



RESOURCES DIRECTORATE INTERNAL AUDIT TEAM

Internal Audit Progress Report (As at 27th October 2017)

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INTERNAL AUDIT PROGRESS REPORT

1. INTRODUCTION

1.1 Background

The Audit Committee at its meeting in March 2017 approved the Internal Audit plan for 2017/18. The plan is the framework for audit work in the forthcoming year and is aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year. The Internal Audit Plan was reviewed and the amendments to the plan were approved at the Audit Committee meeting on 18th September 2017.

The Internal Audit plan for the Audit section for 2017/18 is made up of a total of 3,500 days (2,900 for the audit team and 600 for the investigations team): 2,519 chargeable days were agreed – 2,102 for the audit team and 417 for the investigations team (see separate report at item 10.2 of the agenda).

This report serves to provide an update on progress against the audit plan to 27th October 2017.

1.2 Internal Audit Section Resources

The Internal Audit section reports directly to the Head of Finance. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained as the Head of Finance reports functionally to the Audit Committee for all audit-related matters. In all other respects, the Head of Finance reports to the Corporate Director Resources.

As members will be aware from previous reports to this Committee, there were a number of occasions of sickness absence in the team for various reasons during the first four months of the year. This reduced the number of chargeable days worked for that period. Whilst there have been isolated cases of short term sickness over the last two months there have been no further loss of days that need to be recovered.

As previously reported, the team has had a vacant Principal Auditor post this year and, although a short gap in recruitment had been anticipated when the plan for 2017/18 was developed, the post has been readvertised on three occasions but proved unsuccessful. A further recruitment exercise has commenced, with adverts placed both internally and externally (via the IIA); the

advert has generated a number of applications and interviews are planned for early December 2017.

The previously reported arrangement remain in place where an agency appointment has been made until 31st January 2018 in addition to the extension of a maternity cover by a further three months until 31st December 2017.

1.3 Continuing Professional Development

The section's 2016/17 Personal Reviews, which evaluate performance, were completed by the deadline given (31st May 2017) with the two outstanding being completed very shortly after their return from long-term sickness absences.

The Council has a new Personal Review Scheme from April 2017 and we have used this to reinforce the focus on improvement in productivity and recommendations implemented. The new objectives for 2017/18 underpin the work of the internal audit section and were discussed and agreed with the members of the Section by the end of June 2017.

The half year reviews are underway and will be completed by the deadline given (30th November 2017). In readiness for the half year review, each auditor has reviewed themselves against the team's skills matrix (which is based on the CIPFA document "The Excellent Internal Auditor") to assess progress against their individual planned objectives and that of the team. The matrix also includes sections on the use of key systems such as Excel, SharePoint and Word and the information from the skills matrix will help identify areas for further training and development.

The Performance Review process and the self-assessment against skills and competencies is a cornerstone of the Quality Assurance Improvement Plan for the section. In addition, the Cardiff Internal Audit Section is an active member of the Welsh Chief Internal Auditors group and support attendance at training events held.

2. SUMMARY OF WORK PERFORMED

The Audit Plan for 2017/18 set the scene for audit coverage for the year and the planned assignments have been set up in the audit planning, monitoring and control database. Priority had been given to any audits planned for 2016/17 but not completed during that year.

All auditors are allocated three months' work at the beginning of each quarter, with the expectation that their assignments will be effectively managed and delivered within that time scale. This approach focuses on outcomes and is improving performance and timeliness of reporting.

This progress report concentrates on audit work undertaken and some key performance indicators to date. A full Plan v Actual position is provided at **Appendix B** and includes recommendations to changes to planned coverage, taking into account the need to review available resources due to sickness, the enhanced productive time of agency workers and areas identified from work of other scrutiny committees. It also shows the position with each audit as at the end of October 2017.

As Members will be aware, a reduction in the audit plan of 250 days was agreed at the meeting in September to reflect the working time lost by sickness absence and the principal auditor post vacancy. Members will also know that the contract of the temporary ICT auditor has been extended to 31st December 2017 and an agency worker has been engaged to undertake work until the end of January 2018 to undertake high risk assignments; the position will be reviewed again over the forthcoming weeks in order to provide assurance that the reduction in input days does not result in a fall in the coverage for the audit plan and a further update provided to the January meeting.

