notes of Caerphilly County Borough Council, for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

Caerphilly County Borough Council accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the Auditor General for Wales

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 9, the responsible financial officer is responsible for the preparation of the statement of accounts, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Caerphilly County Borough Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Caerphilly County Borough Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Caerphilly County Borough Council as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

Opinion on other matters

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit;
- the Annual Governance Statement does not reflect compliance with guidance.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Caerphilly County Borough Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of

Huw Vaughan Thomas (Auditor General for Wales)

24 Cathedral Road

Cardiff

CF11 9LJ

[Date]

Appendix 3

Summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Exhibit 2: summary of corrections made to the draft financial statements which should be drawn to the attention of the Audit Committee

Value of correction (£'000)	Nature of correction	Reason for correction
£55	Exit Packages One employee that left the organisation was included within the incorrect banding within the note. This amendment is disclosure in nature and does not impact the main statements.	To ensure that the exit packages note correctly reflects the values paid in year.
£265	Reclassification of Expenditure Corporate Democratic Core costs in relation to HRA were incorrectly included in the CIES as Corporate Service expenditure for the 2015-16 comparative. An adjustment was proposed by management after the receipt of the draft accounts to correct this.	To ensure that expenditure is classified against the correct service line in the CIES.
£154	Reclassification of Expenditure Corporate Service costs were incorrectly included below the line within the 2015-16 comparative within the HRA Income and Expenditure Account. This is now included within the service line expenditure above the line as part of the CIPFA 'Telling the Story' restatement.	To ensure that expenditure is classified against the correct service line in the CIES.
£270	Non Domestic Rates The 2015-16 Comparative total for the 'Redistributed amount due from NNDR Pool' did not agree to the final audited accounts from the prior year.	To ensure the note was mathematically correct and agreed to the prior year audited balance.

Value of correction (£'000)	Nature of correction	Reason for correction
£1,118	<p>Financial Instruments</p> <p>The Long Term Creditor amount within the Financial Liability breakdown did not agree to the main note.</p>	To ensure the note was mathematically correct and agreed to the main financial instruments note.
N/A	<p>5 Year Revaluation Programme</p> <p>We have recommended that the Council provides an additional disclosure note to identify that the property valuation cycle takes place over 5 years.</p>	To ensure that the financial statements are consistent with the requirements of the code.
N/A	<p>Expenditure and Funding Analysis</p> <p>The Expenditure and Funding Analysis statement was included as a primary statement and we recommended that this be moved to form one of the disclosure notes to the statement of accounts, giving it appropriate prominence, as required by the Code.</p>	To ensure that the financial statements are consistent with the requirements of the code.
Various	A number of other minor disclosure issues were identified and have been processed by management.	To enhance the overall quality and presentation of the financial statements.

Appendix 4

Recommendations arising from our 2016-17 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Exhibit 3: matter arising 1 – Depreciation Calculation

Matter arising 1 – Depreciation Calculation	
Findings	Calculation of Depreciation
Priority	High
Recommendation	<p>As a result of our audit findings, we recommend that management review how the Logotech Asset System calculates depreciation for revalued assets.</p> <p>As reported last year, we identified that revalued assets are being depreciated one year too quickly due to the incorrect 'Useful Economic Life' being used post revaluation, i.e. it takes one year off the life off of the asset upon revaluation.</p> <p>This recommendation was also raised in the prior year</p>
Benefits of implementing the recommendation	The maximum error was not material in year at £1.6m. However, assets are being depreciated one year too quickly and as a result the depreciation figure charged each year is higher than expected. This has no impact on the general fund balance.
Accepted in full by management	Yes
Management response	This was partially reviewed during the 2016/17 financial year and will be completed during 2017/18.
Implementation date	31 st March 2018

Exhibit 4: matter arising 2 – Journals

Matter arising 2 – Journals	
Findings	Journals Authorisation
Priority	High
Recommendation	Although journal authorisation is possible within the system and is implemented by some directorates, it is not implemented across the whole Council. We recommend that all journals are reviewed and authorised by appropriate personnel before being posted to the ledger.
Benefits of implementing the recommendation	There is currently a risk that an inappropriate or erroneous journal could be processed and impact on the financial statements
Accepted in full by management	Yes
Management response	A review of the journal authorisation process will be undertaken during the 2017/18 financial year.
Implementation date	31 st December 2017

Exhibit 5: matter arising 3 – Journals

Matter arising 3 – Journals	
Findings	Monitoring of Journal Users
Priority	High
Recommendation	During the course of our audit, officers were unable to provide a complete schedule of council employees that were able to access the ledger and post journals. Further, our testing of journals identified a number of people that had posted journals in the year that were not included on the schedule that was provided. This means that there is no central oversight of who is able to access and process journals within the financial system. We recommend that the access to the general ledger system and the posting of journals is monitored and a central schedule is maintained and kept up to date to record who has access to process journals and the dates when that access is applicable.
Benefits of implementing the recommendation	This will reduce the risk of unauthorised personnel posting journal entries to the general ledger that will impact the financial reporting.
Accepted in full by management	Yes
Management response	A review of the journal monitoring process will be undertaken during the 2017/18 financial year.

