



RESOURCES DIRECTORATE INTERNAL AUDIT TEAM

Internal Audit Progress Report (as at 31st August 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 for the Audit section as a whole 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 the end of August 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.

During the first four months of this year, there have been a number of occasions of sickness absence in the team for various reasons. This has reduced the number of chargeable days worked for that period. We have adhered to the provisions of the Council's Attendance and Wellbeing Policy in each case of sickness absence and officers have been supported in their return to work. There were no sickness absences for the period of August 2017 within Internal Audit.

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 was readvertised but proved unsuccessful. This post has been readvertised again with a wider circulation including the Institute of Internal Audit website with a closing date of 15th September 2017. In order to provide an injection of audit resources, 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.

A key cornerstone of the Quality Assurance Improvement Plan is an assessment of each auditor against the skills matrix that Internal Audit uses. This matrix is primarily based on the CIPFA document "The Excellent Internal Auditor" to identify any gaps in skills or knowledge both at an individual and team level. In readiness for the half-yearly review, each auditor is reviewing themselves against the matrix in order to assess progress against both their individual planned objectives and that of the team. This will include progress in the use of key systems such as Excel, SharePoint and Word but also technical skills in terms of contract auditing or audit report writing. The Cardiff Internal Audit Section is an active member of the Welsh Chief Internal Auditors group. Where appropriate, resources will be allocated to training events held by the group.

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 an expectation 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.

The first five months of the year have lost 44 working weeks due to either sickness absence or vacancy of the Principal Auditor. Some of this time will be made up by the extension of the contract of the temporary ICT auditor for a further three months and, although the agency worker will be engaged to undertake work until the end of January 2018, the audit plan has been reduced by around 50 weeks (or 250 days) at this stage. Part of this reduction is to reflect the increased productivity that will come from the use of an experienced principal auditor and the extension of the temporary ICT auditor to 31st December 2017. This 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. Any further changes to the audit plan will be reported to the next Audit Committee meeting.

The audit plan for 2017/18 was devised on the basis of thematic reviews of the Council and directorates, and work will continue to be undertaken in these areas. The audits recommended to be removed from the audit plan are shown in **Appendix B** and summarised in the table below:

Name of audit	Original days	Revised days	Difference	Comments
Audits not yet allocated				
System development	30	15	15	Further development of systems to be deferred
Mileage and subsistence	10	0	10	This can be combined with payroll audits in directorates without loss of coverage
Audit of governance arrangements	30	0	30	This can be combined with governance audits in directorates without loss of coverage
Social Services – Effective Decision Making	40	30	10	Scope to be reduced following discussion with Director of Social Services
Social Services – ICT systems	40	20	20	Audit to be undertaken by experienced IT auditor thus reducing amount of background reading required. This will also result in less labour intensive testing whilst still providing assurance on systems
Education – Effective Decision Making	40	30	10	This can be combined with governance audit in Education without loss of coverage
Education – commissioning and procurement	40	30	10	Some information already received as part of CRSA returns, thereby reducing the number of visits required
Creditor payments	65	30	35	Fieldwork of 2016/17 completed. Which has allowed a level of assurance to defer some 2017/18 testing 2018/19 due to other work on effectiveness of creditor system and to align with timing of work by WAO

Name of audit	Original days	Revised days	Difference	Comments
Asset management	30	15	15	Scope in 2017/18 to be reduced as assurance can be provided by other activity. Further work will be undertaken in 2018/19.
CRSA development	10	0	10	Further development of CRSAs to be deferred as there is no evidence that a significant benefit will be achieved.
Communities - return on investment (new housing developments)	15	0	15	To be deferred to Q1, 2018/19 in order to align with house building programme
Audits allocated but not yet started				
Domiciliary Care	30	0	30	Deferred to 2018/19 following discussion with Director of Social Services (system changes)
Premises – stat observations in opted out schools	20	0	20	Deferred following discussions with Director of Education to Q1 2018/19 (possibly Q4 2017/18) due to system changes in Education
Programme and projects	20	0	20	Deferred due to changes in the Organisational Development programme

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 August 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 August 2017 are shown below. Members will note that the opinions given are those applicable to 2016/17, as these reports have been carried over from the previous year:

	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	2	1	1	0	0
Final reports issued	23	3	8	4	0	8
TOTAL	27	5	9	5	0	8

There are eight pieces of work undertaken that have not been given an assurance opinion.

These are:

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 Headteacher.
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.

The number of chargeable days allocated to audits to 25th August 2017 is 552 (against a pro-rata plan of 849 days), which is 65% 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.

Members will be aware that there are a number of thematic reviews in each directorate in the plan for 2017/18, namely commissioning and procurement, payroll, governance and effective decision making. Income was added for Education only. The intention remains that the outcome from each theme would be reported to future meetings of the Audit Committee. The timetable for reporting is set out below and shows a slight revision from the initial plan.

Theme	Intended committee meeting for reporting	Revised committee meeting for reporting
Commissioning and procurement	September 2017	November 2017
Payroll	November 2017	November 2017
Governance	January 2018	January 2018
Effective decision making	March 2018	March 2018
Income (Education only)	November 2017	November 2017

3. AUDIT PERFORMANCE AND ADDED VALUE

3.1 Added value

Meetings have been arranged with every Director, in line with our Relationship Manager initiative, and diarised for quarterly meetings throughout 2017/18. These meetings have been, and remain, useful in order to progress matters relating to audits completed and planned as well as discussing directorate risks, issues and areas for potential audit input. As a result of

these meetings, some audits have been deferred / amended or led to opportunities to allocate fewer days than originally planned.

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. Some information has been received from the Welsh Chief Auditors group, but this only contains the performance information for 10 authorities (including Cardiff) and is, therefore, not representative of the Welsh authorities as a whole. Comparative data from the Core Cities group is anticipated to be received during the summer period.

