



RESOURCES DIRECTORATE INTERNAL AUDIT SECTION

Internal Audit Progress Report 2018/19 (as at 19 October 2018)

<u>CONTENT</u>	1
<u>INTRODUCTION</u>	2
Background	2
Independence and Objectivity	2
Continuing Professional Development	2
<u>SUMMARY OF WORK PERFORMED</u>	3
Current Activities	3
Annual Plan	4
Critical Findings or Emerging Trends	6
Resources and Training	8
<u>AUDIT PERFORMANCE AND ADDED VALUE</u>	8
Added Value	8
Performance and Benchmarking	9
Processes	10
Audit Charter	11
Self-Assessment	12
<u>CONCLUSION</u>	12
Appendix A Reports Issued	
Appendix B Audit Plan as at 19 th October 2018	
Appendix C Red & red / amber recommendations open	
Appendix D Red & red / amber recommendations completed since the last Audit Committee	
Appendix E Red & red / amber recommendations with revised action dates	
Appendix F Audit Charter	
Appendix G PSIAS Self-Assessment	

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INTERNAL AUDIT PROGRESS REPORT

1. INTRODUCTION

1.1 Background

The Internal Audit plan for 2018/19 was approved by the Audit Committee at its meeting in March 2018. The plan provides 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 for 2018/19 is made up of a total of 2,706 days, with a total of 2,100 chargeable days for the audit team being agreed.

This report serves to provide an update on progress against the plan to 19th October 2018.

1.2 Independence and objectivity

Until 30th September 2018, the Internal Audit section reported directly to the Head of Finance as Acting Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence was maintained as the Head of Finance has reported functionally to the Audit Committee for audit-related matters. For all other matters, the Head of Finance has reported to the Corporate Director, Resources. There were no impairments of independence or objectivity.

From 1st October 2018, an Audit Manager has been appointed to manage the Internal Audit section. The Audit Manager is not responsible for managing any functions beyond the Investigations and Internal Audit teams. The Audit Manager reports administratively to the Head of Finance and will report functionally to the Audit Committee for audit-related matters. Section 3.4 of the Progress Report provides further information on the formalisation of these reporting lines.

1.3 Continuing Professional Development

Personal review objectives for 2018/19 were discussed and agreed with the members of the team by the end of June 2018, with training and development objectives identified and taken into account in the allocation of training courses this year.

The six month personal reviews for 2018/19 are now due, and meetings with the team have been arranged to discuss progress against agreed objectives, determine whether any revisions to these objectives are required, and to identify relevant training needs.

2. **SUMMARY OF WORK PERFORMED**

2.1 Current Activities

The report to Audit Committee in March 2018 set the scene for audit coverage for the year and planned assignments have been set up in the audit planning, monitoring and control database. Priority was given to any audits planned for 2017/18 but not completed during that year.

All auditors continue to be allocated three months' work at the end of the previous quarter with an expectation their assignments will be effectively managed and delivered within that time scale. This approach focuses on outcomes, and improving the timeliness of audit reporting.

Appendix A shows the list of audit reports issued from April to 19th October 2018. This includes assignments carried forward from 2017/18, which were prioritised accordingly in this year's plan.

The opinions given in reports issued to 19th October 2018 are shown below.

	Number of reports	Opinion				Other work undertaken
		Effective	Effective with opportunity for improvement	Insufficient with major improvement needed	Unsatisfactory	
Draft reports issued	7	2	1	2	1	1
Final reports issued	50	14	20	4	1	11
TOTAL	57	16	21	6	2	12

Further to the table above, the 'other work undertaken' comprised the following:

	Audit	Comments
1.	Norwegian Church Preservation Trust 2015 -17	Audit of accounts for 2015/16 and 2016/17
2.	Review of banking arrangements – Shirenewton	Briefing paper on income and banking
3.	Joint Committee – Glamorgan Archives	Audit to support the Statement of Accounts
4.	Joint Committee – Prosiect Gwyrdd	Audit to support the Statement of Accounts
5.	Joint Committee – Port Health	Audit to support the Statement of Accounts
6.	Summary report – thematic reports in Education	Director report on themed audits in schools

7.	Welsh Local Government Association	Advice and guidance
8.	Flying Start	Audit of processes and procedures
9.	City Deal (CCRCDD)	Audit for 2017/18 as part of agreed SLA
10.	Asset Management	Draft report in discussion with management
11.	Cardiff Further Education Trust Fund	Audit of accounts 2017/18
12.	Rent Smart Wales	Provision of Consultation and Training

2.2 Annual plan

The annual audit plan was agreed by Audit Committee at its meeting in March 2018 and was based upon the assurance mapping exercise, which is carried out at periodic intervals during the preceding year. The PSIAS (2010) requires the risk-based plan to take into account the organisation's assurance framework with the work of internal audit addressing both local and national issues.

