

# Internal Audit Annual Report 2017/18



## **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. 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 2018) as:

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

1.2. 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.

1.3. The Audit Committee’s terms of reference includes the consideration of the Council’s arrangements relating to internal audit, including the annual internal audit report and monitoring the performance of the Internal Audit section.

1.4. The annual report gives an overview of audit performance during 2017/18, seeks to provide an opinion on the adequacy of the control environment in 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 Teams. For ease of reference, the term “Audit Manager” will be used in this report in order to outline the responsibilities of the role.

1.5. The annual report includes:

- (a) The Audit Manager’s opinion on the Council’s control environment;
- (b) A summary of the work that supports the opinion; and
- (c) A statement on conformance with the PSIAS and the results of the Quality Assurance and Improvement Programme.

### Requirement for Internal Audit

1.6. The Council has a duty to maintain an adequate and effective system of internal audit of its accounting records and system of internal control. The Council also has a duty to prepare an annual governance statement.

1.7. 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.

#### Independence and Objectivity (PSIAS standard 1100)

- 1.8. Organisational independence is effectively achieved in Cardiff Council as the Audit Manager reports administratively to the Corporate Director, Resources but has direct reporting access to the Chief Executive, the Chair of Audit Committee and all elected Members as he considers appropriate.
- 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 of which they are members. 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.
- 1.10. The PSIAS 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 (and update it if circumstances change during the year). This identifies any potential conflict of interest that any member of the Audit team may have, which is considered when assigning audits.

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

#### Opinion 2017/18 (PSIAS standard 2450)

- 2.1 The PSIAS state that the "Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement." This must be based upon an objective assessment of the framework of governance, risk management and control. It must also include an evaluation of the adequacy and effectiveness of controls in responding to risks within the governance, operations and information systems.
- 2.2 This opinion has been prepared by the Audit Manager, based on the provisions of the PSIAS. In preparing and forming this opinion, assurance has been taken 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.*

- *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 design and development of new systems, such as Procure to Pay (P2P) and Corporate Landlord.
- *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. Other work has also been undertaken on areas of corporate governance (such as ethics and values and performance management).

2.3 Based on the programme of audit work undertaken and considered review of the key governance documents e.g. the Corporate Risk Register and Annual Governance Statement, it is considered that the application of the overall framework for control within the Council for 2017/18 is **effective with opportunity for improvement**. 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. It is noted that a number of audits have been given an audit opinion of “insufficient with major improvement needed” with one audit being given “unsatisfactory”. Work will continue to be undertaken to monitor the implementation of the recommendations and assess improvements in the controls in these areas.

How internal control is reviewed

2.4 Internal Audit uses a risk-based approach to audit, in accordance with Section 2010 of the PSIAS. The Council’s Corporate Risk Register was used to form the basis of the annual audit plan for 2017/18 and assurance obtained from both within and outside the Council to ensure that suitable audit time and resources are devoted to the more significant areas. This risk based approach to audit planning captures emerging risks and issues and results in a comprehensive range of audits that are undertaken to support the overall opinion on the control environment. Detail on the risk-based methodology to the development of the audit plan was presented to Members at the March 2018 meeting of the Audit Committee and more details on the assurance mapping process will be provided at a future meeting.

2.5 For 2017/18, the audit assurance opinion definitions were used as outlined in the table for all system and governance audits. These opinions are based on definitions set out by the Institute of Internal Auditors (IIA).

Assurance level	Definition
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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>

2.6 The table below sets out the Red / Amber / Green (RAG) ratings given for recommendations.

Rating	Criteria
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>
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>
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>
Green	Best practice