The number of chargeable days allocated to audits to 27th October 2017 is 824 (against a pro-rata plan of 1,212 days based on the original plan), which is 68% of the planned chargeable days. The resource limitations of the early part of the year have already been documented along with the remedial action proposed and implemented and, based on the reduced number of chargeable days, the percentage is 77%.

A major component of the 2017/18 Audit Plan were five thematic reviews. Each Directorate would be considered in respect to commissioning and procurement, payroll, governance and effective decision-making whilst income was added for Education only. As each thematic review is completed, the results will be contained within the Audit Progress report.

In accordance with the timetable agreed at the last meeting in September, the main points identified from the thematic reviews for payroll, commissioning & procurement and income

(Education only) are set out below. There are matters that have arisen from the reviews that are individual to the directorate, and these will be included in the reports to the directors concerned (and included in the recommendation tracker).

(a) Payroll

The objective of this thematic audit was to assess the adequacy and effectiveness of the system of internal controls designed to mitigate risks relating to payroll. The audit scope included the processes for starters, leavers, variations to pay, timeliness of variations approvals and regular checking of employees to the establishment list.

Samples from the highest additional payments were selected to test processes in the Directorates. Interviews with Payroll officers and analysis of the samples show that roles are clearly defined, segregation of duties and controls are in place between HR People Services, Payroll and the Directorates. Detailed findings will be raised with management through the audit reporting process, but no major areas of concern have been noted and few recommendations (other than best practice) made so far. Once the reports have been finalised, the recommendations made will be included on the recommendation tracker.

In schools, the objective also included the appropriate delegation of responsibilities to the Head Teacher and the documentation of processes for the administration of payroll at each school in the sample selected. Documents provided to Audit as supporting information for the CRSA process for payroll confirmed that schools are following the Council's corporate processes in relation to payroll and governance. There is, however, a variance in the type and quality of documentation used by the schools and, therefore, the information contained within the documents in some instances. For example, the information used to request overtime payments for staff is not always fully completed. Where variances have been noted, findings will be issued to schools in the form of action plans to allow schools to consider the recommendations as part of the internal audit reporting process. However, most of the recommendations made so far are best practice recommendations and no major issues have been identified.

(b) Commissioning and Procurement

The objective of this thematic audit was to assess the awareness of, and compliance with, procurement policies, procedures and rules. Decision making was also to be reviewed and steps taken to ensure that budget monitoring and contract management were in place.

A working group had already been commissioned to review the Council's Contract Standing Orders & Procurement Rules and this audit provided an opportunity to test out assumptions and findings from that exercise. The auditors were aware that officers from Commissioning and Procurement had been liaising with officers in directorates for some time to refine processes and procedures, and the focus of the review was to ensure that these two important documents would continue to be fit for purpose by meeting the requirements of changing legislation (particularly EU and national policies) and service needs. The delivery of the new rules will enable Directorates to improve the planning and monitoring of their contracts, and to increase compliance with the rules. Detailed findings will be raised with management through the audit reporting process. The suggested changes to the Contract Standing Orders & Procurement Rules will be taken to Audit Committee for consideration in January 2018.

The findings of the audit review were that there is a need to improve oversight of contracts, at both Corporate and Directorate level, and to ensure that the accountability and responsibilities of Directorates and Commissioning & Procurement are clear. The latter will be fundamental in order to drive continuous improvement in the procurement processes. Findings from the thematic reviews are to be discussed shortly with the OM, Commissioning and Procurement, but the audits have not identified anything unexpected. It was already anticipated that opportunities for improvement would be identified in areas such as contract planning and management as these had presented themselves as control issues from 2016/17 audits, and the OM, Commissioning & Procurement has agreed that regular meetings between his officers and officers in the directorates would improve visibility of planned contracts and the allocation of scarce corporate resources..

Within Education, a sample of 25 schools was taken which considered documentary evidence used to support the governing body plus analysis of control, financial and procurement procedures to show that roles are clearly defined, duties segregated and controls are in place. The findings to date indicate that tendering procedures are being used in some schools, but there are also cases where there are no Governing Body-approved procedures for tendering and little understanding of the procedures that need to be followed to let contracts. It has been previously recognised that, as the Council is not permitted to mandate Contract Procedure Rules on schools, there is a need to improve the support provided to them and a need to ensure that the accountability and responsibilities of governing bodies are clearly set out. The latter will be

fundamental to drive continuous improvement in the procurement processes. Findings will be issued to schools in the form of action plans to allow schools to consider the recommendations as part of the internal audit reporting process.