In developing the annual plan, sources of assurance from within and outside the Council are considered, to enable informed decisions to be taken on the audits required. The process of 'assurance mapping' (using the 'three lines of defence' model) also captures emerging risks and issues as they arise during the year, so that the plan can be adapted where appropriate during the year. These changes are brought to the Audit Committee as they arise.

At this mid-year position, the annual plan has been reviewed to determine the most appropriate use of unallocated audit days for general assurance and value for money audit purposes. Audit insight has been used to identify areas of high risk, through the findings of audit work completed in the financial year to date, and the identification of sources of assurance and emerging risk information provided through the relationship management client meetings. These changes also account for the ongoing secondment of a Principal Auditor. **Appendix B** shows the revised plan as at 19th October 2018 subject to the following adjustments.

Adjusted General Audit Allocations

The annual plan contained a provision of unallocated days for each directorate, to enable audit engagements to be established on a risk-basis as the year progressed. Based on the level of audit coverage in the year to date and planned for the remainder of the year, some of these indicative allocations have been made available for general audit purposes to be allocated at a future date.

The days allocated for partnership and collaborative in contracts have also been made available for other audits in recognition of the audit coverage in directorate partnership and collaborative governance commissioning and procurement.

The audit of the Sports Joint Venture is to be deferred due to the work that is planned by Wales Audit Office on Leisure Services (a follow up to work previously undertaken). The audit of Independent Living has also been deferred until 2019/20 as Wales Audit Office are due to begin an audit of this area in Q3. Three audits have been added from use of general audit days, comprising audit work on National Fraud Initiative (NFI) data matching in respect of Payroll and Creditors, and an audit relating to the Youth Innovation Grant.

Audit	Original plan days	Revised plan days	Days taken from / given to
People and Communities – TBC	5	0	General
Contracts – TBC	20	0	General
Social Services – TBC	130	60	General
Contracts – partnerships and collaborative governance	50	0	General
Sports Joint Venture	15	0	General
Independent Living	10	0	General
NFI 2018 – payroll	0	5	General
NFI 2018 – creditors	0	5	General
Youth Innovation grant	0	10	General

Proposed Value for Money Audit Adjustments

The annual plan included a number of audit days proposed for value for money studies in each directorate in Q4. Prior to allocating these days, a review has taken place to account for the insight of the audit team through their work, findings and discussions with key officers and managers this year. Through this review, it was concluded that a number of audits have already supported an assessment of value for money, with the economy, efficiency and effectiveness forming a standard part of most audit remits.

As an outcome of this review, it is proposed to re-assign the indicative directorate value for money allocations to undertake three cross-cutting value for money studies relating to

enforcement, workforce deployment and agency – consultancy - interim officers this year. This latter engagement represents an extension of an planned audit of agency officers, to include consultants and interim officers. Members will also be mindful that an audit of enforcement was considered in 2017/18 following work undertaken by the Environmental Scrutiny Committee in September 2017.

In accordance with the Internal Audit Charter, the Audit Manager is delegated authority to make in-year changes to the Internal Audit Plan, whilst requiring Audit Committee approval for audit engagements of more than 10 audit days. Accordingly, approval is sought from Audit Committee for the proposed value for money audits.

Audit	Original plan days	Revised plan days	Days taken from / given to
People and Communities – VFM studies	20	0	General
Economic Development – VFM studies	10	0	General
Education – VFM studies	25	0	General
Governance and Legal Services – VFM studies	10	0	General
Planning, Transport and Environment – VFM studies	20	0	General
Resources – VFM studies	10	0	General
Social Services – VFM studies	25	0	General
VFM in Enforcement	0	15	General
VFM – Workforce deployment	0	20	General
VFM – Agency, Consultants, Interims	10	15	General

2.3 Critical findings or emerging trends

In accordance with PSIAS, Internal Audit is required to report to Audit Committee on critical findings or emerging trends, and based on the work undertaken since the last audit progress report, these details are provided below.