- 2.7 Audits continue to highlight system weaknesses in some areas and / or compliance issues which identify further opportunities to enhance control. This Council has over the last five years lost a considerable number of officers with experience and knowledge, resulting in process and role changes in order to absorb the impact. The pressure to change services due to constrained financial resources being available is bringing with it new challenges and risks that need to be managed.
- 2.8 Some of the resources allocated for the audit plan in 2017/18 were used to audit four themes across the Council, with an additional theme in Education. These were:
- (a) Payroll
  - (b) Commissioning and Procurement
  - (c) Governance
  - (d) Effective Decision Making
  - (e) Income (Education only).
- 2.9 Key issues coming from the themed audits have been reported to meetings of the Audit Committee during the year, apart from those related to effective decision making which will be reported in the progress report for Q1.
- 2.10 Internal Audit continues to provide training on internal control as part of the Cardiff Manager Programme. This training provides a platform in raising awareness with managers around these key areas of governance and has helped clarify and set out their responsibilities for leading on compliance.
- 2.11 Internal Audit has also been involved in the updating of the Council's Financial Procedure Rules and Contract Standing Orders & Procurement Rules, both of which were presented to the Audit Committee for comment in January 2018. The Council's Constitution Committee approved the new documents in March 2018 and they will come into force in July 2018. Training on the new Rules will be offered to officers in May and June 2018 and Internal Audit will support these training sessions. Whilst the training sessions are not mandatory, the attendance of each directorate will be discussed with directors in their audit relationship manager meetings when discussing internal control risk.



### 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 the 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 Chief Executive and Section 151 Officer and at each meeting of the Audit Committee so officers and members are regularly updated and aware of any matters arising from audit work.
- 3.4 The early part of the year suffered from long term sickness absences and vacant posts that took a while to be filled. Whilst this impacted on the delivery of the audit plan mitigations were put in place such as additional resource, smarter working and review of the audit plan. Regular reports were presented to Audit Committee outlining the changes made to the plan during the year and to provide an assurance that there was full coverage of the Council’s internal control environment.
- 3.5 A summary of the final reports issued by Internal Audit during 2017/18 (and those at draft status at the year end) is attached as **Appendix A**. Not all assignments recorded as being completed will result in a written report or briefing paper (and these therefore will not be listed in Appendix A), and this work will support other audits / investigations or areas of review.
- 3.6 The overall level of audits reported is slightly higher than in the last two years due to the number of schools sampled in the thematic reviews. The number of audits undertaken has reduced over those in previous years partly because of the move to thematic reviews, but also the increased use of assurance mapping to focus on areas of greater risk to the Council’s overall control environment.
- 3.7 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.

- 3.8 In order to maximise audit and client resources, the team uses Control Risk Self Assessment (CRSA) within schools and for the majority of core financial systems, including contracts. The results from the CRSA exercises were used to support the thematic reviews across the Council. Further work is being undertaken to develop CRSAs for asset management and income & debtor systems.
- 3.9 A key element of the role of Internal Audit has continued to be working with clients where systems and processes are being redesigned and reconfigured to meet changing demands. Here the auditor's role in ensuring risks are properly identified, mapped and mitigated, controls are adequately considered and prioritised, and projects are delivered to scope, time and budget, is considered important, especially where the Council is undergoing such rapid change to deal with budgetary and other wide ranging pressures.
- 3.10 Audit working practices were reviewed in the early part of 2017/18. Audit protocols and working methods have been updated and engagement with clients has continued to shape and enhance the service provided. A key focus was on recommendations where each one is now reported to Audit Committee in respect to the management actions and the date implemented or targeted. In order to avoid the collation of updates against recommendations being labour intensive, we have used multi user documents through the use of SharePoint. The use of SharePoint continues to increase, with further changes in administrative processes being put in place from April 2017.
- 3.11 It can be seen from Appendix A that only one report (in respect of the audit of the Music Service) has been issued with an audit opinion of "unsatisfactory". This report is in draft at the end of March 2018, but has been discussed with management within the directorate. It will be reported to the June 2018 meeting of the Audit Committee.
- 3.12 The reports issued at the end of March 2018 and the assurance levels given are shown in the table below:

	Number of reports	Opinion				
		High Assurance / Effective	Satisfactory / Effective with opportunity for improvement	Limited / Insufficient with major improvement needed	No Assurance / Unsatisfactory	No opinion given
Draft reports issued	18	1	7	5	1	4
Final reports issued	107	29	53	14	0	11
<b>TOTAL</b>	<b>125</b>	<b>30</b>	<b>60</b>	<b>19</b>	<b>1</b>	<b>15</b>

