

Internal Audit Annual Report 2018/19

1. INTRODUCTION

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

The PSIAS set 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 2018 to March 2019, based on the work undertaken in the 2018/19 Internal Audit Plan, agreed by the 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 2018/19 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, 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. INTERNAL AUDIT

The Head of Revenues and Financial Compliance 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 Charter 2016-2019. Where Internal Audit reviews are undertaken on functions headed by the Head of Revenues and Financial Compliance, resulting in a potential conflict of interest arising from reporting lines, an approved escalation protocol is followed to ensure conformance with the code of ethics, as required by the Public Sector Internal Audit Standards.

The Authority maintains an effective Internal Audit function. The **Strategic and Annual Audit Plans** are approved by Audit Committee annually and regular reports are made to the Audit Committee throughout the year on progress and any significant weaknesses identified.

4. STAFFING

There were 11.2 FTE staff on the establishment during 2018/19, with the post of Principal Auditor being filled during the year.

Overall sickness accounted for a loss of 38 productive days, equating to approximately 1.9% of available productive days, compared to 0.5% the previous year, and 2.7% for 2016/17. During the year vacant posts accounted for the loss of 148 days.

Considering sickness and vacant posts, 9.2% productive days were lost during the year, compared to 28% the previous year (when there had also been maternity leave), and 7.5% for 2016/17.

The Unit was led by the Head of Revenues and Financial Compliance and has 5 Teams covering IT Systems, Contracting / Procurement, and three Service Based Teams.

5. ANNUAL AUDIT PLAN 2018/19

The 2018/19 Annual Plan agreed at the Audit Committee on 23rd March 2018 continues to provide a broad coverage of the Authority services and systems.

The Annual Audit Plan for 2018/19 included 131 reviews and was compiled on a "risk basis" i.e. taking account of the nature of the service, value and previous findings.

72% of those reviews originally programmed were completed by 31st March 2019 thereby falling short of the 90% target, and on the 75% delivery the previous year.

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 2018 to March 2019 a total of 219 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

Ratings	Number of Recommendations
Priority 1 *** Fundamental Control Issues to be addressed as a High Priority	2 (See Table 2 for a summary of the issues and an update on the status)
Priority 2 ** Control Issues required to strengthen existing procedures	130
Priority 3 * Minor issues	87

The Audit Committee is 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 2018/19 audit year to date.

Table 2: Priority 1 - Fundamental Issues

Review	3* Issues Reported to Date for Audit Year 2018/19	Update
Business Support – Pool Cars	The recharge rate for the use of pool cars fluctuates each month, with the pence per mile calculation being dependent on the number of miles driven in the pool cars for that month, together with any ancillary costs incurred, such as ad hoc repairs or breakdown assistance, for example. All users are charged the same monthly pence per mile rate, regardless of whether the electric or fuel cars have been used.	Reported to Audit Committee June 2019

The second fundamental weakness noted in table 1 relates to a Draft Report at this stage, which, when finalised, will be brought to the attention of the Audit Committee.

Table 3 below summarises the Priority 1 Fundamental Issues previously brought to the Audit Committee's attention, where update information has been formally requested by the Committee.

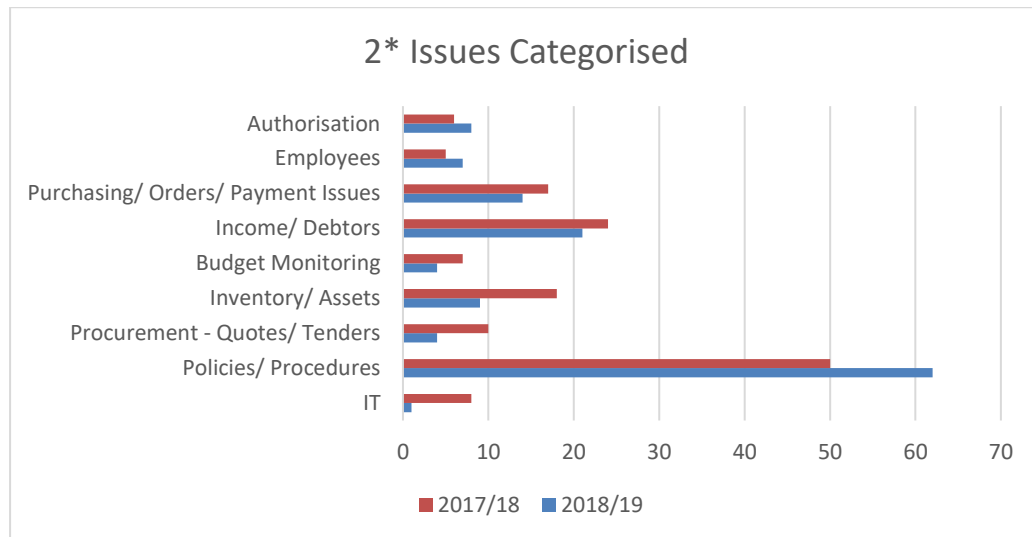
Table 3: Priority 1 - Fundamental Issues previously reported to Audit Committee

