



# CORPORATE RESOURCES INTERNAL AUDIT SECTION

## INTERNAL AUDIT PROGRESS REPORT FOR THE PERIOD ENDING 24.02.17

**Open**  
We are open and honest about the difficult choices we face, and allow people to have their say on what's important to them and their communities.

**Fair**  
We champion fairness, recognising that with less resource we need to prioritise services for those who need them most.

**Together**  
We work with our communities and partners across the city to deliver the best outcomes for the people of Cardiff.



## INTERNAL AUDIT PROGRESS REPORT

### 1. Background

- 1.1 The Internal Audit plan for 2016/17 was approved by the Audit Committee at its meeting in June 2016. 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 changes to risks faced by the Council during the year.
- 1.2 The Internal Audit plan for 2016/17 consisted of a total of 3,930 (3,310 for the audit team and 620 for the investigations team). The Audit Committee agreed 2,700 chargeable days for the year – 2,300 for the audit team and 400 for the investigations team. The teams use SharePoint to record progress against assignments (both assurance and consultancy) and the number of assignments recorded there will change throughout the year as the section adapts to changes in corporate risks and unplanned assignments.
- 1.3 This report serves to provide an update on progress against the plan to the end of February 2017, as well as providing information relating to any audits of particular concern to members where there has been a "Limited" or "No" Assurance audit opinion during Q4 to date.

### Audit team

### 2. Audit findings and performance

- 2.1 The number of audits produced and completed are projected to be in excess of 100 which is a greater number than produced in 2015/16.
- 2.2 There have been no final reports issued in 2016/17 with a high assurance opinion. The opinions given to reports issued to 24<sup>th</sup> February 2017, are shown below:

	Number of reports	Opinion			
		Satisfactory	Limited	No	No opinion
Draft reports issued	12	2	2	1	7
Final reports issued	44	17	19	2	6
Closed	47	21	9	0	17
<b>TOTAL</b>	<b>103</b>	<b>40</b>	<b>30</b>	<b>3</b>	<b>30</b>

- 2.3 The current practice is such that Audit Committee will be made aware of any instances where an opinion of "No" Assurance" is issued or in the instance of a follow up audit where the opinion remains "Limited" or "No" Assurance. All reports with a "limited" or "no" assurance opinion are recorded in order to ensure this is regularly monitored. There are 52 audits that are due to be followed up, 25 of which have been undertaken to date, (and included in the table above), although it should be noted that not all follow up audits are yet due to be undertaken.
- 2.4 Under the Public Sector Internal Audit Standards (2500.A1) "The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action." As the above paragraph states, a significant amount of resources is currently used in delivering follow up audits. As a result for 2017/18, audit will look to refine the way audit recommendations are captured, reviewed and monitored. This will in practice put the responsibility firmly with the

directorates to report against each recommendation within the timescale prescribed. Where information is either not received in time or actions have not been completed then the Audit Manager will report to Audit Committee as part of the audit progress update. Information will include those outstanding, completed, on schedule and overdue with relevant detail being shared.

2.5 The proposed approach will enable audit resources to focus on those recommendations not being implemented within the prescribed timescales. By targeting recommendations rather than performing follow up audits this will allow resources to be released both to focus on gaining assurance on implementation of agreed recommendations but also to increase capacity within the team.

3. Progress against plan

3.1 The number of chargeable days allocated to audits to 28<sup>th</sup> February 2017 is 1,719 (against a pro-rata plan of 2,108 days), which is almost 82% of the planned chargeable days. The performance of the team is shown in the table below:

	<b>Plan 2016/17</b>	<b>Performance to 24.02.17</b>	<b>Performance to Q3, 2015/16</b>
Audit days delivered (pro-rata)	2,108	1,719	1,184.50
Productive time of team (% of work time spent on audit work)		82.74%	76.67%
Chargeable days / total days available (%)	70%	61.51%	
Audits delivered within budgeted days		47	

3.2 The percentage of chargeable time against total days available is lower than the target of 70%. This is due to a number of factors, one of which is the reduction (almost 120 days) in the chargeable time of the Principal Auditor (Risk and Governance), who has moved to another section within Finance. The section also has a vacancy for a Principal Auditor, and the recruitment process for this post is currently on-going.

3.3 However, there has been an increase over plan in non chargeable time, partly due to additional training being held following the annual skills assessment which identified some skills gaps in the team. Time has also been spent on the development and adoption of a new DigiGOV time recording system. A review is currently being taken in respect of the amount of time spent on general tasks.