(c) Income (Education only)

The audit sampled income management processes and procedures in 24 schools, and the findings of this review indicates that the majority of schools have processes in place for income management that will benefit from either the updating of policies and controls and/or the amendment of existing processes to address specific control weaknesses.

Detailed findings have been issued, with each school in the sample receiving a report and / or action plan for their consideration. Although the reports / action plans have taken some time to prepare (due to the number of schools included in the sample), the majority of the actions have been agreed. A summary report for the Director of Education is in the process of being drafted and the learning points will be disseminated to all schools in due course. The key points were discussed with Chairs of Governors at the recent meeting (as in paragraph 3.6 below).

Key information this quarter is shown at the end of this report (Annex A) which shows a list of audits reported for the period April until the end of October 2017 (time of writing this report). This includes assignments carried forward from 2016/17, which were prioritised accordingly in this year's Plan.

The opinions given in reports issued to the end of October 2017 are shown below. In addition to the reports that have been issued to audit clients, there are nine pieces of work currently being reviewed prior to being formally issued. These are not included in the table below, as the final assurance, opinion has not yet been confirmed.

	Number of reports	Opinion				No opinion given
		High Assurance / Effective	Satisfactory / Effective with opportunity for improvement	Limited / Insufficient with major improvement needed	No Assurance / Unsatisfactory	
Draft reports issued	4	1	1	1	0	1
Final reports issued	28	5	8	7	0	8
TOTAL	32	6	9	8	0	9

The nine pieces of work undertaken that have not been given an assurance opinion are shown in the table below (with the one recently completed being shown in bold):

Audit	Comments
Welsh Language Standards	Briefing paper for consideration by Senior Management Team. Further, audit work to be considered after Q3.
Breakfast Club – Coryton Primary School	Briefing paper on the Breakfast Club provided at the request of the Head teacher.
Annual Returns (x 4)	Audits undertaken to support the Council’s Statement of Accounts.
Supporting People - Outcomes	A review of the outcomes information relating to the Supporting People grant (as required by the Welsh Government).
Illegal Money Lending Unit	Audit of grant for 2016/17 and submission of information to the NTSB.
Education Improvement Grant	Audit of grant for 2016/17 and submission of information to the Welsh Government.

3. AUDIT PERFORMANCE AND ADDED VALUE

3.1 Added value

Meetings are arranged with every Director, in line with our Relationship Manager initiative, and should take place at the end of (or near to the end of) each quarter. Additional meetings are held to discuss the audit plan for the forthcoming year, and Directors find them useful in discussing audits completed and planned as well as directorate risks, issues and areas for potential audit input (as required in the PSIAS).

Where Directors postpone meetings, they are rearranged and meetings are now diarised with all Directors for the forthcoming 12 months.

3.2 Benchmarking

The Audit team is a member of the Welsh Chief Auditors, Core Cities, and CIPFA benchmarking groups and has submitted information to all groups for 2016/17. Final information has been received from CIPFA and was reported to the Committee at the last meeting.

Draft information has been received from both the Welsh Chief Auditor and Core Cities groups, but is not fully representative, as it does not contain responses from all member authorities. Discussions have been held at recent meetings of these two groups to identify whether changes

should be made to the data being collected / timings of the exercises in order to ensure that the indicators remain relevant and provide useful comparative information for authorities. A further report will be presented to a future meeting of this committee when the outcome of these deliberations is known.

The draft information from the Welsh Chief Auditor group is based on information from 16 out of the 22 Welsh Councils. Key measures are shown in the table below:

Benchmark	Cardiff	Group average
Number of audit staff	14	8
Staffing cost per £'m gross revenue expenditure	£379	£762
Average cost per directly chargeable day	£208	£242
% planned audits completed	79	84
% audits completed within planned time	54	68
% directly chargeable time versus total available	77	68

These indicators show that, for percentages of both planned audits completed and audits completed in planned time, Cardiff is below the group average. Planning processes are being strengthened and each auditor reminded of the need to engage with the Group Auditor on assignments for advice and support. A further training session on engagement planning to reiterate the requirements of the PSIAS and to further develop lean processes has been diarised for the end of November 2017 and every auditor is required to attend.

3.3 Processes

Internal Audit has continued to develop its use of SharePoint, the Council's Electronic Document & Record Management System and is using a timesheet module on the Council's DigiGOV system for time recording. The management information available from both SharePoint and DigiGOV has been used to provide performance management information for each auditor and the section as a whole, as well as the information provided in this report.

