



# Internal Audit Annual Report 2016/17



## **MISSION STATEMENT**

To enhance and protect organisational value, through the provision  
of risk based objective assurance and advice

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## 1. INTRODUCTION

### The Annual Reporting Process

1.1. The annual report gives an overview of audit performance during 2016/17, seeks to provide an opinion on the adequacy of the control environment in the City of Cardiff Council, and report the incidence of any significant control weaknesses. This report is prepared by the Head of Finance who is responsible for the Internal Audit and Investigations Team. For ease of reference, the term “Audit Manager” will be used in this report in order to outline the responsibilities of the role.

1.2. As set out in the Public Sector Internal Audit Standards (PSIAS), a professional, independent and objective internal audit service is one of the key elements of good governance, and its mission is defined (as at March 2017) as:

*“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.”*

1.3. Management is responsible for the system of internal control and must set in place policies and procedures to ensure that the internal controls are functioning correctly. Internal Audit acts as an assurance function providing an independent and objective opinion on the Council’s control environment by evaluating its effectiveness in achieving objectives.

### Requirement for Internal Audit

1.4. The Council has a duty to maintain an adequate and effective system of internal audit of its accounting records and system of internal control.

1.5. The Audit Manager (the Chief Audit Executive – CAE - for the purpose of the Standard) must provide an annual internal audit opinion and report, timed to support the Annual Governance Statement. The PSIAS specifies that the annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. In doing so, the Audit Manager undertakes an assessment of the adequacy of the controls in place to support the achievement of management and corporate objectives.

### Report Preparation

1.6. This report has been prepared by the Head of Finance, based on the provision of the PSIAS. Assurance has been obtained from a number of sources including:

- *Internal Audit Assignments* – work undertaken as prioritised within the Annual Audit Plan. Each assignment is risk based to deliver added value and to maximise resources. This does include some unplanned audits, undertaken at the request of Senior Management.

- *Selected Value For Money studies and exercises on spend analysis* - selected from areas of budget spend.
- *Discussion with Senior Managers* – relationship manager meetings are held on a quarterly basis with Directors, and the Audit Manager holds regular meetings with the Corporate Director Resources / Section 151 Officer and the Chief Executive.
- *Consultancy* - advice and guidance offered generally or in specific matters, including the role of “critical friend” where new and innovative systems are being designed and developed.
- *Investigations into Suspected Frauds* – through prevention, detection and oversight of all internal investigations.
- *Risk & Governance* – work undertaken auditing the co-ordination of the Corporate Risk Register, the Annual Governance Statement and associated documents, and the use of these documents to inform the audit planning process.

#### Internal Audit Section Resources

1.7. As at 31<sup>st</sup> March 2017, the Internal Audit team has 13 members of staff (11.2 FTE), made up of a Group Auditor, 2 Principal Auditors (one post currently vacant and in the process of being advertised), 2 Senior Auditors (one currently on maternity leave), 7 Auditors (6.2FTE) and an Audit Assistant. The Investigations team comprises of 3 members of staff (2.3FTE). Members of the section hold various qualifications appropriate to their work, including CIPFA and AAT.

1.8. The total net budget for the section for 2016/17 was £523,900.

#### Independence and Objectivity

1.9. Internal Auditors are required to undertake audits in line with the provision of the PSIAS and in accordance with the Codes of Ethics of any professional bodies. The importance of independence is communicated to auditors and care is taken to ensure that all audit work is undertaken in an independent and objective manner. The PSIAS (1100) stipulate that any conflicts of interest or impairment to independence or objectivity must be disclosed and each year all members of the Internal Audit section are required to complete a Staff Declaration Statement. This identifies any potential conflict of interest that any member of the Audit team may have, which is considered when assigning audits.

1.10. The Audit Manager has direct reporting access to the Chief Executive, the Chair of Audit Committee and all elected Members as he considers appropriate.

#### Continuing Professional Development

1.11. It is also specified in the PSIAS (1230) that Internal Audit staff have a personal responsibility to maintain and develop their competencies, so that they have the necessary skills and knowledge to

undertake audits to a high standard. Members of staff are encouraged to attend courses provided by the South Wales Chief Internal Auditor group, and to identify other suitable CIPFA or IIA courses which are supported when budget restrictions allow. Four auditors began studying for the IIA qualification during 2016/17 and this training will continue in 2017/18.

