

Head of Internal Audit's Annual Report 2015/16

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 2015 to March 2016, based on the work undertaken in the 2015/16 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, I have taken into account:

- The results of all work undertaken as part of the 2015/16 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 and effective control environment in operation. There are clear Governance arrangements with defined Management responsibilities and Committee Structures in place, suitable arrangements for 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.

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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 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.

To maintain the operational independence of Internal Audit, the Audit & Risk Manager is designated as the *Head of Internal Audit* and is responsible for the day to day delivery of the Approved Audit Plan, the content of Internal Audit Reports and the effective deployment of Internal Audit Staff.

4. STAFFING

There were 9.8 FTE staff on the establishment during 2015/16 and the Section is fully staffed.

Overall sickness accounted for a loss of 27 productive days, equating to approximately 1.7% of available productive days, compared to 5.3% for the previous year. In addition to days lost due to sickness there was a period of maternity leave during the year accounting for a further 195 days. Taking both sickness and maternity leave there was a reduction of 13.9% of productive days during the year. No Agency Staff were hired during the year.

The Unit is 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.

Day to day responsibility for Risk Management lies with the Audit & Risk Manager.

6. ANNUAL AUDIT PLAN 2015/16

The 2015/16 Annual Plan agreed at the Audit Committee on 27th March 2015 continues to provide a broad coverage of the Authority services and systems.

The Annual Audit Plan for 2015/16 included 170 reviews and was compiled on a "risk basis" i.e. taking account of the nature of the service, value and previous findings.

84% of those reviews originally programmed were completed by 31st March 2015 thereby falling short of the 92% target which was a very favourable result given the 222 days affected by sickness and maternity. During the year additional work was required over and above the plan including Welsh

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Government’s request for Internal Audit to audit and provide certificates for five Education Grant Claims.

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 2015 to March 2016 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 Priority 1 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	4 (See Table 2 for a summary of the issues and an update on the status)

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 2015/16 audit year to date.

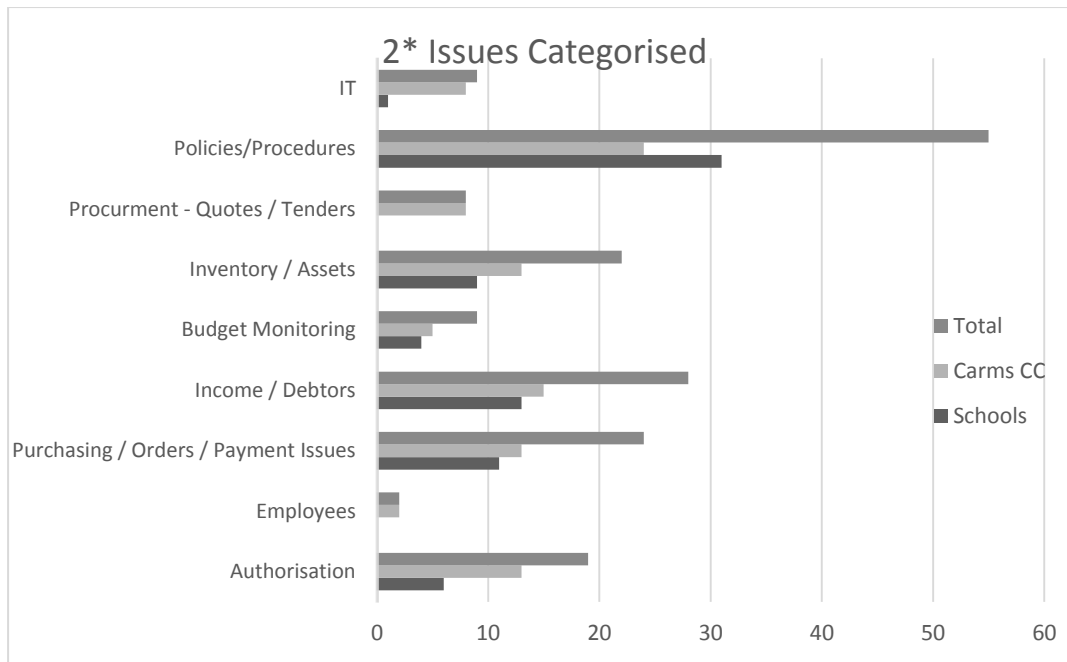
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Table 2 – Priority 1 - Fundamental Issues

Review	3* Issues Reported to Date for Audit Year 2015/16	Update
Supporting People	This review identified significant weaknesses in the management and administration of the Supporting People Grant.	Report to Audit Committee December 2015 Since September 2015 the Supporting People Manager has been reporting quarterly to the Audit Committee on the progress made in implementing the required changes to address the issues identified in the audit report.
Coastal Facilities (Pembrey Country Park, Burry Port Harbour, Ski Centre and Millennium Coastal Path)	<p>Three areas of concern were noted.</p> <p>Non-compliance with financial procedure rules, (including contract and quotation procedure rules and Transport & Engineering Unit Policy):</p> <ul style="list-style-type: none"> • The Authority's procurement arrangements had not been fully complied with • Procedures for collecting and accounting for income needed to be improved • Procedures for accounting for assets needed to be improved to minimise the risk of assets being stolen or misused, and to ensure that maintenance programmes are adhered to • The management and administration of agreements / leases for private enterprises need to be improved / tightened to clarify responsibilities and maximise income • Procedures for the use of facilities by third parties need to be improved <p>Risk Management and Business Continuity Strategy:</p> <ul style="list-style-type: none"> • Health & safety issues have been identified that may present a risk for the Authority and its employees; <p>Employee issues:</p> <ul style="list-style-type: none"> • Staff working hours including TOIL arrangements are not always being recorded and are not being managed at an appropriate level • Employee Declaration of Interests were not being completed appropriately <p>In summary there was a general non-compliance with a range of the Authority's established procedures</p>	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.

Audit Committee Members have in the past requested an analysis of 2* recommendations in orders to identify key issues. The graph below summarises the categorisation of the 2* issues raised in 2015/16.

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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 requiring updating or clarification

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

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
Adequate	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 18%

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are considered to provide Low Assurance, as compared to 21% of the reports in 2014/15

Table 4 – Assurance

Level of Assurance	Number of 2015/16 Reports	2015/16 % of total	Number of 2014/15 Reports	2014/15 % of total
High	61	44	45	39
Adequate	53	38	47	40
Low	25	18	24	21

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.

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 a tool to monitor and review actions

7. ANNUAL GOVERNANCE STATEMENT (AGS)

The Governance Statement for the year ended 31st March 2016 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 2015/16 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2015/16.

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.

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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

16 Fundamental Reviews and 18 Non Fundamental Reviews were subject to Peer Review in 2015/16, which equates to approximately 20% 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 any 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”. The Financial Services Division employs an officer to deal with Benefits Fraud and to liaise with Department of Works and Pensions fraud specialists.

The Anti-Fraud and Anti-Corruption Strategy was approved by Audit Committee on 20th 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 2015/16.

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

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manager. There were no significant issues identified during the 2015/16 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 years report the following Service Risk Areas continue to be seen as critical areas for attention during 2016/17:

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 includes the Audit & Risk Manager continues to monitor performance and is working closely with Wales Audit Office.

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

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.

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Internal Audit have a positive working relationship with the Corporate Procurement Unit and are actively involved in the spend analysis undertaken by the Procurement Governance Group

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 adequate control and addressing potential risks from fraud.

11. TRAINING

During 2015/16 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 2016/17.

Helen L Pugh
Audit & Risk Manager
June 2016