

Internal Audit Annual Report 2017/18

1. INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) established in 2013 are the agreed professional standards for Internal Audit in Local Government.

PSIAS sets out the requirement for the Head of Internal Audit to report to Officers and the Audit Committee to help inform their opinion on the effectiveness of the Authority's Framework of Governance, Risk Management and control.

This report provides an opinion by the Head of Internal Audit of the adequacy and effectiveness of the Council's control environment for the year April 2017 to March 2018, based on the work undertaken in the 2017/18 Internal Audit Plan, agreed by Audit Committee.

The annual opinion by the Head of Internal Audit contributes to the completion of the Annual Governance Statement (AGS), which forms part of the Annual Statement of Accounts

2. OVERALL OPINION

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In arriving at the overall opinion, the Head of Audit has taken into account:

- the results of all work undertaken as part of the 2017/18 Internal Audit Programme
- the results of follow-up action of Internal Audit Reviews from current and previous years; and
- the acceptance of actions by Management (especially those deemed significant).

It is my opinion that the Authority has an 'Adequate' control environment in operation. There are clear Governance arrangements with defined Management responsibilities and Committee Structures in place, Risk Management and the control framework is generally sound and operated reasonably consistently. The Authority has an established Constitution, has developed Policies and approved Financial Procedure Rules that provide advice and guidance to all staff and members. I am

satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Authority's internal control environment.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

3. INTERNAL AUDIT

The Head of Revenues and Financial Compliance is responsible for ensuring the effective delivery of the Internal Audit function in accordance with the principles agreed with the Authority's Chief Financial Officer (section 151 Officer) and in accordance with the Internal Audit Strategy 2014-2017.

The Authority maintains an effective Internal Audit function. The **Strategic and Annual Audit Plans** are approved by Audit Committee annually and regular reports are made to the Audit Committee throughout the year on progress and any significant weaknesses identified.

4. STAFFING

There were 9.8 FTE staff on the establishment during 2017/18 and the Section currently has only recently filled the vacant posts.

Overall sickness accounted for a loss of 9 productive days, equating to approximately 0.5% of available productive days, compared to 2.7% for the previous year. In addition to the sickness there was a maternity leave accounting for a further loss of 222 days. During the year vacant posts accounted for the loss of 290 days. Taking sickness, maternity leave and vacant posts 28% productive days were lost during the year, compared to 7.5% last year.

The Unit was led by the Head of Revenues and Financial Compliance and has 5 Teams covering IT Systems, Contracting / Procurement, and three Service Based Teams. The audit of the main financial systems (fundamental systems) is shared between the three Service Based Teams.

No Agency Staff were hired during the year.

6. ANNUAL AUDIT PLAN 2017/18

The 2017/18 Annual Plan agreed at the Audit Committee on 24th March 2017 continues to provide a broad coverage of the Authority services and systems.

The Annual Audit Plan for 2017/18 included 185 reviews and was compiled on a "risk basis" i.e. taking account of the nature of the service, value and previous findings.

75% of those reviews originally programmed were completed by 31st March 2018 thereby falling short of the 92% target, and on the 80% delivery the previous year.

Recommendations arising from internal audit work are graded according to the risk levels of the weaknesses identified, with recommended actions as follows:

- **Priority 1 - Fundamental Weaknesses**
Control issues to be addressed as a high priority. These relate to issues that are fundamental and material to the system of internal control at a service level.
- **Priority 2 - Strengthen Existing Controls**
Action required to avoid exposure to significant risks. These relate to issues that procedures do exist but require strengthening.
- **Priority 3 - Minor Issues**
Action required which should result in enhanced control or better value for money. These are issues arising that would, if corrected, improve the internal control environment in general but are not vital to the overall system of internal control.

At the completion of each audit review an overall opinion as to the level of assurance that can be provided is given. Following each audit, report recipients are asked to complete an action plan showing whether they agree with the recommendations made and how they plan to implement them.

During the period April 2017 to March 2018 a total of 262 recommendations have been made, these include recommendations made in draft reports at the time of this report. All recommendations are discussed and agreed with the relevant service departments.

The Reports outcomes are summarised in Table 1 below.