3.13 When the reports are analysed over the different areas of the audit plan, the following can be seen:

	High Assurance / Effective	Satisfactory / Effective with opportunity for improvement	Limited / Insufficient with major improvement needed	No Assurance / Unsatisfactory	No opinion given	TOTAL
Fundamental	4	1	0	0	0	5
Corporate Governance	2	0	0	0	3	5
Other Assurance	2	3	4	0	1	10
City Operations	0	3	1	0	0	4
Communities	3	0	1	0	1	5
Economic Development	0	3	2	0	0	5
Education	15	41	10	1	1	68
Governance	1	1	0	0	0	2
Resources	2	5	0	0	4	11
Social Services	1	2	1	0	0	4
External & grants	0	1	0	0	5	6
	30	60	19	1	15	125

3.14 A number of pieces of work were undertaken where no audit reports were produced. This includes grant audits or work for external clients, and these are listed in the table below:

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.
Education Improvement Grant	Audit of grant for 2016/17 and submission of information to the Welsh Government.
Cardiff Further Education Trust Fund	Audit of accounts
Norwegian Church Trust Fund	Audit of accounts
Revision of Council Contract Standing Orders & Procurement Rules	Updated Rules adopted at Constitution Committee on 15.03.18
Revision of Council Financial Procedure Rules	Updated Rules adopted at Constitution Committee on 15.03.18
Peer review - Swansea	Draft report issued for presentation to Swansea Council Audit Committee in April 2018
Wedal Road HMRC	Review of processes for closure of site

3.15 As well as the one audit where an opinion of “unsatisfactory” was given, there were 19 reports where opinions of “limited” or “insufficient with major improvement needed” were given. This is one more than in 2016/17; however, it is difficult to compare the audits undertaken in the two years as fewer probity audits were undertaken in 2017/18 than previously, and there is an increased emphasis on strategic risk and corporate governance.

#### 4. **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

##### Reports to the Audit Committee

4.1 An important role of the Audit Committee is to oversee the role and performance of the Council’s Internal Audit team. In addition, Internal Audit is required to inform the Audit Committee about the adequacy of the Council’s governance and internal control systems. The table below summarises the information the Audit Committee has received from Internal Audit during 2017/18.

Report	Purpose
Internal Audit update reports	Regular summaries of the work undertaken by Internal Audit and allowed the Committee to review the performance of Internal Audit for 2017/18 on a regular basis
Annual Audit Plan 2017/18	The intended work programme for 2017/18 was provided for comments and observations
Annual Audit Plan 2018/19	Development of audit plan for 2018/19
Annual Report 2016/17	Overview of the work undertaken by Internal Audit and gave the CAE’s opinion in respect of the Council’s internal control environment for 2016/17
PSIAS and peer review updates	Overview of the progress of the Internal Audit peer review and presentation of the final report

##### Quality Assurance and Improvement

4.2 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.

4.3 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 (as set out in paragraph 4.4 and the table therein). 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 against Actual position for individual audits and across the overall Plan.

4.4 The achievement of the service delivery plan actions is monitored using the planning control database; the quarterly results are reported to the Head of Finance and discussed with the audit team. The cumulative quarterly results for 2017/18 are:

	Q1 Result	Q2 Result	Q3 Result	Q4 Result
The percentage of audit reports delivered within six weeks	17.65%	86.21%	86.67%	74.6%
The average number of audit productive days per employee	30.21	63.49	89.17	143.43
The average number of audit reports produced per FTE	n/a	2.59	5.02	6.52
The percentage of audit recommendations implemented within the agreed timescale	n/a	45%	92.3%	86%

4.5 Each audit is subject to a qualitative review by a senior member of the team who ensures the focus on key risks is retained throughout the course of the assignment and time is used to best effect. The reviewer will also undertake checks to ensure that professional standards are maintained. Any report with assurance ratings of “unsatisfactory” or “insufficient with major improvement needed”, or any with a significant issue to report, are reviewed by the Audit Manager. Any significant action points arising from these reviews will be followed up and monitored during the individual’s personal review process.

4.6 Following the issue of a draft audit report, a meeting is held with the Client Manager with an opportunity for them to consider the audit findings, proposed recommended actions, the risk profile and the response to be made by the service including action and timescales. This provides a degree of assurance that the final reported position is accurate and that any recommendations considered are acted upon in a timely and robust manner.

