

# Internal Audit Annual Report 2016/17

## 1. INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) established in 2013 are the agreed professional standards for Internal Audit in Local Government.

PSIAS sets out the requirement for the Head of Internal Audit to report to Officers and the Audit Committee to help inform their opinion on the effectiveness of the Authority's Framework of Governance, Risk Management and control.

This report provides an opinion by the Head of Internal Audit of the adequacy and effectiveness of the Council's control environment for the year April 2016 to March 2017, based on the work undertaken in the 2016/17 Internal Audit Plan, agreed by Audit Committee.

The annual opinion by the Head of Internal Audit contributes to the completion of the Annual Governance Statement (AGS), which forms part of the Annual Statement of Accounts

## 2. OVERALL OPINION

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In arriving at the overall opinion, the Head of Audit has taken into account:

- The results of all work undertaken as part of the 2016/17 Internal Audit Programme
- The results of follow-up action of Internal Audit Reviews from current and previous years; and
- the acceptance of actions by Management (especially those deemed significant)

It is my opinion that the Authority has an 'Adequate' control environment in operation. There are clear Governance arrangements

with defined Management responsibilities and Committee Structures in place, Risk Management and the control framework is generally sound and operated reasonably consistently. The Authority has an established Constitution, has developed Policies and approved Financial Procedure Rules that provide advice and guidance to all staff and members. I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Authority's internal control environment.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

### **3. RESPONSIBILITY FOR INTERNAL AUDIT**

The Interim Head of Audit, Risk and Procurement is responsible for ensuring the effective delivery of the Internal Audit function in accordance with the principles agreed with the Authority's Chief Financial Officer (section 151 Officer) and in accordance with the Internal Audit Strategy 2014-2017.

### **4. STAFFING**

There were 9.8 FTE staff on the establishment during 2016/17 and the Section currently has vacant posts.

Overall sickness accounted for a loss of 43 productive days, equating to approximately 2.7% of available productive days, compared to 1.7% for the previous year. In addition to the sickness there was a maternity leave that commenced during the latter end of the year accounting for a further loss of 10 days. During the year vacant posts accounted for the loss of 65 days. Taking sickness, maternity leave and vacant post 7.5% of productive days was lost during the year.

The Unit was led by the Audit & Risk Manager and has 5 Teams covering IT Systems, Contracting / Procurement, and 3 Service Based Teams. The audit of the main financial systems (fundamental systems) is shared between the three Service Based Teams.

No Agency Staff were hired during the year.

### **6. ANNUAL AUDIT PLAN 2016/17**

The 2016/17 Annual Plan agreed at the Audit Committee on 22<sup>nd</sup> March 2016 continues to provide a broad coverage of the Authority services and systems.

The Annual Audit Plan for 2016/17 included 169 reviews and was compiled on a "risk basis" i.e. taking account of the nature of the service, value and previous findings.

80% of those reviews originally programmed were completed by 31<sup>st</sup> March 2017 thereby falling short of the 92% target.

Recommendations arising from internal audit work are graded according to the risk levels of the weaknesses identified, with recommended actions as follows:

- **Priority 1 - Fundamental Weaknesses**  
Control issues to be addressed as a high priority. These relate to issues that are fundamental and material to the system of internal control at a service level.
  
- **Priority 2 - Strengthen Existing Controls**  
Action required to avoid exposure to significant risks. These relate to issues that procedures do exist but require strengthening.
  
- **Priority 3 - Minor Issues**  
Action required which should result in enhanced control or better value for money. These are issues arising that would, if corrected, improve the internal control environment in general but are not vital to the overall system of internal control.

At the completion of each audit review an overall opinion as to the level of assurance that can be provided is given. Following each audit, report recipients are asked to complete an action plan showing whether they agree with the recommendations made and how they plan to implement them.

During the period April 2016 to March 2017 a total of 344 recommendations have been made, these include recommendations made in draft reports at the time of this report. All recommendations are discussed and agreed with the relevant service departments.