Review	Follow-up of previous 3* Issues requested by Audit Committee	Update
Coastal Facilities	Three areas of fundamental weakness 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).	<p>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. Updates were then reduced to a 6 monthly basis.</p> <p>Current position: At the September 2018 Audit Committee meeting, it was agreed to receive updates on Coastal Facilities only following the completion of the next Internal Audit reviews.</p>
Supporting People	This review identified 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, which related to procurement issues and third party monitoring.	<p>First reported to Audit Committee in December 2015. Initially, the Supporting People Manager provided quarterly reports to the Audit Committee on the progress made in implementing the required changes to address the issues identified. Following the Audit Committee in January 2017, Members agreed to change the reporting requirement to 6 monthly.</p> <p>Current position: At the December 2018 Audit Committee meeting, it was</p>

Review	Follow-up of previous 3* Issues requested by Audit Committee	Update
		agreed to receive updates on the administration of the Supporting People Grant only following the completion of the next Internal Audit review.
Museums	<p>Internal Audit 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"> • a lack of a comprehensive up to date inventory of assets; • delay in the full implementation of the computerised system CALM; • a lack of adequate documentation available to support loan items; • a lack of adequate insurance arrangements. <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 requested an update in the September 2017 meeting and then on a 6 monthly basis.</p> <p>Current position: Updates continue to be provided to the Audit Committee on a 6 monthly basis.</p>
Llanelli Leisure Centre	During the 2016/17 review, Internal Audit identified fundamental weaknesses in the management and administration of staffing, including incorrect payments being made.	<p>First reported to Audit Committee December 2017. The Audit Committee requested 6 monthly updates on the progress of actions to address the identified issues.</p> <p>Current position: The Audit Committee, at the December 2018 meeting, requested that,</p>

Review	Follow-up of previous 3* Issues requested by Audit Committee	Update
		upon conclusion, the next Audit Report (2018/19) be presented to the Committee.
Property Management	Two fundamental weaknesses were identified in the 2017/18 review of Property Management. In summary, significant concerns were identified in relation to the management and administration of the Authority's leased properties, and the lack of adequate monitoring of properties, particularly in relation to the financial element.	First reported to Audit Committee July 2018. Current position: The Audit Committee, at the July 2018 meeting, requested that, upon conclusion, the next Audit Report (2018/19) be presented to the Committee.

The graph below shows the categorisation of the 2* issues raised in 2018/19 and compared to 2017/18.



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; and
- policies not being applied consistently.

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

Table 4: Description for Assurance Levels

Assurance Level	Description for Assurance Level	Scores
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

Considering Final and Draft Reports issued to date, the assurance levels gained are summarised in Table 5. It can be seen that of all the reviews to date, 11% are considered to provide Low Assurance, as compared to 15% of the reports in 2017/18.

Table 5: Assurance

Level of Assurance	Number of 2018/19 Reports	Number of 2017/18 Reports	Number of 2016/17 Reports
High	17	23	34
Acceptable	47	57	79
Low	8	14	12

A proportion of reviews undertaken by the Internal Audit team relates to the certification of grants received by the Authority; in these reviews, Reports are not produced, but grant certification forms are completed in their place.

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 are recorded 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.

6. ANNUAL GOVERNANCE STATEMENT (AGS)

The Governance Statement for the year ended 31st March 2019 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 2018/19 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2018/19.

A Corporate Governance Group comprising two 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.