- 1.12. The provisions of the Council's Personal Performance and Development Review (PP&DR) process are fully supported in the section, and there are regular 1-2-1 meetings with the team members to discuss progress on assignments and identify improvement areas of working.
- 1.13. A skills exercise is undertaken annually, the results of which are taken into account in the personal review discussions. An internal training programme has also been developed to update and refresh knowledge on various aspects of audit methodologies and Council procedures.

## **2. REVIEW OF INTERNAL CONTROL AND OPINION**

### Opinion 2016/17

- 2.1 Based on the programme of audit and investigatory work undertaken and contributions to preparing some of the key governance documents e.g. the Corporate Risk Register and Annual Governance Statement, it is considered that the overall framework for control within the Council for 2016/17 remains satisfactory. This opinion is based with an acknowledgment of the increasing pressure on resources in both demand and budgets which is managed by a robust performance culture.
- 2.2 It is becoming increasingly challenging to provide a satisfactory opinion as, whilst the financial control framework remains robust, audits continue to highlight system weaknesses in some areas and / or compliance issues which identify further opportunities to enhance control. The impact on budgets puts pressure on those remaining resources combined with the loss of knowledge and experience as officers leave the Council. This is happening at a time where demands are steady or increasing and change is bringing with it new challenges and risks that need to be managed.
- 2.3 It is noted that there were 31 audits completed where a "Limited assurance" opinion was provided and three where a "No assurance" opinion was provided, which it is felt reflects, to a degree, the pressure on resources across directorates to maintain a sound control environment while struggling to retain efficient and effective services and deliver the change agenda. This requires regular monitoring and reporting with key themes identified and targeted.
- 2.4 In addition to this general pressure on resources, areas of particular concern have been highlighted in quarterly progress reports presented to the Section 151 Officer and Audit Committee, and include:



- The Control Risk Self-Assessment (CRSA) approach has been a major step forward in gathering evidence to support sound governance, risk management and control arrangement and has been well received. Although it is most widely used to support the audit of schools, it is used within the audits of most fundamental financial systems, as well as the audits of the Pension Fund, Insurance Fund and some Social Services systems. Work continues to ensure that the CRSA approach is targeting key risk areas thus retaining an extensive area of coverage but also being mindful of the resources needed to support it and provide the evidential information. The CRSA approach will be undermined if it results in significant resource from either auditors or more importantly the areas being reviewed.
- Work on contracts has continued to identify concerns over contract management skills as new ways of operating are being explored. Audits have highlighted some contract related matters and how these need addressing given the significance of the contract sums.
- In some audits, it was evident that there was a lack of work instructions and process mapping to capture how procedures and systems operate. This was highlighted because of the potential impact with a number of experienced staff leaving, stressing the need for proper documentation to ensure remaining and any new staff consistently follow tried and tested systems which should comply with Council rules and policies.

2.5 On a positive note, Internal Audit continues to provide training on internal control as part of the Cardiff Manager Programme; this is seen as a major step forward in raising awareness with senior managers around these key areas of governance and has helped clarify and set out their responsibilities for leading on compliance. The Group Auditor (Investigations) has developed and delivered a training programme for investigating officers (236 officers trained) in line with the Council's revised disciplinary policy, and has also delivered bespoke training for some groups of staff.

### 3. **SUMMARY OF WORK PERFORMED**

3.1 Internal Audit, as defined in the PSIAS, encompasses the whole internal control system and is not limited to financial controls. It is defined as helping “... *an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.*”

3.2 The range of functions provided throughout the year is as outlined in our Audit Charter, considered by the Audit Committee as part of the Audit Strategy at its meeting in January 2017 and agreed in March 2017.

- 3.3 Details of all audits and audit opinions, together with other tasks performed and key performance indicators, are reported quarterly to the Section 151 Officer and Audit Committee so they are regularly updated and aware of any matters arising from audit work.
- 3.4 Delivering the Audit Plan has been a challenge this year with a number of factors impacting on work undertaken. The need for contract management specialist skills remains and this will be a focus of further skill development over the next twelve months.