#### Post Audit Assessment & Customer Feedback

4.7 A “Post Audit Assessment” is carried out as part of the Audit qualitative assurance at the end of each audit.

4.8 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 means of identifying training needs. Analysing the assessments helps focus individual personal reviews and provides audit management with an overview of performance at the different grades.

4.9 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.

4.10 During the year, 35 responses were received from the questionnaires issued. The results from the questionnaires are summarised in the table below:

	Excellent	Good	Satisfactory	Unsatisfactory	TOTAL
Communication	20	10	5	0	35
Auditor Advice	16	11	7	1	35
Report	14	13	6	2	35
Performance	20	10	4	1	35
	<b>70</b>	<b>44</b>	<b>22</b>	<b>4</b>	<b>140</b>

4.11 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 perception of the professionalism and objectivity of the Internal Audit team by audit clients continues to be high.

4.12 The questionnaires also ask Managers to indicate whether they consider that the audit process added value and 88% of respondents thought that it did. "Added value" is defined for managers as whether the audit offered ways to enhance governance, risk management and control processes, and provided relevant assurance. It can be seen that the majority of the auditees felt that the audits undertaken are constructive and add value.

#### Audit Recommendations

4.13 The extent to which audit recommendations are agreed by senior managers is used as a measure of the 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.

4.14 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, amber/green and green) and as set out in previous paragraphs. The table below sets out the recommendations raised by the assurance level given:

Risk Rating	Recommendations Raised by Auditor	Recommendations Agreed by Client Manager	Percentage Agreed to Raised
Red	26	25	96.15
Red/Amber	209	208	99.52
Amber / Green	156	156	100.00
Green	51	50	98.04
<b>TOTAL</b>	<b>442</b>	<b>439</b>	<b>99.32</b>

4.15 The figures show that, with 99% of audit recommendations agreed, 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. The one red recommendation that was not fully accepted by the client manager was in relation to privilege settings for users (audit of Payment Card Security - Data Security Standards (PCI –DSS)); however, the manager agreed to ensure that user accounts would only be reactivated with directorate management approval and this process change has been implemented.

4.16 Important as it is that audit recommendations are agreed by managers, change will only happen if the recommendations are implemented and so audit reports are monitored until all actions are closed. The recommendations database on SharePoint is regularly analysed and details of all recommendations raised (and their status) are presented to each meeting of the Audit Committee. As at the end of March 2018, the recommendations agreed by management and actioned are shown in the table below:

<b>Risk Rating</b>	<b>Recommendations Agreed by Client Manager</b>	<b>Recommendations Implemented by Client Manager</b>	<b>Percentage Agreed to Implemented</b>
Red	25	26	104.00
Red / Amber	208	114	54.81
Amber / Green	156	85	54.49
Green	50	39	78.00
<b>TOTAL</b>	<b>439</b>	<b>264</b>	<b>60.14</b>

4.17 The tracking of implementation of recommendations began at the start of 2017/18, and one red recommendation from a report issued in 2016/17 was implemented in full in August 2017.

#### Benchmarking

4.18 The Cardiff Audit Team is a member of the Welsh Chief Auditors, UK Core Cities and the CIPFA Internal Audit benchmarking groups. The outputs from the Welsh Chief Auditor group and CIPFA Internal Audit group were presented to meetings of the Audit Committee in November 2017 and September 2017 respectively. No output has yet been received from the Core Cities group.

4.19 The indicators from the Welsh Chief Auditor group showed that Cardiff was below the group average in respect to the percentage of both planned audits completed and audits completed in planned time. As a response, work was undertaken to strengthen planning processes and auditor support arrangements for assignments. A further training session on engagement planning to reiterate the requirements of the PSIAS and to further develop lean processes was held at the end of November 2017. The skills reinforced in this session have been used in the thematic reviews to focus on the key areas of risk to the Council within the themes.

