

AUDIT COMMITTEE

REPORT OF THE DIRECTOR OF FINANCE AND CORPORATE SERVICES – HYWEL JENKINS

5TH DECEMBER 2014

SECTION A – MATTERS FOR DECISION

WARDS AFFECTED: ALL

INTERNAL AUDIT SERVICE – PROGRESS REPORT TO MID-NOVEMBER 2014

1. Purpose of the report

- 1.1 To provide details of the work undertaken for the period from the 1st September 2014 to mid-November 2014 and an update on progress against the 2014/15 Internal Audit Plan.

2. Background

- 2.1. One of the terms of reference of this Committee is to ‘monitor internal (and external) audit performance’. In order to comply with this requirement to monitor the in-house service, a progress report is given below outlining internal audit work undertaken during the period stated above. This work is then set against the original Internal Audit Plan to show what progress has been achieved against that plan.
- 2.2. In addition, information is provided for members on the current position regarding staff vacancies and other staffing issues within the section.

3. Audit Assignments Completed

- 3.1. A total of 19 formal audit reports have been issued since the 1st September in line with normal distribution guidelines.
- 3.2. The following is a summary list of the reports that have been issued:
 - 2 Special Investigations
 - 4 Primary Schools
 - 1 Comprehensive School

- 2 Local Day Services
- Supporting People Programme Grant
- School Clothing Grant
- Sundry Debtors
- DBS Sample Checks
- Petty Cash Trawl 5
- IT Asset Management
- Vision Impaired West Glamorgan
- Bribery Act 2010
- Professional Abuse Strategy Meetings
- Pre-employment Checks Adult Care

3.3. Attached as Appendix 1 to this report is a full list of the reports along with a brief summary of their findings.

3.4. In addition to the above, Internal Audit continues to carry out post audit reviews (follow ups) on all the planned audits carried out.

3.5. There are no issues in terms of the post audit reviews that need to be brought to Members' attention.

4. Progress against the Audit Plan

4.1. Appendix 2 gives details of the work carried out to date against the 2014/15 audit plan.

4.2. There are currently 5 special investigations in progress.

5. Audit Charter

5.1 It is a requirement of the Public Sector Internal Audit Standards that each Internal Audit Service has an Audit Charter. The standards state "The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval".

5.2 Interpretation

“The internal audit charter is a formal document that defines the internal audit activity’s purpose, authority and responsibility. The internal audit charter establishes the internal audit activity’s position within the organisation, including the nature of the chief audit executive’s functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the charter resides with the board.”

5.3 Public sector requirement

“The internal audit charter must also: define the ‘board’ and ‘senior management’ for the purposes of internal audit activity; cover the arrangements for appropriate resourcing; define the role of internal audit in any fraud-related work; and include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.”

5.4 Attached at appendix 3 is the Internal Audit Charter prepared by the Audit Manager for approval by Audit Committee.

6. Staffing

6.1 Currently there are two members of staff studying for their professional accountancy qualifications. One is sitting an exam this month.

6.2 There is currently 1 Audit Assistant vacancy, due to budget issues it is unsure as to when this vacancy will be filled.

7. Property Bay Wales

7.1 At the last Committee it was further queried as to the position with the non-executive director on the Board of PBW. The advice given, and emailed to Members on 29th October 2014, is that the position with regards to the vacancy is being looked at in terms of an overall review of the Company.

8. Audit Committee Presentation

8.1 A presentation will be given at the meeting in relation to current working practices and future development of the Audit Committee.

Appendices

Appendix 1 – Published Reports

Appendix 2 – Audit Plan Monitoring 2014/15

Appendix 3 – Audit Charter

Recommendation

That the Audit Charter as detailed in appendix 3 is approved.

Reason for Proposed Decision

To ensure compliance with the Public Sector Internal Audit Standards.

List of Background Papers

Audit Files

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COMPLIANCE STATEMENT

INTERNAL AUDIT SERVICE – PROGRESS REPORT TO MID-NOVEMBER 2014

(a) **Implementation of Decision**

The decision is proposed for immediate implementation.

(b) **Sustainability Appraisal**

Community Plan Impacts:

Economic Prosperity	No impact
Education and Lifelong Learning	No impact
Better Health and Well Being	No impact
Environment and Transport	No impact
Crime and Disorder	No impact

Other Impacts:

Welsh Language	No impact
Sustainable Development	No impact
Equalities	No impact
Social Inclusion	No impact

(c) **Consultation**

There has been no requirement under the Constitution for external consultation on this item.

PUBLISHED REPORTS

Report Ref	Report Subject	Report Conclusion	Category
R25 – 14/15	Pontardawe Local Day Service	A number of controls had broken down due to staffing issues within the service. Recommendations have been made to reinstate and strengthen the required controls and the service has been reconfigured.	3
R26 – 14/15	YGG Gwaun Cae Gurwen Primary School	Generally good controls were found to be in place and the recommendations made will further enhance these controls.	2
R27 – 14/15	Bryncoch Church In Wales Primary School	Generally good controls were found to be in place and the recommendations made will further enhance these controls.	2
R28 – 14/15	Supporting People Programme Grant	Good controls were found to be in place in relation to the administration of the grant and only one minor recommendation was made	1
R29 – 14/15	Special Investigation	A referral was received as there was a perceived conflict of interest with an employee. Our investigation found no evidence of any conflict of interest.	N/A
R30 - 14/15	School Clothing Grant	Generally good controls were found to be in place and the recommendations made will further enhance these controls.	2
R31 – 14/15	Sundry Debtors	Generally good controls were found to be in place and the recommendations made in relation to the monitoring and timeliness of unpaid debts will further enhance these controls.	2
R32– 14/15	DBS Sample Checks	Recommendations have been made to remind staff of the need to comply with the Authority's Safe Recruitment Policy.	3