Matter arising 3 – Journals	
Implementation date	31 st December 2017

Exhibit 6: matter arising 4 – Annual Governance Statement

Matter arising 4 – Annual Governance Statement	
Findings	Clarity of Annual Governance Statement (AGS) Disclosures
Priority	Medium
Recommendation	<p>As identified in the Audit Committee where the draft AGS was presented for approval, we raised a concern that the AGS did not accurately reflect the fact that there were some areas where there were outstanding actions in relation to regulator proposals for improvement. This was based on the wider information that was available to the Council from other regulators who had identified specific governance issues for the Council to address. We recommended that the Council should re-visit its disclosure of governance issues to reflect the comments and recommendations made by regulators that the Council had agreed and were taking action to address.</p> <p>In addition, we recommend that an overall conclusion is added to the Annual Governance Statement to summarise the council's governance arrangements and assess their effectiveness against the CIPFA SOLACE framework.</p>
Benefits of implementing the recommendation	An effective summary increased the accountability and review of the governance arrangements and brings the reporting in line with the relevant framework.
Accepted in full by management	Yes

Matter arising 4 – Annual Governance Statement

<p>Management response</p>	<p>At its meeting on the 14th June 2017 the Audit Committee considered the Auditor's recommendation that the Council should revisit its disclosure of governance issues to reflect the comments and recommendations made by regulators. As a result, the Committee requested that an update be provided to a future meeting in relation to progress on agreed actions arising from the Wales Audit Office review of the Council's Leisure Strategy.</p> <p>Following the Audit Committee meeting on the 14th June 2017, Officers have undertaken a further review of progress against regulator proposals for improvement and the following actions have been identified as priorities for the 2017/18 financial year in addition to progressing the Leisure Strategy: -</p> <ul style="list-style-type: none"> • Service Asset Management Plans need to be reviewed alongside Medium-Term Financial Plan savings proposals for future years. This will be an integral element of the Council's Improving Services Programme. • The Council will need to review its current "principles" for agreeing savings proposals and revise these to reflect the significant financial challenges that lie ahead. • A draft "Income Management and Service Cost Recovery Policy" has been produced. This will need to be finalised and approved. <p>An overall conclusion has been added to the Review Outcome section of the AGS as follows: -</p> <p><i>The Council's governance arrangements are regarded as generally fit for purpose and are in accordance with the governance framework. The Council is committed to maintaining and improving the governance framework and resources are prioritised for this.</i></p> <p>The Authority uses the latest CIPFA recommended structure/format when compiling the AGS. Any changes to disclosure requirements notified by CIPFA will be reflected in future Annual Governance Statements.</p>
<p>Implementation date</p>	<p>Progress against regulator proposals for improvement will continue to be reported to the Audit Committee. The next report will be presented in December 2017.</p>

Exhibit 7: matter arising 5 – Internal Audit

Matter arising 5 – Internal Audit	
Findings	Internal Audit – Risk Based Plan
Priority	Medium
Recommendation	<p>We recommend that a risk based audit plan is clearly documented at Caerphilly CBC. A risk based plan should include the audit area and the reason for selection based on risk criteria. The level of risk (e.g. Low/Medium/High) and how the internal audit review will attempt to mitigate this risk should also be documented.</p> <p>To further improve the level of information reported to those charged with governance, the Annual Internal Audit plan should identify the number of days and planned timeframe (to a specific quarterly period). The actual time taken and delivery date, can then be subsequently reported as part of the Half-Yearly and Annual Internal Audit Reports that are presented to Audit Committee.</p>
Benefits of implementing the recommendation	<p>Public Sector Internal Auditors are governed by the Public Sector Internal Audit Standards that are intended to promote professionalism, quality, consistency and effectiveness of internal audit across the public sector. The Public Sector Internal Audit Standards require that a risk-based plan is implemented. 'It must be linked to a strategic or high level statement of how the internal audit service will be delivered in accordance with the internal audit charter and how it links to the organisations objectives and priorities. The Internal Audit plan must be based on a documented risk assessment undertaken annually, with senior management and other stakeholders consulted in the process.' – PSIA Standards Planning 2010.</p> <p>We have reviewed Caerphilly CBC's Internal Audit Plan for 2016-17 and whilst this does refer to an ongoing risk assessment, we are unable to establish a clear link between the proposed work plan and the local authority's documented risk assessment.</p>
Accepted in full by management	Yes

Matter arising 5 – Internal Audit	
Management response	<p>The audit universe is used as one component of informing the content of the Annual Audit Plan but its purpose and usefulness has not been reviewed for some time. It is therefore recommended that the Interim Head of Corporate Finance will undertake a review during 2017/18 to establish whether the audit universe is fit-for-purpose and whether any changes/improvements are required.</p> <p>In addition to the above, Directorate Risk Registers are reviewed on an annual basis prior to the Internal Audit Services Manager attending Directorate Senior Management Team meetings to discuss any specific items that should be included in the Annual Audit Plan. Furthermore, the Internal Audit Manager also emails all Directors and Heads of Service to canvass their views and opinions in relation to corporate and operational risks.</p> <p>The Annual Audit Plan is flexible and resources are redirected to deal with emerging issues during the year.</p>
Implementation date	<p>Consideration will be given to identifying the number of audit days and planned timeframe in quarterly periods from 2018/19 onwards.</p>