Table 1 – Analysis of Recommendations

| Ratings | Number of Recommendations |
|---|--|
| Priority 1 *** Fundamental Control Issues to be addressed as a High Priority | 3 (See Table 2 for a summary of the issues and an update on the status) |
| Priority 2 ** Control Issues required to strengthen existing procedures | 143 |
| Priority 3 * Minor issues | 116 |

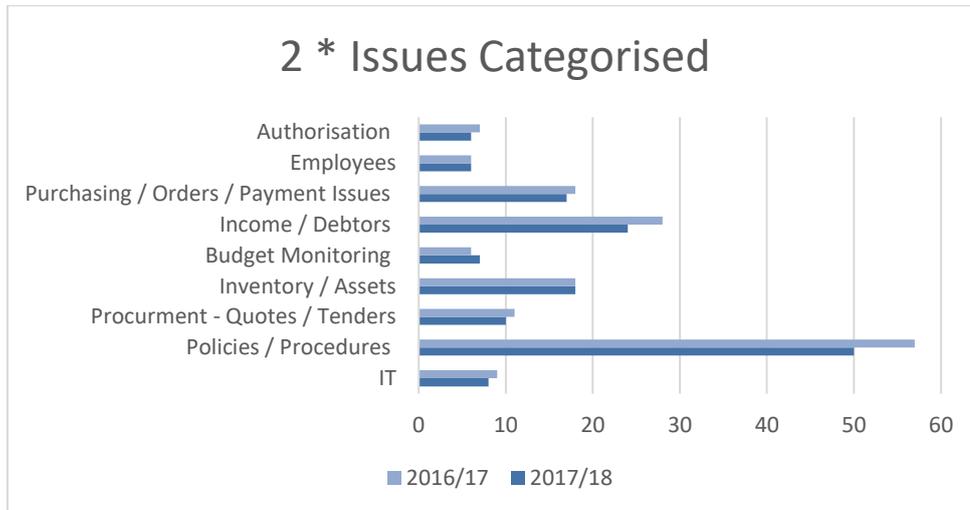
The Audit Committee are kept informed of the progress of Internal Audit reviews and significant issues brought to their attention as necessary. Table 2 below summarises the Priority 1 Fundamental Issues brought to the Audit Committee attention during the 2017/18 audit year to date.

Table 2 – Priority 1 - Fundamental Issues

| Review | 3* Issues Reported to Date for Audit Year 2017/18 | Update |
|--------------------|--|---|
| Coastal Facilities | Three areas of concern were noted in the initial review. In summary there was a general non-compliance with a range of the Authority's established procedures such as non-compliance with financial procedure rules, (including contract and quotation procedure rules and Transport & Engineering Unit Policy): | First reported to Audit Committee in March 2016. Audit Committee requested quarterly updates from the service as to the progress made in implementing the changes required to address the issues raised. These continue to do so now on a 6 monthly basis. |
| Supporting People | This review identified the weaknesses in the management and administration of the Supporting People Grant. This was in the main due to the issues previously identified and reported during 2015/16 and 2016/17. | First reported to Audit Committee in December 2015. Since then the Supporting People Manager has been reporting quarterly to the Audit Committee on the progress made in implementing the required changes to address the issues identified in the audit report. Following the Audit Committee in January 2017 Members agreed to change the reporting requirement to 6 monthly, |

| Review | 3* Issues Reported to Date for Audit Year 2017/18 | Update |
|----------------------------------|--|--|
| | | this continues to be the reporting requirement. |
| Museums | <p>Audit review identified concerns in the way that assets were being managed and administered. The main areas of concern were:</p> <ul style="list-style-type: none"> • a lack of a comprehensive up to date inventory of assets; • delay in the full implementation of the computerised system CALM; • a lack of adequate documentation available to support loan items; • a lack of adequate insurance arrangements. <p>A follow-up review was undertaken and whilst it was identified that many of the issues remained outstanding it was noted that a significant amount of work had been undertaken to put actions in place.</p> | An Action Plan was presented to Audit Committee in March 2017 along with the Audit Report. The Action plan provided a timetable of actions to be taken over the next year to address the issues identified. The Audit Committee request an update in the September 2017 meeting and then on a 6 monthly basis. |
| Departmental Contract Management | The Transport Division, in conjunction with the Procurement Section, should establish interim arrangements for the collection and banking of monies from car-parks, to ensure that the Authority's Contract Procedure Rules are being complied. | A procurement exercise was undertaken and a new contract awarded on 29th May 2018 |
| Property Management | <p>Procedures for the management and administration of the Authority's leased properties must be reviewed and improved in order to ensure good control over the Authority's assets is achieved.</p> <p>In addition, formal procedures should be established for the monitoring of properties with leases / agreements to ensure the terms and conditions are being fully complied with, and rent reviews and renewals are undertaken promptly.</p> | Reported to Audit Committee July 2018 |
| Property Management | <p>Procedures should be established to ensure the financial elements of contracts are actioned appropriately and all income due is collected promptly.</p> <p>Adequate records to support such actions should be maintained and these should be reviewed by an appropriate senior member of staff</p> | Reported to Audit Committee July 2018 |