3.4 There have been 15 planned audits that will not be undertaken in 2017/18. The primary reason is as a result of processes or systems being closed, have been recently implemented, or are currently in significant transition.

3.5 There are 27 assignments that have not yet been started, some of which will be started during the quarter and which will be completed in Q1, 2017/18. This is partly as a result of the move out of the section of two members of staff, but also due to 34 unplanned assignments which the section has undertaken during the year to date at the request of senior management.

3.6 There are eleven consultation assignments. Six of these assignments have been closed and two are at draft report issued stage. One consultation assignment relating to the peer assessment under the PSIAS that Cardiff was due to undertake at another Council was deferred until 2017/18 at the request of that Council.

4. Added value

4.1 The Internal Audit section has added value to the work of the Council by providing objective and relevant assurance, and by contributing to the effectiveness and efficiency of governance and internal control processes. The section has received 100% satisfaction rating from clients and all have considered that the reports produced added value to the work of the services. This echoes the results from previous years.

4.2 A total of 644 recommendations have been made in the 88 reports issued so far in 2016/17, and it should be noted that 100% of the red risk recommendations have been accepted. If a situation arose where red risk recommendations are not accepted, the reviewing manager for the audit would discuss this with the auditee; if this does not resolve the matter, it would be escalated to the Group Auditor or Head of Finance as appropriate. In total, only four recommendations made have not been accepted (two red / amber and two amber / green).

5. Assurance Ratings for 2017/18

5.1 The proposed audit plan for 2017/18 can be found at agenda item 9.2, and this sets out more detail to the draft plan that was presented to Audit Committee at the January 2017 meeting. The Internal Audit team has considered the usefulness of the current assurance ratings and as a result the Audit Manager will be implementing a new set of assurance ratings for the new year. In addition, the recommendation rating system has been maintained but further detail will be forthcoming in order to communicate to all stakeholders the meaning and rationale behind each rating.

5.2 The ratings for recommendations that are currently are based on four levels (red, red / amber, amber / green and green); each has a suggested time frame for the implementation of each category of recommendation. For example, it is recommended that management action for a red recommendation should be undertaken within one month unless a more appropriate timescale is agreed with management. The current recommendations are shown below:

Priority Level	Explanation	Management Action
Red	Significant management action, control, evaluation or improvements required, with continued proactive monitoring.	Within one month
Red / Amber	Seek cost effective management action, control, evaluation or improvements, with continued proactive monitoring.	Within three months
Amber / Green	Seek cost effective control improvements, if possible and / or monitor and review regularly.	Within six months
Green	Seek control improvements, if possible and / or monitor and review.	Within twelve months

5.3 Following discussions within the team, the consensus was that ratings for recommendations were not changed, but redefined on a risk basis rather than a time basis. There are a number of methodologies for setting risk ratings in relation to audit findings based on the key controls examined during an audit, and it was suggested that the definitions within the IIA suggested framework for “Formulating and Expressing Internal Audit Opinions” should be used. Therefore, the definitions that have been chosen to be used from 2017/18 are as shown below:

Rating	Criteria
High / Red	<p>This is a high priority issue and immediate attention is required. This is a serious internal control or risk management issue that, if not mitigated, may (with a high degree of certainty) lead to:</p> <ul style="list-style-type: none"> <li>• Substantial losses, possibly in conjunction with other weaknesses in the control framework or the organisational entity or process being audited</li> <li>• Serious violation of Council strategies, policies or values</li> <li>• Serious reputational damage</li> <li>• Significant adverse or regulatory impact, such as loss of operating licenses or material fines</li> </ul> <p>Examples are:</p> <ul style="list-style-type: none"> <li>• A policy / procedure does not exist for significant Council processes</li> <li>• Preventative, detective and mitigating controls do not exist</li> <li>• Council reputation or financial status is at risk</li> <li>• Fraud or theft is detected</li> <li>• Council is not in compliance with laws and regulations</li> </ul>
Medium / Red Amber	<p>This is a medium priority issue and timely management action is warranted. This is an internal control or risk management issue that could lead to:</p> <ul style="list-style-type: none"> <li>• Financial losses</li> <li>• Loss of controls within the organisational entity or process being audited</li> <li>• Reputation damage</li> <li>• Adverse regulatory impact, such as public sanctions or immaterial fines</li> </ul> <p>Examples are:</p> <ul style="list-style-type: none"> <li>• A policy exists but adherence is inconsistent</li> <li>• Preventative and detective controls do not exist, but mitigating controls do exist</li> <li>• The Council’s compliance with laws and regulations requires additional evaluation and review</li> <li>• There is a possibility of inappropriate activity</li> </ul>
Medium / Amber Green	<p>This is a low priority issue and routine management attention is warranted. This is an internal control or risk management issue, the solution to which may lead to improvement in the quality and / or efficiency of the organisational entity or process being audited.</p> <p>Examples are:</p> <ul style="list-style-type: none"> <li>• A policy exists, but was not adhered to on an exception basis</li> <li>• Preventative controls do not exist, but detective and mitigating controls exist</li> <li>• There is a remote possibility of inappropriate activity</li> </ul>
Low / Green	Best practice