Final information has been received from CIPFA and a brief analysis of the output from both the main group forms the rest of this section

The results from the CIPFA benchmarking exercise have now been received, both for the group overall and the councils that Cardiff has selected to be compared with. The results from each exercise are outline in the paragraphs below.

GROUP OVERALL

Including Cardiff, there are 22 councils in the CIPFA benchmarking group. The table below shows some relevant benchmarks across the group, based on 2016/17 actuals:

Benchmark	Cardiff	Group average
Audit days	1,935	
FTE staff on payroll	11.81	9.2
% qualified staff of total FTE	26%	45%
% audit staff in training at 31.03.17	31%	7%
Audit cost per £'m turnover	£544	£565
Chargeable days per FTE (staff on payroll)	181	173
Cost per chargeable day	£286	£317
Cost per auditor	£51,820	£54,280
Audit days per £'m turnover	1.90	1.89

Members will note that, against the average for the full group of authorities, Cardiff has a larger FTE staffing complement, a lower percentage of qualified staff and a higher percentage of audit

staff currently being trained. There are four auditors in the section currently studying for the Institute of Internal Auditors (IIA) qualification.

The cost per chargeable audit day and cost per auditor are lower than the group average, which is reflective of the differences in structures of the audit team compared to the group members. However, it can be seen that the number of chargeable days per FTE is higher than the overall group, which is due to higher annual leave, sickness and time coded to administration tasks per FTE in other members of the group. Cardiff is below the group average for all non-chargeable days, except for training time where Cardiff is at the average (nine days).

It is also clear from a review of information from previous years that the number of chargeable days per FTE has increased since Cardiff re-joined the CIPFA benchmarking group in 2014/15, being 145 days in 2014/15, 167 days in 2015/16 and 181 days in 2016/17. Whilst there will be differences in each year in terms of non-chargeable time (sickness levels, for example), this steady increase is a positive indicator; this measure is now included as part of the personal reviews for all audit staff.

COMPARATOR GROUP

Members of the benchmarking club can select comparator authorities for more detailed comparison (between four and 18 comparators are permitted). Cardiff has selected 13 other councils to be compared against; the comparators chosen include three councils who are also members of the Core Cities group and have been included to provide a wider comparison of information as the data sets provided for CIPFA and Core Cities are dissimilar.

The table below shows the benchmarks across the comparator group:

Benchmark	Cardiff	Group average
Audit days	1,935	
FTE staff on payroll	11.81	10.10
% qualified staff of total FTE	26%	47%
% audit staff in training at 31.03.17	31%	8%
Audit cost per £'m turnover	£544	£476
Chargeable days per FTE (staff on payroll)	181	182
Cost per chargeable day	£286	£306
Cost per auditor	£51,820	£53,790
Audit days per £'m turnover	1.90	1.90

Members will note that, against the average for the comparator group of authorities, Cardiff has a larger staffing complement, a lower percentage of qualified staff and a higher percentage of audit staff studying for qualifications. However, despite having around 1.7 FTE more than the group average, the number of chargeable audit days per FTE is actually one day lower. Further analysis of the number of days coded on timesheets to chargeable and non-chargeable work shows that the days that auditors were available to work (i.e. after allowances for leave, bank / public holidays and training) is the same as the comparator group average (208). Further work is scheduled in order to identify reasons for the differences in the time coded to other non-chargeable work such as administrative tasks.

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. Only schools are unable to access SharePoint in this way and Headteachers are provided with a copy of the recommendations for them to update. Discussions are on-going with colleagues in ICT regarding access permissions for Headteachers.

This 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 August 2017, it can be seen from **Appendix C** that 42 of the 111 (38%) 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, 41 out of the 85 (48%) have been actioned and discussions are on-going with managers to identify reasons why implementation has been delayed.

Auditors are also focussing on the recommendations that are being written to ensure that auditees 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 has now been agreed for Q3 2017/18, and the outcomes of this review will be reported to a future meeting of this Committee.

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. The review of items since the last meeting of the Audit Committee has identified no items as being relevant for inclusion in this progress report as new audits; however, the scope of the effective decision making reviews in some directorates will include elements from the discussions at appropriate Scrutiny Committees.

It was noted at the June meeting of the Committee that two Scrutiny letters were to be scoped for audits: these were School Admissions and Regional Partnership Board. The suggested objectives for each audit are:

- (a) School Admissions – to review the admissions to schools process to ensure compliance with the Council’s admissions policy and the School Admissions Code. The new policy

discussed at the Children and Young People's Scrutiny Committee in March 2017 will be in place for the 2018/19 academic year and any review in 2017/18 will be based on the policy currently extant. Consideration is being given to including school admissions in the scope of audits of the organisational development programme in Q1 2018/19.

- (b) Regional Partnership Board – to review the governance structure of the Cardiff and Vale of Glamorgan Partnership Board to ensure that it is robust; to examine the needs assessment to ensure that it includes all required information for decision making purposes.

Both audits have been added to the list of audits in SharePoint, but have not yet been given an allocation of audit days. If these are to be audited in 2017/18, further changes will need to be made to the audit plan agreed by Audit Committee at its meeting in March.

5. CONCLUSION

Members will note that the work of the section has been affected by a number of factors, 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 November 2017.

Reports Issued - as at 25th August 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			
ICT – governance	Effective with opportunity for improvement			Draft issued
VFM – sickness absence procedures	Effective			Draft issued
Main accounting 2016/17	Effective			Draft issued
Homecare (Mobile Scheduling)	Insufficient with major improvement needed			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				
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			
Ad hoc assignments				
Breakfast Club – Coryton Primary School	Audit undertaken at the request of the Headteacher			