The Reports outcomes are summarised in Table 1 below.

**Table 1 – Analysis of Recommendations**

<b>Ratings</b>	<b>Number of Recommendations</b>
Priority 1 *** Fundamental Control Issues to be addressed as a High Priority	8 (See Table 2 for a summary of the issues and an update on the status)
Priority 2 ** Control Issues required to strengthen existing procedures	162
Priority 3 * Minor issues	141

The Audit Committee are kept informed of the progress of Internal Audit reviews and significant issues brought to their attention as necessary. Table 2 below summarises the Priority 1 Fundamental Issues brought to the Audit Committee attention during the 2016/17 audit year to date.

**Table 2 – Priority 1 - Fundamental Issues**

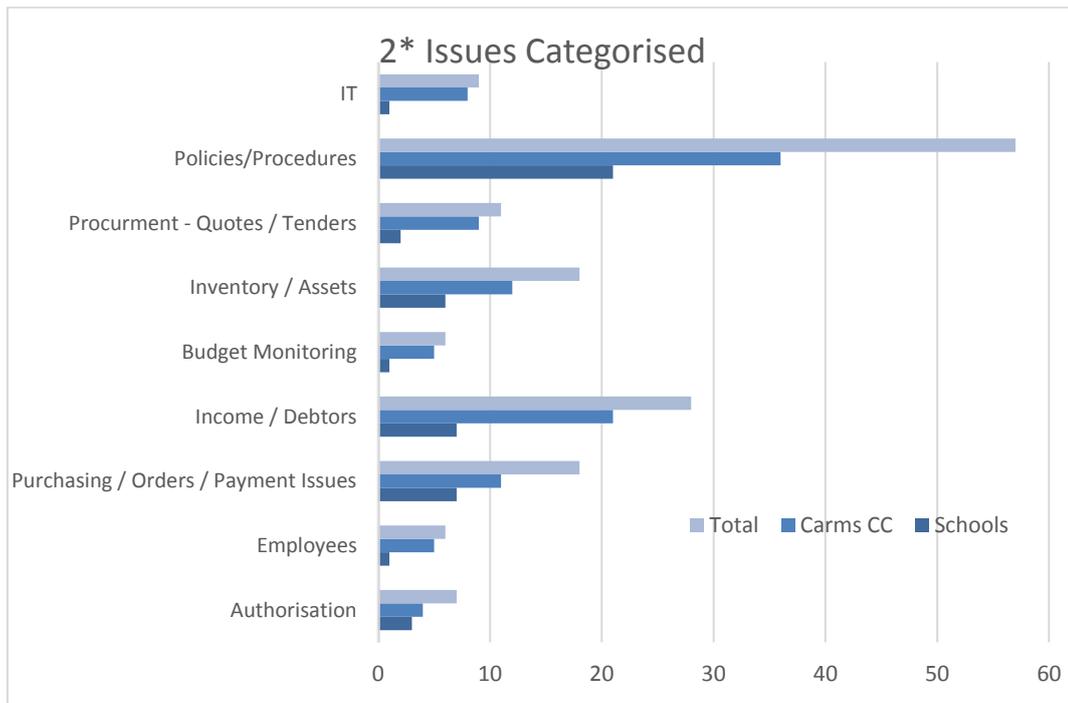
<b>Review</b>	<b>3* Issues Reported to Date for Audit Year 2016/17</b>	<b>Update</b>
Coastal Facilities	Three areas of concern were noted in the initial review. In summary there was a general non-compliance with a range of the Authority's established procedures such as non-compliance with financial procedure rules, (including contract and quotation procedure rules and Transport & Engineering Unit Policy):	First reported to Audit Committee in March 2016. Audit Committee requested quarterly updates from the service as to the progress made in implementing the changes required to address the issues raised. These updates have continued throughout 2016/17 and continue to do so on a 6 monthly basis for 2017/18.
Supporting People	This review identified the weaknesses in the management and administration of the Supporting People Grant. This was in the main due to the issues previously identified and reported during 2015/16 and 2016/17.	First reported to Audit Committee in December 2015  Since September 2015 the Supporting People Manager has been reporting quarterly to the Audit Committee on the