4.20 CIPFA benchmarking information highlighted a comparatively higher FTE staffing complement. Currently, Cardiff has a relatively lower % of qualified staff but this reflects that the audit team has four auditors (33%) currently training for their Institute of Internal Auditors qualification. Cardiff was at the group average for time spent on training of staff. It was noted that there has been an increase in the number of chargeable days per FTE in the Cardiff Audit team each year since the Council re-joined the benchmarking group in 2014/15. However, there has been a reduction in chargeable days in 2017/18, which is a reflection of the level of sickness experienced by the team during Q1.

#### Self-Assessment and Peer Review (PSIAS standard 1312)

4.21 The Internal Audit section has a Charter which is approved by the Audit Committee. The Charter for 2017/18 was approved by the Audit Committee in March 2017. The Charter sets out the work to be undertaken by the Internal Audit team, the standards it adopts and the way in which it interfaces with the Council. The Charter also sets out the requirement to adhere to the code of ethics and relevant professional institutions' standards.

4.22 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. The self-assessment had identified areas where improvements could be made. This assessment is shared with the Wales Audit Office which looks to rely to a degree on the work of colleagues in Internal Audit.

4.23 Members of Audit Committee will be aware that the Chief Audit Executive of Rhondda Cynon Taf CBC has undertaken the external assessment of the Internal Audit team, as required within the Standard. The assessment was based upon discussions with officers from Internal Audit and the examination of supporting documentation provided to him, including the self-assessment, action plan, Audit Charter and process documents. It was felt that the self-assessment and narrative contained therein were comprehensive and, although the self-assessment had identified areas where improvements could be made, it was agreed that there were no significant deviations from the requirements of the PSIAS.

4.24 The report produced as a result of this assessment was presented to the meeting of the Audit Committee in March 2018. There were four recommendations made, which it was felt had a risk rating of amber / green (*low priority risk where routine management attention is warranted*); three of the recommendations (relating to suggested changes to the Audit Charter) have been actioned and the remaining recommendation (relating to the rationale for including audits in the annual plan) will be implemented in due course.

#### Internal Audit Team Resources



4.25 As at 31<sup>st</sup> March 2018, the Internal Audit team has 12 members of staff (10.4 FTE), made up as in the table below:

	Number	FTE	Comments
Group Auditor	1.0	1.0	
Principal Auditor	2.0	2.0	1 x temporary contract
Senior Auditor	2.0	2.0	
Auditor	6.0	4.4	
Audit Assistant	1.0	1.0	
	12.0	10.4	

4.26 During the year, a Principal Auditor took up a secondment to the Accountancy section; the Audit team has a temporary Principal Auditor covering this post, whose contract is due to end on 31<sup>st</sup> July 2018.

4.27 The budget for the section for 2017/18 is set out in the table below:

	Budget	Actual
	£(000)	£(000)
Employees	569	487
Premises	0	0
Transport	3	1
Supplies and services	18	17
Support services (controllable)	53	50
<b>GROSS EXPENDITURE</b>	<b>643</b>	<b>555</b>

#### Continuing Professional Development (PSIAS standard 1230)

4.28 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. The audit plan for 2017/18 included a budget of 55 days for training and staff are encouraged to update their skills, such as by attendance at 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. Training records are maintained on the Council's DigiGOV system.

4.29 The provisions of the Council's Personal Review 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 in areas of working.

4.30 A skills exercise is undertaken annually by each auditor as a self-assessment, 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. The need for contract management and ICT specialist skills remains and this will be a focus of further skill development over the next twelve months.

#### Experience and qualifications

4.31 Members of the section hold various qualifications appropriate to their work, including CIPFA and AAT. Four members of staff (3.5 FTE) are currently studying for the IIA qualification and are at various stages through the examination process. This is the first year of the training, which will continue in 2018/19.

4.32 The majority of staff in the Internal Audit team have over 10 years' experience in audit.

### **5. CONCLUSIONS**

5.1 The beginning of 2017/18 was challenging for the team due to the number of days lost to sickness and vacant posts. The plan was amended to reflect these, although the employment of temporary auditors reduced the impact of these lost days.

5.2 The team embraced the change in audit focus from risk-based audits of systems to a review of the themes across all directorates. This has required a closer working relationship with other the areas in the Council that deal with aspects of corporate governance in order to ensure that these audits are scoped well and provide assurance across the Council's internal control environment. Whilst this new approach may not have been easy to implement, at the start of the year, the results achieved and the relationships built, with officers across the directorates, have been positive steps.