- 5.4 Whilst it is accepted that ratings and assurance opinions should not change frequently in order to ensure consistency, discussions within the audit team have identified that it is timely but also necessary to consider changing the definitions used to grade audits.
- 5.5 There are currently four levels of opinion (high assurance, satisfactory assurance, limited assurance and no assurance). A review of the opinions both for 2016/17 and previous years will show that very few audits are either given high or no assurance. In effect, the audit opinion has only three options one of which is no assurance.
- 5.6 Based on the IIA framework, discussions within the audit team and stakeholders the assurance opinions that have been chosen to use from 2017/18 are:
- (a) Effective
  - (b) Effective with opportunity for improvement
  - (c) Insufficient with major improvement needed
  - (d) Unsatisfactory

These are defined below:

Assurance level	Definition
Effective	<ul style="list-style-type: none"> <li>• The controls evaluated are adequate and appropriate</li> <li>• The control environment appears sound to provide reasonable assurance that all high level risks are adequately controlled</li> <li>• No findings noted (or a small number of low risk recommendations)</li> </ul>
Effective with opportunity for improvement	<ul style="list-style-type: none"> <li>• A few specific control weaknesses and/or opportunities for improvement were noted</li> <li>• Controls evaluated are otherwise adequate and appropriate to provide reasonable assurance that risks are adequately controlled</li> </ul>
Insufficient with major improvement needed	<ul style="list-style-type: none"> <li>• Some high level risks are not adequately controlled</li> <li>• Numerous specific control weaknesses were noted</li> <li>• Although immediate soundness and safety are not threatened, the control environment requires improvement as it does not provide reasonable assurance that all high level risks are adequately controlled</li> <li>• There may be a risk of exposure to fraud or security vulnerabilities</li> </ul>
Unsatisfactory	<ul style="list-style-type: none"> <li>• The control environment is not adequate and is below standard</li> <li>• The control environment is considered unsound</li> <li>• A lack of attention could lead to significant losses</li> </ul>

- 5.7 The use of these recommendations does not preclude the audit opinion from highlighting best practice and its dissemination across other similar functions. However, using these recommendation priorities and overall opinions with clear examples will help to increase consistency across the team as well as communicate more effectively with clients.
- 5.8 Where there is doubt around the priority rating to be assigned to a recommendation or the overall opinion, discussions will take place with the Reviewing Manager to ensure that the outcome is consistent, fair and evidence based.

**Investigation team**

6. Progress against plan

6.1 The number of chargeable days allocated to investigations to 28<sup>th</sup> February 2017 is 413 (against a pro-rata plan of 367 days).

7. National Fraud Initiative (NFI)

7.1 Matches have been received from the Cabinet Office in respect of the latest round of the Data Matching exercise, NFI 2016. More than 2,000 cases have been identified that require interrogation. In addition to investigating matches, the Investigation Team coordinates the exercise for the council and liaises with the Cabinet office and Wales Audit Office.

8 Investigating Officer Training

8.1 The Investigation Team continues to deliver mandatory face to face training to officers who may be tasked with conducting the role of Investigating Officer as part of the new Disciplinary Policy. This year more than 190 officers have attended the training.

9 Fighting Fraud and Corruption Locally

9.1 A paper was presented to the Audit Committee during September 2016 to provide a briefing on Fighting Fraud and Corruption Locally - The local government counter fraud and corruption strategy. The Investigation Team has adopted the strategy and is currently working to implement all of the recommendations and best practice.

9.2 The Investigation Team report is attached at Appendix B.

**10. Conclusions**

10.1 There are a number of positive aspects of the performance of the Internal Audit section during 2016/17. The number of actual chargeable days delivered by both teams has increased over the same period last year and there is a high level of acceptance of the recommendations made during audits. There are still a number of audits with "limited assurance" or "no assurance" opinions, and work is on-going with those directorates to improve internal controls.