Review	3* Issues Reported to Date for Audit Year 2016/17	Update
		<p>progress made in implementing the required changes to address the issues identified in the audit report. Following the Audit Committee in January 2017 Members agreed to change the reporting requirement to 6 monthly.</p>
Museums	<p>Audit review identified concerns in the way that assets were being managed and administered. The main areas of concern were:</p> <ul style="list-style-type: none"> <li>• a lack of a comprehensive up to date inventory of assets;</li> <li>• delay in the full implementation of the computerised system CALM;</li> <li>• a lack of adequate documentation available to support loan items;</li> <li>• a lack of adequate insurance arrangements.</li> </ul> <p>A follow-up review was undertaken and whilst it was identified that many of the issues remained outstanding it was noted that a significant amount of work had been undertaken to put actions in place.</p>	<p>An Action Plan was presented to Audit Committee in March 2017 along with the Audit Report. The Action plan provided a timetable of actions to be taken over the next year to address the issues identified. The Audit Committee request an update in the September 2017 meeting on the progress made.</p>
Payroll	<p>The Authority's Intranet site details that to take unpaid leave an application must be submitted ahead of the date when the leave is required in one of two ways:</p> <ul style="list-style-type: none"> <li>• <i>Using the web based self-service system, 'My View – Dashboard'</i></li> <li>• <i>Completing an 'Application for Time Off' form</i></li> </ul> <p>However, the Resource Link Self Service 'unpaid leave' element does not automatically feed to the back-office application of the payroll system. Payroll Officers were therefore not being made aware of the requirement to reduce pay. As a consequence of the audit finding, action was taken immediately and reports are now produced on a pay run basis highlighting unpaid leave requests entered</p>	<p>Currently the Resource Link Self Service element does not automatically feed through to payroll. However, compensatory controls have been implemented whereas monthly reports are run from Resource Link listing all authorised unpaid leave and these are checked and processed through payroll.</p>

Review	3* Issues Reported to Date for Audit Year 2016/17	Update
	<p>via Self Service. These reports are used to manually calculate the amounts owed for these periods of absences. The process is currently under review to establish a better way of identifying and adjusting employees pays for all unpaid leave within the system</p>	
<p>Departmental Contract Management</p>	<p>Payments made to 8 Contractors during the period April 2012 to December 2015 were analysed, in relation to four Framework Contracts as to how the contractors were appointed in accordance with the call off policies.</p> <p>The review identified a number of instances where Contract Procedure Rules have not been fully complied with. Of particular concern is that:-</p> <ul style="list-style-type: none"> <li>• contracts or frameworks are not in place;</li> <li>• where there are frameworks they are not always utilised correctly;</li> <li>• contractors have not always been appointed in accordance with the framework call off policy,</li> <li>• quotations were not always obtained or not always retained</li> </ul>	<p>Reported to Audit Committee July 2017</p>
<p>Capital Maintenance</p>	<p>The main area of audit testing focused on the procurement arrangements in place for awarding jobs to outside Contractors and subsequent Contract Management. The Responsive Minor Works and Disabled Adaptions Contractors Framework is being utilised by the Building Services Section to ensure Contractors only listed on that Framework are allocated work. However, the process of how Contractors are called-off is unclear and no written evidence of post completion checks were seen. Given the significant amount of money spent on Capital Maintenance schemes it is imperative that the Authority takes responsibility for ensuring works are completed to the agreed specification.</p>	<p>Reported to Audit Committee July 2017</p>
<p>Coedcae</p>	<p>The current review has identified that the issues previously identified relating to the management and administration remain outstanding. In particular, Income records</p>	<p>Reported to Audit Committee July 2017</p>