5.3 The team has been heavily involved in the redrafting of the Council's Financial Procedure Rules and Contract Standing Orders & Procurement Rules, both of which have been presented to Audit Committee. These documents form a key part of the Council's Constitution, and provide sound procedures for managers to follow.

5.4 The outcome of the PSIAS review undertaken by the Chief Audit Executive of Rhondda Cynon Taf CBC is also positive, and shows the robust processes that the team has in place to manage its work. No non-conformance with the Standards was noted, and the recommendations the CAE raised have been implemented.

5.5 The Audit team has continued to challenge and refine methodologies and working practices to ensure that they remain efficient and effective. Further refinements to the team's use of SharePoint are being developed, particularly around the recording and follow-up of recommendations, and it is hoped that these will be in place by the end of Q1, 2018/19.

***Effective / Effective with opportunity for improvement***

Audit Area	Audit Opinion	Status of report (if not final)
<i>Fundamental / High</i>		
NDR	Effective	
Council Tax	Effective	
Main accounting 2016/17	Effective	
Resources – payroll	Effective	
Governance & Legal Services – payroll	Effective	
Social Services – payroll	Effective	
City Operations – payroll	Effective with opportunity for improvement	
Resources – effective decision making (Pension Fund)	Effective	
Resources – effective decision making (Business Support)	Effective with opportunity for improvement	
Treasury Management	Effective with opportunity for improvement	
Communities, Housing & Customer Services – governance	Effective	
Communities, Housing & Customer Services (Housing) – payroll	Effective	
Communities, Housing & Customer Services (Customer Services) – payroll	Effective	
Economic Development - payroll	Effective with opportunity for improvement	
Local Housing Allowances	Effective	
City Operations - governance	Effective with opportunity for improvement	
Audit of performance management	Effective	
Risk Management	Effective	Draft report issued
Resources – C&P	Effective with opportunity for improvement	Draft report issued
Economic Development – C&P	Effective with opportunity for improvement	Draft report issued
Resources - governance	Effective with opportunity for improvement	Draft report issued
Economic Development - governance	Effective with opportunity for improvement	Draft report issued
<i>Medium</i>		

<b>Audit Area</b>	<b>Audit Opinion</b>	<b>Status of report (if not final)</b>
St. David's	Satisfactory	
Welsh Language Standards	None given	
Mount Stuart	Satisfactory	
Eastern High	Satisfactory	
ICT – governance	Effective with opportunity for improvement	
Insurance	Effective	
VFM – sickness absence procedures	Effective	
Education – income (Eastern High)	Effective	
Education – income (Whitchurch High)	Effective with opportunity for improvement	
Education – income (Bryn Celyn)	Effective	
Education – income (Gwaelod y Garth)	Effective	
Education – income (St. Patrick's)	Effective	
Education – income (Lansdowne)	Effective	
Education – income (Ninian Park)	Effective	
Education – income (Ysgol Bro Eirwg)	Effective	
Education – income (Radnor)	Effective	
Education – income (Grangetown)	Effective with opportunity for improvement	
Education – income (Springwood)	Effective with opportunity for improvement	
Education – income (Christ the King)	Effective with opportunity for improvement	
Education – income (Willows)	Effective	
Education – income (Ysgol Pen y Pil)	Effective with opportunity for improvement	
Education – income (Greenhill)	Effective	
Cradle to Grave - Days	Effective with opportunity for improvement	
Education – income (Ysgol Mynydd Bychan)	Effective	
Catering in opted out schools	Effective with opportunity for improvement	
Education – payroll (Cathays)	Effective with opportunity for improvement	
Education – payroll (Tremorfa Nursery)	Effective with opportunity for improvement	
Education – payroll (Oakfield)	Effective	