3.4 Recommendations implemented

One of the objectives in 2017/18 from the Finance delivery plan is to ensure that accountability and responsibility is clearly defined and acted upon, and the measure for Internal Audit is the

percentage of recommendations implemented within three months. In order to measure this, the recommendations raised in each report are recorded on SharePoint and auditees are provided with a link to the report to enable them to update the progress made on implementing each recommendation. Schools remain unable to access SharePoint in this way and Headteachers are provided with a copy of the recommendations for them to update. Discussions remain on going with colleagues in Education regarding access permissions for Headteachers, with the possibility of using a different electronic solution to communicate with them.

The recommendations list on SharePoint is key information going forward in order to provide assurance to the Audit Manager and the Audit Committee that progress against the audit plan is being achieved as well as it being an effective way to assess the impact of the audit plan by identifying the % of audit recommendations implemented against those recommended. This is a good example of the reporting being more outcome focussed rather than focussing on inputs such as days available.

With regard to the implementation of recommendations as at the end of October 2017, it can be seen from **Appendix C** that 58 of the 116 (50%) recommendations raised so far in 2017/18 have been implemented. This would be expected at this stage of the year, as the deadline for some recommendations to be implemented have not yet been reached. For the recommendations raised where the implementation date has been reached, all have been actioned.

Auditors are also focussing on the recommendations that are being written to ensure that audit clients are clear on their responsibilities for improving controls. In addition, recommendations focus on the root causes of issues identified, so that managers understand the actions to be taken.

3.5 External assessment

Members will be aware that, under the Public Sector Internal Audit Standards (PSIAS), there needs to be an external review of the Section by 31st March 2018. The review was due to take place in Q4 2016/17 but was postponed with the agreement of the external assessor in order to allow for the changes in processes and procedures outlined at the March Committee to embed.

The review is ongoing in Q3 2017/18; meetings have been held with the external assessor and information has been provided to him to enable him to undertake the review. The outcomes of the review will be reported to a future meeting of this Committee.

Members will also be aware that, as part of the peer review process as agreed with most other Welsh councils; Cardiff is due to undertake the assessment of Swansea Council. An initial meeting with the Chief Audit Executive of Swansea Council has been arranged for December 2017 and supporting documentation requested.

3.6 Training provided

Internal Audit was asked to present at the recent Chairs of Governors meeting. The main areas included in the presentation by the Head of Finance were around the clarity of roles in schools, clarity of processes and ensuring that controls are in place; the opportunity was taken at the meeting to discuss the key findings identified in the income audit and to emphasise the importance of the controls being in place. The presentation was well received by the Chairs present. Internal Audit will also be part of the forthcoming training for new headteachers where these messages will be reinforced.

4. **SCRUTINY COMMITTEE CORRESPONDENCE**

At the March meeting of the Audit Committee, it was proposed that future progress reports included any relevant items arising from Scrutiny Committees. A review of the correspondence and matters discussed at the Council's Scrutiny Committees has shown a number of items to be considered as part of the work of Internal Audit in future quarters. The items are:

- (a) *Waste Enforcement fines* – this was discussed in the meeting of the Environmental Scrutiny Committee on 5th September 2017, where it was noted that some areas of Cardiff received a disproportionately high number of enforcement fines. This will be considered by Internal Audit as part of a wider value for money thematic review on enforcement in 2018/19 (to include fines and food hygiene as below).
- (b) *Sports Joint Venture* – an update on this was presented to the Economy and Culture Scrutiny Committee on 9th November 2017, and represents a partnership between Cardiff Metropolitan University and Cardiff Council. One of the priority objectives of the joint venture is Regional Sports Boards to provide a regional delivery mechanism. This will be considered as part of a thematic review of regional working in 2018/19.

- (c) *Residential Social Care Training Unit* – this was discussed at Community and Adult Services Scrutiny Committee in October 2017. Cabinet is to be asked to seek approval to establish the Unit and to seek authorisation to implement the business model, approach and functions of the Unit. Internal Audit will continue to monitor progress on the establishment of the Unit and the management of risks, and will consider including a review of this in the audit plan for 2018/19.
- (d) *Developing the schools' estate* – this was discussed at the meeting of the Children and Young People Scrutiny Committee in October 2017. Members of Audit Committee will be aware that Internal Audit is reviewing the School Organisation Programme during 2017/18 (the report for which is currently being drafted) and will consider further elements of the SOP programme for inclusion in the audit plan for 2018/19.
- (e) *Food hygiene* – the development of the service was discussed by the Environmental Scrutiny Committee in October 2017. This will be considered by Internal Audit as part of a wider value for money thematic review on enforcement in 2018/19 (to include fines and waste enforcement as above).