10.2 Looking forward to 2017/18, the assurance rating system will be changed in order to provide four categories which can be used depending on the findings of the audit. Preparatory work with the internal audit team suggests that the language being used in the new system is clearer and there is a strong feeling that this will assist in communicating the audit opinion going forward. The audit opinion is ultimately grounded by the quality of the audit recommendations and their level of appropriateness.

10.3 The implementation of audit recommendations will be a key focus of the 2017/18 audit plan and the proposed changes to the follow up of audits is designed to support this whilst ensuring that resources are used effectively and efficiently.

## Reports Issued to 28.02.17

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
<b><i>Fundamental / High</i></b>				
Council Tax 2015/16	Satisfactory			
Housing Rent Arrears	Satisfactory			
Housing Rent Setting	Satisfactory			
Local Housing Allowance	Satisfactory			
Income Management	Limited	0	0	
Allocations, lettings and voids	Satisfactory			
<b><i>Medium</i></b>				
Bishop Childs Primary School	Limited	4	4	
Trowbridge Primary School	Limited	16	16	
Carbon Reduction Commitment	Satisfactory			
Payments to Care Leavers	Limited	5	5	
Danescourt Primary School	Limited	4	4	
ICT – Cloud Computing	Satisfactory			
CRSA – agile working	Satisfactory			
CRSA – mobile working and scheduling	Satisfactory			
CRSA – office rationalisation	Satisfactory			
Riverbank	No	15	15	
St. Alban's Primary School	Limited	4	4	
CRSA – infrastructure ADM	Satisfactory			
Staffed Accommodation (KD148)	Satisfactory			
Staffed Accommodation (KD152)	Satisfactory			
Glamorgan Archives	Satisfactory			
British Council projects	Limited	14	14	
ICT – Business Continuity and Disaster Recovery	Limited	7	7	
CMS – purchasing cards	Satisfactory			
Birchgrove Primary School	Limited	8	8	
Direct Payments – Social Services	Limited	3	3	
Fostering payments	Satisfactory	1	1	
Rhiwbina Primary School	Limited	8	8	
Adamsdown Primary School	Limited	6	6	
Carbon Reduction Commitment	Satisfactory			
School transport	Satisfactory			
St. Illtyd's	Limited	19	19	
St. Joseph's	Limited	5	5	



Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Corpus Christi	Limited	8	8	
Peter Lea	Limited	10	10	
Highways Maintenance	Limited	9	9	
ICT – Microsoft Exchange	Satisfactory			
ICT – end point security	Satisfactory			
ICT – Back up management	Satisfactory			
Stores - Joint Equipment Service	Satisfactory			
OD governance	Satisfactory			
Functions and Retail Catering	Limited	6	6	
Citizen Hubs – HR practices	No	6		Draft report issued
<b>Follow-ups</b>				
Payroll overpayments	Limited	1	1	
Brindley Road Stores	Limited	1	1	
Mental Health contracts	Satisfactory	1	1	
St. Monica's Primary School	Limited	3	3	
Cantonian	Satisfactory	1	1	
Lansdowne Primary	Limited	13	13	
Ninian Park	Satisfactory			
Woodlands	No	11	11	
Pen y Bryn Primary	Satisfactory			
Supporting People	Limited	2	2	
Weighbridge	Satisfactory	1	1	
St. Alban's	Limited	4	4	
Glyn Derw Michaelston	Deferred			
Civil Parking Enforcement – PCN	Satisfactory			
Youth Centre inventories	Limited	4	4	
Trowbridge Primary	Satisfactory	1	1	
Bishop Childs CiW Primary	Satisfactory			
Lansdowne Primary	Satisfactory			Desk top review
Land Charges	Satisfactory			Draft report issued
<b>Ad hoc assignments</b>				
CRSA – Schools				On-going
Financial Resilience				Draft report issued
Welsh Purchasing Consortium	Joint Committee statements for 2015/16 accounts			
Port Health	Joint Committee statements for 2015/16 accounts			
Glamorgan Archives	Joint Committee statements for 2015/16 accounts			
Prosiect Gwyrdd	Joint Committee statements for 2015/16 accounts			

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
<i>Mileage and subsistence</i>				
Contract query – Christmas tree				
Contract query – Fern Place				
Adopted Land				
WLGA – health check				
<b><i>Value for Money Studies</i></b>				
Agency costs				
Annual Leave				
Heath Park operating contract (tennis and golf)				
Postage costs				
<b><i>Grants</i></b>				
Illegal Money Lending Unit				
Homelessness grant				
Education Improvement grant				
<b><i>Final accounts</i></b>				
Demolition of flats, Clevedon Road				