The thematic reviews of partnerships and collaborative governance are largely complete, and have been undertaken using a common terms of reference across directorates, through which a

common audit opinion of 'effective with opportunity for improvement' has been reported in the reports issued to date.

For the reviews completed, the core finding was that whilst there are examples of good practice, to support improved partnership and collaborative governance across the Council there is a need for further corporate guidance. It is considered that though establishing the key governance principles for successful partnership and collaborative working there is the opportunity to strengthen accountability and risk management, and to rationalise working arrangements. As a result of the audit work there is a corporate commitment to develop guidance to help Council officers understand the levels of governance appropriate to, and required by, the variety of arrangements they are engaged in.

Also on a governance theme, prior to undertaking detailed audit analysis on asset management assurance, following initial audit work, senior officers have been asked to consider the maturity of physical asset management. An asset management maturity model has been circulated to the senior management team, ahead of a planned audit for detailed testing in Q4.

At an operational level, some draft reports have raised compliance and control issues this quarter. An audit of catering income in school kitchens considered there were unsatisfactory controls for budget and income monitoring, resulting in delays in identifying and recovering debt and leading to an accumulation of arrears. The recommendations in this report are in the process of being agreed. An audit of mileage and subsistence has identified a need for officer vigilance in requesting and approving claims, with a number of instances of error or inconsistent application of Council policy identified. The Chief HR Officer has committed to providing a corporate communication on the policy and accountability responsibilities of Directorates, with all Directors notified of the findings for their areas.

A draft audit report has been issued on the Commercial Services Building Maintenance Charging Mechanism, which has recognised the activities which have been initiated to achieve strong cost analysis and control, and a sustainable framework for the contracted element of the service. A prudent draft audit opinion has been issued of 'insufficient with major improvement needed', which reflects the importance of the effective and sustainable conclusion of these activities.

2.4 Resources and training received

There were 1,380 days coded on auditor timesheets as at 19th October, against a pro-rata plan of 1,509 days. Of this, 939 days have been chargeable to audits (66%) and 31 related to non-audit duties (including Trades Union duties).

The Group Auditor attended a CIPFA Better Governance Forum in October 2018 on *Developing Internal Audit Professionalism and Effectiveness*. This included an update on the CIPFA Statement on the role of the Head of Internal Audit which is planned for issue by the end of 2018, following which it will be reviewed by the Audit Manager.

3. AUDIT PERFORMANCE AND ADDED VALUE

3.1 Added value

Relationship Manager meetings have been arranged with every Director and diarised for quarterly meetings throughout 2018/19. These are useful in progressing matters relating to audits completed and planned, and for discussing corporate and directorate risks, issues and areas for potential audit input.

Audit has issued 34 client questionnaires to 19th October 2018 and has received 24 responses (a response rate of 70.6%). One question asked of clients is whether they considered that the audit work added value to their service, and 79% of the respondents thought that the audits added value. The response of 'no' received since the last progress report related to a report where the client was aware of gaps in governance processes, and was in the process of improving procedures.

In the reports issued to date, there have been a total of 653 recommendations made to audit clients. **Appendix C** shows the red and red / amber recommendations that are not yet complete (including those that have not yet reached their proposed action date), and the RAG ratings for these are summarised in the table below.

Directorate	Actions still open	Red	Red / amber	Amber / green or green
Planning Transport and Environment	17	2	2	13
People and Communities	6		2	4
Corporate Governance	4		1	3
Economic Development	2			2
Education and Lifelong Learning	32	8	12	12

External and grants	4
Governance & Legal Services	4
Other assurance	14
Resources	20
Social Services	14
	117
Schools	82
TOTAL	199

	1	3
		4
1	8	5
	4	16
1	5	8
12	35	70
	27	55
12	62	125

Appendix D shows the red and red / amber recommendations that have been completed since the last Audit Committee in September 2018.

3.2 Performance and Benchmarking

The Audit team is a member of the Welsh Chief Auditors and Core Cities benchmarking groups for 2018/19. The outputs of the Welsh Chief Auditors Group were reported to the Audit Committee in June 2018 and the Audit Team is awaiting the output from the Core Cities benchmarking group.