Review	3* Issues Reported to Date for Audit Year 2016/17	Update
	<p>maintained at the site are inadequate for assurance to be placed that all income due has been properly accounted for. The nature of the facility often requires lone working arrangements although no independent monitoring is currently undertaken at the site. It is important that adequate monitoring of income collection procedures and the use of facilities is undertaken to ensure that all income has been properly accounted for.</p>	

The graph below shows the categorisation of the 2\* issues raised in 2016/17



As can be seen the majority of issues relate to Policies and Procedures. The concerns raised were mainly in relation to:

- non-compliance with current policies and procedures
- policies not being applied consistently
- policies were unclear

Further to the analysis above each report notes what assurance we conclude for each review. The definitions are as follows:

**Table 3 – Description for Assurance Levels**

<b>Assurance Level</b>	<b>Description for Assurance Level</b>	<b>Scores</b>
High	Good controls consistently applied Low risk of not meeting objectives Low risk of fraud, negligence, loss, damage to reputation	0 to 2
Acceptable	Moderate Controls, some areas of non-compliance with agreed controls Medium / low risk of not meeting objectives Medium / low risk of fraud, negligence, loss, damage to reputation	3 to 10 with no 3* recommendations
Low	Inadequate controls High Risk of not meeting objectives High risk of fraud, negligence, loss, damage to reputation	> 10 or including one or more 3* recommendations

Taking into account final and draft reports to date the assurance levels gained are summarised in Table 4. It can be seen that of all the reviews to date 10% are considered to provide Low Assurance, as compared to 18% of the reports in 2015/16.

**Table 4 – Assurance**

<b>Level of Assurance</b>	<b>Number of 2016/17 Reports</b>	<b>Number of 2015/16 Reports</b>
High	34	61
Acceptable	79	53
Low	12	25

The Final Internal Audit Reports once agreed with Heads of Service / Managers / Head Teachers are given to the appropriate Directors, Executive Board Members, Chair and Vice Chair of Audit Committee and Chair of School Governing Bodies for them to fully understand the key findings of each review and to be made aware of all recommendations. In addition to this arrangement the recommendations, agreed actions and responsible officers will for 2016/17 audit year onwards be placed on the Carmarthenshire's PIMS electronic database system. This will provide a place where all responsible officers and their Senior Managers can access and review their recommendations, as well as providing Internal Audit with a tool to monitor and review actions.

## **7. ANNUAL GOVERNANCE STATEMENT (AGS)**

The Governance Statement for the year ended 31st March 2017 forms part of the Statement of Accounts. The Annual Governance Statement explains how the Authority has complied with the various elements of the Governance Framework.

The Annual Governance Statement 2016/17 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2016/17.

A Corporate Governance Group comprising 2 Executive Board Members and key officers has been established to inform and monitor progress on issues affecting Governance. The Chair of Audit Committee also attends as an Observer.

The Group have met throughout the year and the Minutes have been referred to Audit Committee.

## **8. QUALITY ASSURANCE / PEER REVIEWS**

Internal Audit continues to undertake quality assurance reviews as required by the Public Sector Internal Audit Standards (PSIAS) 2013.

Peer Review covers both Fundamental and Non Fundamental (Departmental / Establishment) Audits.

The Peer Reviews follow a prescribed process and appraises:

- Quality of audit work
- Quality of supervision
- Compliance with standards
- Compliance with the Audit Manual
- How Internal Audit function benefits the organisation
- Achievement of performance standards / indicators

8 Fundamental Reviews and 12 Non Fundamental Reviews were subject to Peer Review in 2016/17, which equates to approximately 16% of the reviews undertaken.

Results of the Peer Reviews completed indicate that the Audits reviewed complied with the requirements of the Public Sector Internal Audit Standards (PSIAS) 2013.

Staff complete an **“Ethical Standards Declaration”** for each review they undertake. This ensures that there are not issues that may affect their independence, objectivity and delivery of the review and that they

have not conflicted with the principles detailed within the corporate "**Employee Declaration**" document.