#### Audit team

- 3.5 A summary of the final reports issued by Internal Audit during 2016/17 (and those at draft status at the year end) is attached as **Appendix A**. The overall level of audits reported is slightly higher than in the last two years (at 129 compared to 100 previously), although it will be appreciated that the makeup and complexity will be different. Not all assignments recorded as being completed will result in a written report or briefing paper, and this work will support other audits / investigations or areas of review.
- 3.6 Through constant monitoring and prioritisation, the focus remained on high risk audits and 13 of these were finalised or at draft report stage at year end, although there was some slippage and a need to prioritise some high risk audits in the Audit Plan for 2017/18. Of these, two were Limited Assurance where follow up audits are scheduled and further work is required to enhance controls and compliance in these areas.
- 3.7 A further 94 audit reports relating to Medium risk areas were issued, of which 29 were limited assurance and three no assurance. There were 11 grant audits or audits for external clients completed during the year, one final account and 10 audits that had a briefing paper (rather than a full report).
- 3.8 It should be recognised that not all of the work undertaken by the Audit team results in an audit report or grant certificate. Work is undertaken in areas that provide assurance on risk management and internal control, including advice and guidance (both on current issues and on system development) and interpretation of Council Regulations. **Appendix B** provides a list of work areas where an audit report may not be the outcome.
- 3.9 In order to maximise audit resources, the approach using Control Risk Self Assessment (CRSA) has been extended further over the past 12 months; a full programme is now in place for schools and is also used successfully for the majority of core financial systems. A CRSA has also been developed for contract audit, and is in the process of being discussed with officers from Commissioning and Procurement before being used in directorates.

3.10 A key element of our role has continued to be working with others when systems and processes are being redesigned and reconfigured to meet changing demands. Here our role in ensuring risks are properly identified, mapped and mitigated and controls adequately considered and prioritised and projects delivered to scope, time and budget is consider important, especially where the Council is undergoing such rapid change to deal with budgetary and other wide ranging pressures.

3.11 Regarding systems and processes, a significant amount of work has again been done reviewing our working practices across the Section over the past 12 months, building on previous work around lean auditing. The Audit development team has been established to progress actions arising from the review and an opportunities log is being maintained and regularly discussed. Audit protocols and working methods have been updated and engagement with clients has continued to shape and enhance the service provided. The use of SharePoint continues to increase, with further changes in administrative processes being put in place from April 2017. Members will be aware that the assurance ratings will be changed from April 2017 and the ratings for recommendations have been redefined.

Recommendations Agreed with Management

3.12 The recommendations raised in audit reports are given a risk rating in line with the risk ratings in the Council’s corporate risk strategy (i.e. red, red/amber and amber/green). The table below sets out the recommendations raised by the assurance level given:

<b>Risk Rating</b>	<b>Recommendations Raised by Auditor</b>	<b>Recommendations Agreed by Client Manager</b>	<b>Percentage Agreed to Raised</b>
Red	200	200	100%
Red/Amber	278	276	99%
Amber / Green	195	193	99%
<b>TOTAL</b>	<b>673</b>	<b>669</b>	<b>99%</b>

3.13 The number of green risk recommendations are no longer recorded as these are discussed with the client at the exit meeting when the draft report is discussed, in order that these matters do not disproportionately attract attention when the final report is issued.

3.14 The figures show that with 99% of audit recommendations agreed that managers welcome ideas as to how governance or controls can be enhanced and it provides a degree of assurance that the auditor understands the risks and is adding value through the fieldwork undertaken.

Recommendations Acted Upon

3.15 Important as it is that audit recommendations are agreed, change will only happen if the recommendations are implemented and so audit reports are monitored until all actions are closed. The database is regularly analysed and reports prepared every quarter of open actions. Each



Directorate has a relationship manager who provides information on outstanding items in their regular meetings.