The Internal Audit team also has internal key performance measures which are reported on a quarterly basis to Resources management team. The Council's performance targets for 2018/19 audit work and the actual outcome at the end of Q1 and Q2 are as in the table below:

Performance Indicator	2017/18 Outcome	2018/19 Target	Actual as at end of Q1	Actual as at end of Q2
The percentage of audit reports delivered within six weeks	74.6%	78.0%	80%	63%
The average number of audit productive days per employee	143.43	170.00	37.90	68.91
The average number of finalised audits per FTE (excluding schools' thematic reviews)	6.52	10.00	3.19	5.10
The percentage of audit recommendations implemented within the agreed timescale	86%	90%	76.92%	55.53%
The percentage of the audit plan completed (current plan)	75%	80%	24.22%	34.16%
<i>The percentage of the audit plan completed (original plan)</i>	75%	80%	25%	35.26%

It is recognised that there has been a notable decrease in the percentage of audit reports delivered within six weeks, and the percentage of audit recommendations implemented within the agreed timescale. Part of the reason for each of these reductions is attributed to the school holiday period, where schools close for the summer period and auditors and key officers typically take a greater proportion of their leave. Whilst a performance dip was anticipated for Q2, this ground needs to be recovered. The expectations of the Audit Manager have been clearly communicated to each auditor to take responsibility for delivering their portfolio of audits, and follow up on the delivery of client recommendations.

The Audit Manager and Group Auditor are in the process of discussing each auditor’s progress against the audit plan as part of the mid year Personal Reviews. An emphasis has been made to the Audit Team on the delivery of their audit plan.

3.3 Processes

The management information available from both SharePoint and DigiGOV has been used to provide performance management information for each auditor, the section as a whole, and the information provided in this report. Each of the performance indicators shown in the table above (for the team as a whole) are given to individual auditors at the end of the quarter, along with the auditor’s individual outcomes. These form part of the discussion with the auditors at the monthly meetings to discuss progress on assignments.

The table below shows, the instances where implementation dates have been revised by audit clients on SharePoint (as at 19.10.18). This reporting mechanism is used to monitor progress and target discussions on the effective management of risk management in relationship management meetings each quarter.

Directorate / Audit Category	Number of recommendations with revised dates	Actions now implemented	Actions still open
Education and Lifelong Learning	32	8	24
Social Services	22	2	20
Resources	5		5
People and Communities	1		1
Planning Transport and Environment	4	1	3
Economic Development	1		1
External and grants	2	2	
Fundamental	1		1

Other assurance	8	3	5
	76	16	60
Schools	92	69	23
TOTAL	168	85	83

Appendix E provides more detail on the red and red / amber recommendations with revised action dates, and detail of the amber / green and green recommendations is provided to Audit Committee via a separate route.

School Governance Mechanism

In respect of Schools, the Audit Committee has recently requested the development of a governance approach, to communicate and reinforce Audit Committee expectations to School Headteachers and Governing Bodies, where concerns have been identified. This is with the recognition that the capacity of Audit Committee meetings is limited, with a busy agenda needed to deliver the Audit Committee role.

The proposed mechanism is largely correspondence-based, with letters written from the Audit Committee Chairperson seeking assurance from:

- The respective Chair of Governors, requesting a formal response and commitment to addressing any matters raised.
- The Director of Education and Lifelong Learning, requesting that concerns are reviewed, and an outline of the approach to be used to monitor and manage them.

On a wider systematic basis, the Audit Committee will require the Director of Education and Lifelong Learning to provide an overall assurance report to Audit Committee on a six monthly basis. This approach is designed with the understanding that the Committee can request the attendance of accountable individuals at a Committee meeting in the event that the assurances are not considered as acceptable.

3.4 Audit Charter

To recognise the commencement of the Audit Manager, the Internal Audit Charter has been reviewed in respect of the 'organisation' and the 'audit activity and reporting lines'. Interim

changes are proposed for Audit Committee approval, to recognise the authority and responsibility of the Audit Manager in **Appendix F**. The wording proposed for removal is crossed through and new proposed wording is underlined and in bold print. A full review of the Audit Charter will take place in preparation for Audit Committee Approval in January 2019.

3.5 Self-Assessment

Audit Committee will be aware that through a the recent peer review by the Chief Audit Executive of Rhondda Cynon Taf CBC, the Internal Audit service has satisfied the requirements of an external assessment of conformance with the PSIAS, with no significant deviations reported. An external assessment is required at least every five years, and in June 2018 Audit Committee was provided with the action plan arising from the external review and information.

As part of the Quality Assurance and Improvement Programme, there is a programme of ongoing monitoring and an annual self-assessment of conformance with the Code of Ethics and the Standards. A self-assessment was undertaken in Q2, and the action plan arising from the assessment is attached as **Appendix G**. A management response has been included against each of the recommendations from the self-assessment, and is included for Audit Committee information.