## **9. FRAUD**

Internal Audit's direct responsibility for providing an ongoing fraud detection and prevention service is restricted to "Non Benefit Fraud". There is a Specialist Unit in the Revenues Unit of the Financial Services Division, which deals with all Benefit Fraud.

The Anti-Fraud and Anti-Corruption Strategy was approved by Audit Committee on 20<sup>th</sup> September 2012 and is available on the Authority's Intranet.

Internal Audit aims to provide a pro-active approach to fraud and staff are mindful of the potential for fraud in relation to all systems under review. All Internal Audit staff have received Fraud awareness training.

The Authority participates in the "**National Fraud Initiative**", where data on Payroll, Creditors, Housing Benefit, Pensions, Insurance Claims, Blue Badges and VAT issues are matched nationally every 2 years to identify potential individual frauds. The exercise reviewing data nationally across Local Authorities and other Public Sector Organisations was undertaken during 2016/17.

Internal Audit undertake a pro-active analysis of financial transactions linked to Payroll and Creditors to identify any potential anomalies for further investigation. The results of the analysis are reviewed and used to identify possible system weaknesses. Results are shared with the appropriate manager. There were no significant issues identified during the 2016/17 review, which is a significant improvement on previous years.

Undoubtedly one of the most effective methods of preventing or minimising fraud is through ensuring robust systems are in operation, which reduce the opportunity for individuals to defraud the Authority.

Internal Audit continues to provide training to a range of staff. Fraud awareness is a key area covered as part of the training.

## **10. SERVICE RISK AREAS**

As in last year's report the following Service Risk Areas continue to be seen as critical areas for attention during 2017/18:

### **10.1 Grants / Project Management**

The Authority continues to receive significant funding through grants and due to previous and ongoing issues identified by Internal Audit and Wales Audit Office the systems and processes for the administration of Grants, continue to be classed as **High Risk**.

The Officers' Grants Panel, which included the Audit & Risk Manager continues to monitor performance.

Internal Audit allocates specific time in the Annual Internal Audit Plan to review Grants, given the financial and reputational risks to the Authority.

Regular Reports are taken to the Grants Panel to ensure that adequate control is maintained.

### **10.2 Partnering / Collaboration**

The Council works closely with partners on the Public Service Board which is spearheading greater partnering and collaboration locally.

Close working with Health and Local Authority Regional Groups is continuing, which is bringing together services in imaginative ways leading to greater alignment and co-ordination of budgets.

Internal Audit continues to provide advice on risk, controls and systems to ensure the Authority is properly safeguarded.

### **10.3 Procurement**

Welsh Government initiatives continue to have an impact on the Authority. There is increased pressure to greater collaborative procurement including the establishment of the National Procurement Service (NPS).

There will inevitably be significant changes to procedures as a result of a move to greater use of technology linked to eProcurement.

The change to Category Management along with Joint Working arrangements with Pembrokeshire will also be an area that will need to be considered, as this is a significant change to the working arrangements within the Procurement team,

Internal Audit have a positive working relationship with the Corporate Procurement Unit and are actively involved in the Procurement Working Groups.

Reviews of Departmental Procurement have identified issues with regard to compliance and these have been discussed with the relevant Heads of Service and the Corporate Procurement Unit.

#### **10.4 Efficiency Agenda**

The Efficiency Agenda places pressure on the Authority in terms of delivering services, achieving efficiencies and re-prioritising to meet demands. There are also pressures to reconfigure back-office support services whilst maintaining control and addressing risks from fraud.

### **11. TRAINING**

During 2016/17 Internal Audit staff have provided a range of advice and training initiatives to staff in various Service Departments across the Authority including Project Managers, Grant Administrators and Managers.

Internal Audit will continue to develop the Advisory role and the Training provision during 2017/18.

**Helen L Pugh**  
**Interim Head of Audit, Risk & Procurement**  
**July 2017**