#### Investigation Team

~~3.16~~ **Appendix C** sets out a report which details the activities of the Investigation Team

#### **4. AUDIT PERFORMANCE AND ADDED VALUE**

##### Quality Assurance

- 4.1 Internal Audit is committed to working to the highest professional standards, and to delivering a quality product that adds value to senior management. As such, performance is actively monitored and feedback from management is encouraged.
- 4.2 An Audit planning control database is maintained to effectively monitor work done in line with that planned. This is where the detail of the Audit Plan is kept. The database is used to allocate assignments and record work done in areas, to provide key performance information for management. Auditors are required to complete timesheets to record work undertaken on their assignments and tasks they are allocated, so management can continually assess the Plan v Actual position for individual audits and across the overall Plan.
- 4.3 Each audit is subject to a qualitative review by a senior member of the team who ensure the focus on key risks is retained throughout the course of the assignment and time is used to best effect. The reviewer will undertake checks to ensure professional standards are maintained and no report is sent out without a review by a senior member of the team. Any Limited Assurance report, or any with a significant issue to report, are reviewed by the Audit Manager.
- 4.4 Following the issue of a draft audit report, a meeting is held with the Client Manager with an opportunity for them to challenge the audit findings and proposed recommended actions. This provides a degree of assurance that the final reported position is accurate and reflects the appropriate risk profile of the audit and any recommendations for improvement are considered.

##### Post Audit Assessment & Customer Feedback

- 4.5 As part of qualitative assurance, the Audit team uses a process known as “post audit assessment”, which includes a client questionnaire.
- 4.6 The Post Audit Assessment sets out the core competencies required whilst undertaking an audit and the auditor for each assignment has to score their performance against each of these competencies. The assessment is useful in providing assurance that key competencies are evidenced throughout the audit process and as a useful means of identifying training needs. Analysing the assessments

helps focus individual PPD reviews and provides audit management with an overview of performance at the different grades.

4.7 Following each audit, Client Managers are contacted and asked to complete a Quality Assurance Questionnaire, recognising the value placed on the feedback they provide. These questions cover four categories, and the results are used to determine areas for improvement.

4.8 During the year, 36 questionnaires were issued. The results from the questionnaires are summarised in the table below:

	Excellent	Good	Satisfactory	Unsatisfactory	TOTAL
Communication	26	10	0	0	36
Auditor Advice	21	11	4	0	36
Report	17	12	7	0	36
Performance	22	13	1	0	36
	<b>86</b>	<b>46</b>	<b>12</b>	<b>0</b>	<b>144</b>

4.9 It can be seen that the feedback from the audit questionnaires is positive, which is encouraging as the nature and complexity of the assignments continues to change. The questionnaires also ask Managers to indicate whether they consider that the audit process added value and there was only one negative responses. This related to an ad-hoc assignment where the majority of issues were known to (and addressed by management before the audit was completed. It can be seen that the majority of the auditees felt that the audits undertaken are constructive and add value.

#### Audit Recommendations

4.10 The extent to which audit recommendations are agreed by senior managers is used as a measure of auditor’s performance as a high level suggests an understanding of the risks and controls within the area under review and adding value by proposing meaningful changes and cost effective changes. Details of these have already been provided above.

#### Benchmarking

4.11 The Audit team is a member of the Welsh Chief Auditors, UK Core Cities and the CIPFA Internal Audit benchmarking groups. The exercises for 2016/17 are now underway and the results will be received later in 2017 (with a report on the outcomes being made to Audit Committee in due course).

4.12 A key area that has been identified from previous benchmarking exercises is in respect of productive time compared to non productive. The overall average chargeable percentage for 2016/17 was approximately 83%; which is an increase on the overall chargeable percentage for 2015/16. However, variations between team members are apparent and work continues to focus on quality

of output, support and training needed in order to ensure that neither quality nor output are compromised.

#### Self-Assessment and Peer Review

- 4.13 Every year the Audit Manager completes the PSIAS self assessment evaluation and in doing so is able to confirm the work of the Audit team conforms to the standard. Again this year there are no significant non conformances considered worthy of reporting. This assessment is shared with the Wales Audit Office which looks to rely to a degree on the work of colleagues in Internal Audit.
- 4.14 Members of Audit Committee will be aware that work was programmed with a neighbouring authority for a full external assessment in the autumn, as required within the Standard. Preliminary work was undertaken but the Audit Managers of both Councils agreed to postpone the full assessment until 2017/18. The deadline date for the PSIAS peer review is 31 March 2018.