Exhibit 8: matter arising 6 – Internal Audit

Matter arising 6 – Internal Audit	
Findings	Internal Audit – Clarity of Reporting
Priority	Medium
Recommendation	<p>The Audit Committee should receive the assurance ratings of all completed audits. In addition, further information should be provided for those audits assessed as less than satisfactory, with an outline of the key recommendations and any follow up audit work required.</p> <p>Progress against recommendations should be reported to the Audit Committee as part of the annual outturn report to ensure all recommendations are addressed in a timely manner.</p>

Matter arising 6 – Internal Audit

Benefits of implementing the recommendation	<p>The Public Sector Internal Audit Standards require ‘complete communication that lacks nothing that is essential to the target audience and includes all significant and relevant information and observations to support recommendations and conclusions. It also requires those areas that are significant to the organisations must be communicated to senior management and the board’ (for the purposes of Caerphilly CBC this would be the Audit Committee) – PSIA Standards Quality of Communication 2420/Reporting to Senior Management the Board 2060.</p> <p>Our review of the Internal Audit Progress and Outturn reports taken to Audit Committee identified that a number of audits were graded as less than satisfactory. However, no further information about these areas, and the issues identified are disclosed in the report to the Audit Committee.</p> <p>Secondly; where issues have been identified as a result of the audit, this is only reported to the relevant service manager. There is no clear reporting structure or monitoring of issues to the wider authority or to those charged with governance (the Audit Committee) which would facilitate appropriate challenge.</p>
Accepted in full by management	Yes
Management response	<p>All reports on the outcome of audit reviews are agreed with operational managers in the first instance prior to final versions being sent to Heads of Service. The Audit Committee is provided with a high level summary of outcomes but it is acknowledged that more detail can be provided. Future mid-year progress reports and outturn reports will include a list of the audit reviews undertaken along with the audit opinion for each review. For those review outcomes where the opinion is less than satisfactory further detail will be provided on the required improvements and updates will be provided to the Audit Committee on progress.</p>
Implementation date	With immediate effect.

Exhibit 9: matter arising 7 – Internal Audit

Matter arising 7 – Internal Audit	
Findings	Internal Audit – Overall Opinion
Priority	High
Recommendation	The annual governance statement must contain an overall internal audit opinion for the financial year covered by the statement.
Benefits of implementing the recommendation	<p>The Public Sector Internal Audits Standards require that ‘the Chief Internal Auditor must deliver an annual internal audit opinion that can be used by the organisation to inform its Annual Governance Statement. The annual Head of Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must incorporate the opinion, a summary of the work that supports the opinion, a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.’ – PSIA Standards Overall Opinions 2450.</p> <p>The Council’s Annual Governance Statement included within the 2016-17 accounts does not report an overall internal audit opinion for the 2016-17 financial year. The Corporate Governance Panel meet to discuss the AGS and each member gives their view on governance arrangements including the Internal Audit departments, which will be reflected in their annual outturn report. This report is due to go to the Audit Committee in September. Internal Audit’s opinion is a key area of assurance gained to support the Annual Governance Statement. Whilst the Council have procedures in place to ensure the opinion feeds into the AGS a formal opinion should be produced. This provides clarity to Members that there are no issues identified that are not included in the AGS.</p> <p>A further review of the Internal Audit Outturn report for both years (2014/15 and 2015/16) confirmed that an overall opinion was not given within either document but referred to the Outturn Document that was not presented to the Audit Committee until later in the calendar year.</p>
Accepted in full by management	Yes

Matter arising 7 – Internal Audit**Management response**

An internal audit opinion has always formed part of the annual outturn report and the 2015/16 outturn report presented to the Audit Committee on the 14th December 2016 included the following: -

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.

The opinion used in previous years' governance statements was taken from the most recent outturn reports due to timing constraints. This has now been resolved by including the Internal Audit Manager's opinion provided as part of the annual governance review process. The 2016/17 Annual Governance Statement was presented to the Audit Committee on the 14th June 2017 and included the following: -

Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Directorate. Each report includes recommendations for improvements and an agreed management action plan. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon. Following the governance reviews undertaken by the WAO over recent years the role undertaken by Internal Audit and the contribution made towards the overall governance framework is being reassessed. This process will evolve and develop over time in line with the needs of the organisation and will embrace the principles promoted within the Public Sector Internal Auditing Standards.

The Internal Audit Manager is a key contributor to the annual review of the Authority's governance processes and has concluded for the year 2016/17 that no fundamental issues or concerns have been identified as a result of the audit work undertaken. This view will be restated within the annual report that will be presented to the Audit Committee as required by the Council's Financial Regulations.

Implementation date

An overall internal audit opinion will be incorporated into future Annual Governance Statements.

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