The graph below shows the categorisation of the 2* issues raised in 2017/18 and compared to 2016/17



As can be seen the majority of issues relate to Policies and Procedures. The concerns raised were mainly in relation to:

- non-compliance with current policies and procedures
- policies not being applied consistently
- policies were unclear

Further to the analysis above each report notes what assurance we conclude for each review. The definitions are as follows:

Table 3 – Description for Assurance Levels

| Assurance Level | Description for Assurance Level | Scores |
|-----------------|---|--|
| High | Good controls consistently applied Low risk of not meeting objectives Low risk of fraud, negligence, loss, damage to reputation | 0 to 2 |
| Acceptable | Moderate Controls, some areas of non-compliance with agreed controls Medium / low risk of not meeting objectives Medium / low risk of fraud, negligence, loss, damage to reputation | 3 to 10 with no 3* recommendations |
| Low | Inadequate controls High Risk of not meeting objectives High risk of fraud, negligence, loss, damage to reputation | > 10 or including one or more 3* recommendations |

Taking into account final and draft reports to date the assurance levels gained are summarised in Table 4. It can be seen that of all the reviews to date 15% are considered to provide Low Assurance, as compared to 10% of the reports in 2016/17.

Table 4 – Assurance

| Level of Assurance | Number of 2017/18 Reports | Number of 2016/17 Reports | Number of 2015/16 Reports |
|---------------------------|----------------------------------|----------------------------------|----------------------------------|
| High | 23 | 34 | 61 |
| Acceptable | 57 | 79 | 53 |
| Low | 14 | 12 | 25 |

The Final Internal Audit Reports once agreed with Heads of Service / Managers / Head Teachers are given to the appropriate Directors, Executive Board Members, Chair and Vice Chair of Audit Committee and Chair of School Governing Bodies for them to fully understand the key findings of each review and to be made aware of all recommendations. In addition to this arrangement the recommendations, agreed actions and responsible officers for 2017/18 audit year onwards are being placed on the Carmarthenshire’s PIMS electronic database system. This will provide a place where all responsible officers and their Senior Managers can access and review their recommendations, as well as providing Internal Audit with a tool to monitor and review actions.

7. ANNUAL GOVERNANCE STATEMENT (AGS)

The Governance Statement for the year ended 31st March 2018 forms part of the Statement of Accounts. The Annual Governance Statement explains how the Authority has complied with the various elements of the Governance Framework.

The Annual Governance Statement 2017/18 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2017/18.

A Corporate Governance Group comprising two Executive Board Members and key officers has been established to inform and monitor progress on issues affecting Governance. The Chair of Audit Committee also attends as an Observer.

The Group have met throughout the year and the Minutes have been referred to Audit Committee.

8. QUALITY ASSURANCE

The Public Sector Internal Audit Standard (PSIAS) became effective from 1st April 2013 and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

The two possible approaches to external assessments outlined in the Standards included either a full external assessment or an internal self-assessment which is validated by an external reviewer. Carmarthenshire County Council elected to adopt the self-assessment approach with an external validation undertaken by a suitable qualified and experienced external assessor with the required level of knowledge of the application of the PSIAS, as agreed with the Welsh Chief Auditors' Group. The purpose of the external assessment is to help improve delivery of the audit service to an organisation. The assessment is designed to be a supportive process that identifies opportunities for development which ultimately help to enhance the value of the audit function to the Authority. The self-assessment and the external assessment concluded that the Internal Audit Service is generally conforming.

Internal Audit continues to undertake quality assurance reviews as required by the Public Sector Internal Audit Standards (PSIAS) 2013.

Peer Review covers both Fundamental and Non Fundamental (Departmental / Establishment) Audits.

The Peer Reviews follow a prescribed process and appraises:

- Quality of audit work
- Quality of supervision
- Compliance with standards
- Compliance with the Audit Manual
- How Internal Audit function benefits the organisation
- Achievement of performance standards / indicators

8 Fundamental Reviews and 15 Non Fundamental Reviews were subject to Peer Review, which equates to approximately 24% of the reviews undertaken.

Results of the Peer Reviews completed indicate that the Audits reviewed complied with the requirements of the Public Sector Internal Audit Standards (PSIAS) 2013.