<b>Audit Area</b>	<b>Audit Opinion</b>	<b>Status of report (if not final)</b>
Education – payroll (Lakeside)	Effective with opportunity for improvement	
Education – payroll (Rhydypenau)	Effective with opportunity for improvement	
Education – income (St. Paul’s)	Effective	
Education – income (Ton yr Ywen)	Effective with opportunity for improvement	
Education – payroll (Mount Stuart)	Effective	
Kitchener	Effective with opportunity for improvement	
Payment processes	Effective with opportunity for improvement	
Education – payroll (Herbert Thompson)	Effective with opportunity for improvement	
Education – income (Glyn Coed)	Effective	
Education – payroll (Bishop of Llandaff)	Effective	
Education – Commissioning & Procurement (Tredegarville)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Meadowlane)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Rumney)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Bryn Deri)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Gladstone)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Trowbridge)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Stacey)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Trelai)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Allensbank)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Severn)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Bryn Hafod)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Ysgol Treganna)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Ysgol y Berllan Deg)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Llanedeyrn)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Windsor Clive)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Hawthorn)	Effective with opportunity for improvement	

<b>Audit Area</b>	<b>Audit Opinion</b>	<b>Status of report (if not final)</b>
Education – Commissioning & Procurement (All Saints)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Millbank)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Bishop Childs)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (Howardian)	Effective with opportunity for improvement	
Education – Commissioning & Procurement (St. Mary the Virgin)	Effective with opportunity for improvement	
Resources – Effective Decision Making (Revenues)	Effective with opportunity for improvement	Draft report issued
Cradle to Grave – Gulliver’s	Effective with opportunity for improvement	Draft report issued
<i>Follow ups</i>		
Birchgrove	Satisfactory	
St. Monica’s	Satisfactory	
Land Charges	Satisfactory	
Children with Disabilities	Effective with opportunity for improvement	
<i>Grants / Accounts / External Bodies</i>		
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	
Education Improvement Grant 2016/17	Audit of grant for 2016/17 and submission of information to Welsh Government	
Cardiff Further Education Trust Fund	Audit of accounts	
Norwegian Church Trust Fund	Audit of accounts	
<i>Other assignments</i>		
Breakfast Club – Coryton Primary School	Audit undertaken at the request of the Headteacher	
Revision of Contract Standing Orders & Procurement Rules	Updated Rules adopted at Constitution Committee on 15.03.18	
Revision of Financial Procedure Rules	Updated Rules adopted at Constitution Committee on 15.03.18	
Peer review - Swansea	Draft report issued for discussion at Swansea Council Audit Committee	
Wedal Road HMRC		

**Insufficient with major improvement needed / Unsatisfactory**

<b>Audit Area</b>	<b>Audit Opinion</b>	<b>Status of report (if not final)</b>
<i>Fundamental / High</i>		
Cardiff Capital Fund	Insufficient with major improvement needed	
GLL	Insufficient with major improvement needed	Draft report issued
School Organisational Plan	Insufficient with major improvement needed	Draft report issued
FMIT	Insufficient with major improvement needed	Draft report issued
<i>Medium</i>		
St. Cuthbert's	Limited	
Adopted Land	Limited	
ICT – PCI DSS	Insufficient with major improvement needed	
Homecare (Mobile Scheduling)	Insufficient with major improvement needed	
Education – income (Llanishen Fach)	Insufficient with major improvement needed	
The Court	Insufficient with major improvement needed	
ICT – Business Continuity and Disaster Recovery	Insufficient with major improvement needed	
Education – income (St. Peter's)	Insufficient with major improvement needed	
Education – income (Fairwater)	Insufficient with major improvement needed	
Adamsdown	Insufficient with major improvement needed	
St. Mary's	Insufficient with major improvement needed	
Education – Commissioning & Procurement (St. Philip Evans)	Insufficient with major improvement needed	
Cybersecurity governance	Insufficient with major improvement needed	
Education – Commissioning & Procurement (Tongwynlais)	Insufficient with major improvement needed	Draft report issued
Education – Commissioning & Procurement (St. Cadoc's)	Insufficient with major improvement needed	Draft report issued
Education – Commissioning & Procurement (Cantonian)	Insufficient with major improvement needed	Draft report issued
Music Service	Unsatisfactory	Draft report issued
<i>Follow ups</i>		
All Saints	Limited	
Payments to Care Leavers	Limited	





### 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.
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.
Schools - General	Specific problems in schools have required audit attention. 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. 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.