7. QUALITY ASSURANCE

The Public Sector Internal Audit Standard (PSIAS) became effective from 1st April 2013 and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the Standards included either a full external assessment or an internal self-assessment which is validated by an external reviewer. Carmarthenshire County Council elected to adopt the self-assessment approach with an external validation undertaken by a suitable qualified and experienced

external assessor with the required level of knowledge of the application of the PSIAS, as agreed with the Welsh Chief Auditors' Group. The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment is designed to be a supportive process that identifies opportunities for development which ultimately help to enhance the value of the audit function to the Authority. The self-assessment and the external assessment, which was completed in March 2018, concluded that the Internal Audit Service is generally conforming. A total of six recommendations were made as part of the external assessment; actions to address three of these recommendations have been completed, two are in progress and the final recommendation related to the consideration of using an alternative assessment template when the next external assessment is undertaken; this recommendation will be addressed at the time of that assessment.

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 10 Non Fundamental Reviews were subject to Peer Review, which equates to approximately 14% 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.

8. 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 20th September 2012 and is available on the Authority's Intranet. This Strategy is in the process of being updated.

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 2017/18, with the next review being due in 2019/20.

Internal Audit undertakes 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 2017/18 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 reduces 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.

9. SERVICE RISK AREAS

The following Service Risk Areas are considered areas for attention during 2019/20:

9.1 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.

Under the 2014 Social Services and Well-Being (Wales) Act, Councils and Health Boards have a statutory obligation to establish and maintain pooled fund arrangements in relation to:

- The exercise of their care home accommodation functions
- The exercise of their family support functions
- Specified functions exercised jointly in response to Population Assessments, where such arrangements are considered appropriate

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

9.2 Procurement

Carmarthenshire County Council spends more than £215 million annually with external organisations and has a duty to make sure that this spending represents value for money for the residents of the County through efficient and effective procurement policies and practices.

In the Summer of 2017, the Council embarked on a Joint Procurement Shared Service arrangement with Pembrokeshire County Council's Procurement Unit, for an initial period of 2 years. In May this year, following a thorough review, this arrangement ceased. This will bring about further significant changes to the working arrangements of the Procurement team.

Internal Audit has a positive working relationship with the Corporate Procurement Unit and will continue to provide advice on risk, controls and systems in order to ensure efficient and effective procurement policies and practices are maintained.

9.3 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. Internal

Audit has a positive working relationship with the Transformation, Innovation and Change (TIC) Unit and are actively involved in TIC Working Groups.

9.4 Swansea Bay City Deal

The City Deal is governed by a Joint Committee arrangement composed of the Leaders of the local Authorities of Carmarthenshire, Swansea (Chair), Neath Port Talbot and Pembrokeshire. Carmarthenshire County Council hosts the Regional Office function on behalf of the Joint Committee. During 2018/19, Carmarthenshire provided the Internal Audit function for the Swansea Bay City Deal. Going forward into 2019/20, the Joint Committee is reviewing the provision of functions for the Swansea Bay City Deal, including the provision of the Internal Audit function.

9.5 Llanelli Wellness

The Wellness and Life Science Village in Llanelli is one of the 11 projects that make up the £1.3billion Swansea Bay City Deal. Sound and robust controls and arrangements will need to be in place to ensure the project is completed in an appropriate, efficient and effective manner. Internal Audit has a role to play in reviewing and providing assurance, or otherwise, on these arrangements.

9.6 Local Authority Trading Companies

Most Councils no longer rely solely on in-house operations to deliver either public services or their own internal functions. Services that are not delivered 'in-house' involve some form of alternative delivery models, such as Local Authority Trading Companies (commonly referred to as LATCs).

Carmarthenshire County Council wholly owns three companies:

- *Cartrefi Croeso* - Established by Carmarthenshire County Council to develop new homes for sale and to rent.
- *CWM Environmental* - A limited company dealing with waste, materials recycling, and recovery industry.
- *Llesiant Delta Wellbeing* – Set up in June 2018 and involved the transfer of the Council's Careline service, which had been in operation for over 30 years, into the Company. The Company is a centre of excellence for Technology Enabled Care.

Appropriate governance structures are vitally important to ensure sound and robust supervision of the companies, thereby protecting the Council's financial and reputational investment. Internal Audit has a role

to play in ensuring the Council's financial and reputational investment in the companies is safeguarded.

Helen L Pugh
Head of Revenues and Financial Compliance
18th June 2019