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			
Treasury Management	Satisfactory			
Welfare Reform	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	
Rhiwbeina 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 Primary School	Limited	5	5	

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Corpus Christi	Limited	8	8	
Peter Lea Primary School	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	
Cardiff High	Satisfactory	1		
Citizen hubs – HR practices	No	6	6	
E-payslips	Satisfactory			
Eastern High	Satisfactory			Draft report issued
St. David's Primary School	Satisfactory	1		Draft report issued
St. Cuthbert's Primary School	Limited	2		Draft report issued
Mount Stuart Primary School	Satisfactory	1		Draft report issued
<b>Grants / Accounts / External Bodies</b>				
Illegal Money Lending Unit				
Homelessness grant				
Education Improvement grant				
<b>Follow-ups</b>				
Payroll overpayments	Limited	1	1	
Stores – Brindley Road	Limited	1	1	
Stores – Brindley Road	Satisfactory			
Mental Health contracts	Satisfactory	1	1	
St. Monica's Primary School	Limited	3	3	
Cantonian	Satisfactory	1	1	
Lansdowne Primary School	Limited	13	13	
Lansdowne Primary School	Satisfactory			Desk top review
Ninian Park Primary School	Satisfactory			
Woodlands	No	11	11	
Pen y Bryn Primary School	Satisfactory			
Supporting People	Limited	2	2	
Weighbridge	Satisfactory	1	1	
St. Alban's Primary School	Limited	4	4	
Glyn Derw Michaelston	Deferred			
Civil Parking Enforcement – PCN	Satisfactory			

Audit Area	Audit Opinion	High Risk Recommendations		Comments
		Proposed	Agreed	
Youth Centre inventories	Limited	4	4	
Trowbridge Primary School	Satisfactory	1	1	
Bishop Childs Primary School	Satisfactory			
Riverbank	Limited	4	4	
Land Charges	Satisfactory			Draft report issued
All Saints Primary School	Limited	5		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			
<i>Mileage and subsistence</i>				
Contract query – Christmas tree				
Contract query – Fern Place				
Adopted Land				Draft report issued
WLGA – health check				
<b>Value for Money studies</b>				
Agency costs				
Annual Leave				
Heath Park operating contract (tennis and golf)				
Postage costs				
<b>Final accounts</b>				
Demolition of flats, Clevedon Road.				



### Work Areas where a Standard Audit Report is not prepared

It is important to understand that much work undertaken within Audit will not have a report as an outcome. The following list is not exhaustive, but shows some areas where audit time and resources have been spent during the year without necessarily producing a report as an output.

Work Area	Brief Details of Audit Involvement
Efficiency / Change and other projects	Work providing advice and guidance to a number of programmes and projects. Audit Management attends meetings and working groups to input to risk assessments and system developments, especially where financial processes are involved.
Procurement and Spend	Auditors are engaged on procurement matters, attending working groups and providing input on risk management and controls. Also data gathering and challenging spend.
Alleged Fraud Investigation	<p>The Investigation team is involved wherever there is any suspicion of fraud, bribery, corruption or financial malpractice. Where the task involves reviewing a financial system, an Auditor would also be assigned to provide assurance around controls to minimise any repeat. These are generally unplanned and can be time consuming. Given the nature of the referral and potential risks associated with any fraud continuing they require prioritisation, often to the detriment of other “planned” work.</p> <p>Allegations being investigated are summarised and reported regularly.</p>
Grants	The demand for the audit of grant claims has further reduced as grant instructions delete this requirement and some grants are subsumed into the Council’s main RSG.
Ad hoc Requests	Enquiries and assignments e.g. appointment of consultants, Invest to Save.
Schools - General	Specific problems in schools have required audit attention. Senior Management from Audit is now attending Governing Body meetings where a Limited or No Assurance opinion is considered. The embedding of CRSA should result in a better use of internal audit resources as assurance is obtained from the self assessments.
Directorates - general	Advice, guidance and training is provided to directorates on topics such as procurement systems and rules, DigiGOV and imprest accounts. Officers are also active members of service review groups, implementation boards, etc.
Rules and Regulations	Advice and guidance and sharing of best practice in many areas. General work around governance.
External Clients	Audit of clients’ risks, systems and procedures (as per Terms of Reference). Audit of Accounts e.g. Tenants Federation, Glamorgan Archives. Provision of advice due to knowledge on risk management and controls.
Imprest (Petty Cash) Accounts	Advice, guidance, training and assisting in the reconciliation process.
Audit Committee	Advice, reporting and support – including induction training, work planning.