4. CONCLUSION

- 4.1 Whilst there has been steady progress through the audit plan, as outlined in section 3.2, there has been a decrease in the percentage of audit reports delivered within six weeks, and the percentage of audit recommendations implemented within the agreed timescale, to which priority will be given monthly monitoring meetings. At this mid-year position, the annual plan has been reviewed to determine the most appropriate use of unallocated audit days for general assurance and value for money audit purposes.

Reports Issued as at 19th October 2018

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
<i>Fundamental / High</i>				
Social Services – governance	Effective			
Social Services – effective decision making	Effective			
Resources – governance	Effective			
Governance & Legal Services – governance	Effective			
Audit of Risk Management	Effective			
Planning Transport and Environment – effective decision making	Effective			
Communities – effective decision making	Effective			
Education – governance (Criegiau)	Effective			
Education – governance (St. Illtyd’s)	Effective			
Education – governance (Coed Glas)	Effective			
Council Tax	Effective			
Audit of Corporate Governance	Effective			
Education – governance (Hywel Dda)	Effective			
Education – governance (Ysgol Coed y Gof)	Effective			Draft report issued
Economic Development – partnerships and collaborative governance	Effective			Draft report issued
Economic Development – governance	Effective with opportunity for improvement			
Economic Development – commissioning and procurement	Effective with opportunity for improvement			
Resources – commissioning and procurement	Effective with opportunity for improvement			
Social Services – commissioning and procurement	Effective with opportunity for improvement			
G&LS – partnerships and collaborative governance	Effective with opportunity for improvement			
Planning, Transport and Environment – commissioning and procurement	Effective with opportunity for improvement			

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Education – governance (Birchgrove)	Effective with opportunity for improvement			
Education – governance (Cardiff)	Effective with opportunity for improvement			
Education – governance (Radyr)	Effective with opportunity for improvement			
Education – governance (Danescourt)	Effective with opportunity for improvement			
Education – governance (Holy Family)	Effective with opportunity for improvement			
Economic Development – effective decision making	Effective with opportunity for improvement			
Communities – commissioning and procurement	Effective with opportunity for improvement			
Corporate – partnerships and collaborative governance	Effective with opportunity for improvement			
Education – governance (Peter Lea)	Effective with opportunity for improvement			
Education – governance (St. Fagan’s)	Effective with opportunity for improvement			
Business Continuity	Effective with opportunity for improvement			
Social Services – partnerships and collaborative governance	Effective with opportunity for improvement			Draft report issued
Fleet Management Information Technology (FMIT)	Insufficient with major improvement needed	2	2	
School Organisation Access and Planning	Insufficient with major improvement needed	3	3	
Sports Joint Venture (GLL)	Insufficient with major improvement needed	1		
Commercial Services – BM charging mechanism	Insufficient with major	1		Draft report issued

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
	improvement needed			
Medium				
Education – commissioning and procurement (Cantonian)	Effective			
Education – commissioning and procurement (Tongwynlais Primary)	Effective with opportunity for improvement			
Cradle to Grave – Gulliver’s	Effective with opportunity for improvement			
Communities First	Effective with opportunity for improvement			
Baden Powell	Insufficient with major improvement needed			
Mileage and subsistence	Insufficient with major improvement needed			Draft report issued
Music Service	Unsatisfactory	5	5	
Income in school kitchens	Unsatisfactory	3		Draft report issued
Grants / Accounts / External Bodies				
Joint Committee – Glamorgan Archives	Audits undertaken to support the Council’s Statement of Accounts			
Joint Committee – Prosiect Gwyrdd				
Joint Committee – Port Health				
Cardiff Further Education Trust	Audit of Statement of Accounts			
Norwegian Church Preservation Trust 2015 - 2017	No assurance opinion given	4	4	
Welsh Local Government Association	Final report issued			
Flying Start	Final report issued			
City Deal	Final report issued			
Rent Smart Wales	Consultation assignment – provision of training			
Other assignments				
Review of banking arrangements – Shirenewton	No assurance opinion given			Briefing paper
Education – summary of thematic audits	No assurance opinion given			Draft report issued
Asset management	No assurance opinion given			Briefing paper

Audit Plan (as at 19.10.18)

See separate sheet

Red & red / amber recommendations open

See separate sheet

Red & red / amber recommendations completed since last meeting

See separate sheet

Red & red / amber recommendations with revised action dates

See separate sheet