Staff complete an “**Ethical Standards Declaration**” for each review they undertake. This ensures that there are not issues that may affect their independence, objectivity and delivery of the review and that they have not conflicted with the principles detailed within the corporate “**Employee Declaration**” document.

9. FRAUD

Internal Audit's direct responsibility for providing an ongoing fraud detection and prevention service is restricted to “Non Benefit Fraud”. There is a Specialist Unit in the Revenues Unit of the Financial Services Division, which deals with all Benefit Fraud.

The Anti-Fraud and Anti-Corruption Strategy was approved by Audit Committee on 20th September 2012 and is available on the Authority's Intranet. This Strategy is in the process of being updated.

Internal Audit aims to provide a pro-active approach to fraud and staff are mindful of the potential for fraud in relation to all systems under review. All Internal Audit staff have received Fraud awareness training.

The Authority participates in the “**National Fraud Initiative**”, where data on Payroll, Creditors, Housing Benefit, Pensions, Insurance Claims, Blue Badges and VAT issues are matched nationally every 2 years to identify potential individual frauds. The exercise reviewing data nationally across Local Authorities and other Public Sector Organisations was undertaken during 2017/18.

Internal Audit undertake a pro-active analysis of financial transactions linked to Payroll and Creditors to identify any potential anomalies for further investigation. The results of the analysis are reviewed and used to identify possible system weaknesses. Results are shared with the appropriate manager. There were no significant issues identified during the 2017/18 review, which is a significant improvement on previous years.

Undoubtedly one of the most effective methods of preventing or minimising fraud is through ensuring robust systems are in operation, which reduce the opportunity for individuals to defraud the Authority.

Internal Audit continues to provide training to a range of staff. Fraud awareness is a key area covered as part of the training.

10. SERVICE RISK AREAS

The following Service Risk Areas are considered areas for attention during 2018/19:

10.1 Grants / Project Management

The Authority continues to receive significant funding through grants. With fewer grants being audited by External Audit, Internal Audit are called upon to provide certificates to Welsh Government on certain claims but also departments requiring assurances that their arrangements are robust.

The Officers' Grants Panel, which included the Audit representations continues to monitor performance.

Internal Audit allocates specific time in the Annual Internal Audit Plan to review Grants, given the financial and reputational risks to the Authority.

Regular Reports are taken to the Grants Panel to ensure that adequate control is maintained.

10.2 Partnering / Collaboration

The Council works closely with partners on the Public Service Board which is spearheading greater partnering and collaboration locally.

Close working with Health and Local Authority Regional Groups is continuing, which is bringing together services in imaginative ways leading to greater alignment and co-ordination of budgets.

Internal Audit continues to provide advice on risk, controls and systems to ensure the Authority is properly safeguarded.

10.3 Procurement

Welsh Government initiatives continue to have an impact on the Authority. There is increased pressure to greater collaborative procurement.

There will inevitably be significant changes to procedures as a result of a move to greater use of technology linked to e-Procurement.

The change to Category Management along with Joint Working arrangements with Pembrokeshire will also be an area that will need to be considered, as this is a significant change to the working arrangements within the Procurement team,

Internal Audit have a positive working relationship with the Corporate Procurement Unit and are actively involved in the Procurement Working Groups.

Reviews of Departmental Procurement have identified issues with regard to compliance and these have been discussed with the relevant Heads of Service and the Corporate Procurement Unit.

10.4 Efficiency Agenda

The Efficiency Agenda places pressure on the Authority in terms of delivering services, achieving efficiencies and re-prioritising to meet demands. There are also pressures to reconfigure back-office support services whilst maintaining control and addressing risks from fraud. Internal Audit have a positive working relationship with the Transformation, Innovation and Change (TIC) Unit and are actively involved in TIC Working Groups.

10.5 City Deal

The City Deal will be governed by a Joint Committee arrangement composed of the Leaders of the local authorities of Carmarthenshire, Swansea (Chair), Neath Port Talbot and Pembrokeshire. The City Deal met in shadow form during the 2017/18 year pending formalisation of the Joint Committee Agreement. Carmarthenshire CC's Chief Executive is the lead Accountable Officer for the City Deal and the authority hosts the Regional Office function on behalf of the Joint Committee. As the hosts of the City Deal Carmarthenshire need to ensure that there are monitoring arrangements in place and assess the impact of the Deal. Internal Audit has a role to play in reviewing these arrangements, and provide assurance on our internal arrangements.

Helen L Pugh
Head of Revenues and Financial Compliance
June 2018