5. FUTURE AUDIT PLANNING

Members may be aware from the Council's 2018/19 budget consultation currently on-going that it has been proposed to reduce the employee budget of Internal Audit by £36k. This will be achieved by the further refocusing of priorities within the team, thereby allowing the reduction of one (FTE) post. The refocusing of priorities and the enhancement of risk-based approaches to audits will ensure that the Council's internal control environment is reviewed during the year, but that the plan remains flexible to address any risks that emerge.

Work has begun to develop the audit plan for 2018/19, using assurance mapping to identify areas that should be considered for inclusion in the plan. As part of the areas being considered, discussions have been held with the Wales Audit Office regarding the audit of the fundamental systems. These have, in the past, been audited annually (albeit using a CRSA approach); review of the results of previous CRSA exercises has shown that the risks in the systems are well controlled, with few recommendations raised.

It is, therefore, proposed that the audit of fundamental systems be done on a biennial basis; however, regular reviews will be undertaken during the year to ensure that risks remain well

controlled and risks minimised. If there are any changes to the control environment, an audit will be added to the audit plan.

In addition, following discussions with managers in Communities, Housing and Customer Services, the audit of housing rents will be deferred to 2018/19 due to the changes being made to the systems in view of the upcoming introduction of Universal Credit. However, audit will work alongside the service area during the development in order to assist in the implementation and provide early assurance of the appropriateness of the controls.

6. CONCLUSION

Members will note that a number of factors has affected the work of the section, including sickness and vacant post. A plan has been put in to place to recover lost time by the use of agency and retention of temporary staff and it is the case that part of the recovery is through use of increased productivity of those staff retained and recruited. There has also been a thorough review of the audit plan in order to ensure resources available are used in an optimised manner. Whilst there is pressure on the audit team to achieve the plan there is confidence that the proposals put in place will ensure that the internal audit plan will be achieved and that an appropriate level of assurance will be achieved. A further report on the progress of the internal audit team and the audit plan will be brought to Audit Committee as scheduled in January 2018.

Reports Issued - as at 27th October 2017

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Fundamental / High				
NDR	Effective			
Council Tax	Effective			
Medium				
St. Cuthbert's	Limited	2	2	
St. David's	Satisfactory	1	1	
Welsh Language Standards	None given			
Adopted Land	Limited	3	3	
Mount Stuart	Satisfactory	1	1	
Eastern High	Satisfactory			
ICT – PCI DSS	Insufficient with major improvement needed	2	1	
Insurance	Effective			
VFM – sickness absence procedures	Effective			
Main accounting 2016/17	Effective			
Homecare (Mobile Scheduling)	Insufficient with major improvement needed			
ICT – Business Continuity and Disaster Recovery	Insufficient with major improvement needed	0		
ICT – governance	Effective with opportunity for improvement			
Cradle to Grave - Days	Effective with opportunity for improvement			Draft issued
Education – income	Various			Draft issued
The Court	Insufficient with major improvement needed			Draft issued
Education – payroll	Effective			Draft issued
Follow-ups				
Birchgrove	Satisfactory			
St. Monica's	Satisfactory	1	1	
All Saints	Limited	5	5	
Land Charges	Satisfactory			
Payments to Care Leavers	Limited	2	2	
Children with Disabilities	Effective with opportunity for improvement			
Grants / Accounts / External Bodies				
Joint Committee – City Deal	Annual returns (part of Statement of Accounts)			
Joint Committee – Port Health				

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Joint Committee – Prosiect Gwyrdd				
Joint Committee – Glamorgan Archives				
Supporting People - outcomes				Assessment of outcomes for Supporting People grant
Illegal Money Lending Unit				Audit of grant for 2016/17 and submission of information to NTSB
Education Improvement Grant 2016/17				Audit of grant for 2016/17 and submission of information to Welsh Government
<i>Ad hoc assignments</i>				
Breakfast Club – Coryton Primary School				Audit undertaken at the request of the Head teacher