PUBLISHED REPORTS

Report Ref	Report Subject	Report Conclusion	Category
R33 – 14/15	Special Investigation	Concerns were raised in relation to the possible theft of cash by an employee. The investigation did not find any proof that the employee had stolen any cash.	N/A
R34 – 14/15	Petty cash trawl 5	No issues were found in relation to any of the petty cash accounts examined as part of this audit examination.	1
R35 – 14/15	IT Asset Management	Generally good controls were found to be in place and the recommendations made within the report will further enhance these controls	2
R36 – 14/15	Croeserw Primary School	Generally good controls were found to be in place and the recommendations made will further enhance these controls.	2
R37 – 14/15	Vision Impaired West Glamorgan (VIWG) 2013/14	The financial statements of VIWG have been examined and reviewed. The accounts provide a true and fair view of the Charity's financial position.	1
R38 – 14/15	Bribery Act 2010	From the work undertaken it is clear that the Authority is complying with its responsibilities under the Bribery Act and the recommendations made will further enhance that compliance.	1
R39 – 14/15	Professional Abuse Strategy Meetings	The procedures in place in relations to Professional Abuse Strategy Meetings are good and the Authority is broadly in compliance with the All Wales Child Protection Procedures.	1
R40 – 14/15	Pre-employment checks – Adult Care	A number of issues were identified and recommendations made to ensure future compliance with the Authority's Safe Recruitment Policy.	3

PUBLISHED REPORTS

Report Ref	Report Subject	Report Conclusion	Category
R41 – 14/15	Cwmtawe Community School	Established procedures are in place and experienced staff administer most of the areas audited, the recommendations made within the report will further enhance the controls in place.	2
R42 – 14/15	Melin Infants School	Generally good controls were found to be in place and the recommendations made will further enhance these controls	2
R43 – 14/15	Bronleigh Day Centre	A number of controls had broken down due to staffing issues within the service. Recommendations have been made to reinstate and strengthen the required controls and the service has been reconfigured.	3

Key:

Category 1 – Service risk assessed as low.

Category 2 – Service risk will be assessed as low when the recommendations are implemented.

Category 3 – There are significant risks that Audit Committee needs to be aware of.

Category 4 – Immediate action is required to reduce the level of risk

AUDIT PLAN MONITORING 2014 - 2015

Monitoring Date	Mid-November 2014				
Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Education, Leisure and Lifelong Learning					
<u>School Based Audits</u>					
20 Primary Schools	M	2 schools audited and reports issued	3 schools audited and reports issued	A total of 10 primary schools have been audited and reports issued, 1 audit is in progress the remaining schools will be audited next quarter	
3 Secondary Schools	H		2 audits planned and booked for next quarter	1 completed and report issued, 1 audit in progress	
<u>Other Education</u>					
Adult Education	M		Audit planned will commence next quarter	Audit in progress	
PLASC	M	Audit in planning stage	Due to information obtained during the planning process this audit will not now be undertaken	This allocation of days has been used to carry out work in relation to budget monitoring in a comprehensive school due to issues identified during an earlier audit.	
<u>Leisure, Culture and Lifelong Learning</u>					
None					

AUDIT PLAN MONITORING 2014 - 2015

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Finance and Corporate Services					
<u>Revenue Collection</u>					
Council Tax	M			Regular sample testing being undertaken	
NNDR	M				
Sundry Debtors	H			Report issued in respect of 13/14	
Cash Collection	H	Unannounced checks taking place	Unannounced checks taking place	Unannounced checks taking place	
<u>Benefits Administration</u>					
Housing Benefits	M			Regular sample testing being undertaken	
Attendance at Prosecution Panel	N/A	The regular meetings are attended by Audit	The regular meeting are attended by Audit	The regular meetings are being attended by the Audit Manager	
<u>Exchequer</u>					
Payroll	M				
Creditor Payments	H			Regular sample testing being undertaken	
Travel and Subsistence Allowances	M			Audit in progress	
<u>Accountancy</u>					
Treasury Management	H				
Bank Reconciliation	M			Audit planned and due to commence in next quarter	
<u>Legal Services</u>					
None					

AUDIT PLAN MONITORING 2014 - 2015

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Chief Executive's					
Electoral Registration	M				
Internal/Public Information	L				
Social Services, Health and Housing					
<u>Housing General Fund:</u>					
Homelessness	M			Audit planned and due to commence in January delayed due to service pressures	
<u>Social Services</u>					
Fostering & Adoption	H		No longer being undertaken due to the service being reconfigured and falling under Western Bay Safeguarding Board	The days allocated for this work have been used to carry out a further safeguarding audit i.e. Professional Abuse Strategy Meetings audit complete and report issued.	Audit in progress
Hillside Secure unit	M				
Community Meals	M				
Environmental Health	H			Will not be carried out. The service has recently been audited by Wales Audit Office and as part of an all Wales review. It was also recently audited by the Food Standards Agency	

AUDIT PLAN MONITORING 2014 - 2015

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Pre-Employment Checks - Adults	H	Audit commenced	Work completed awaiting agreement of draft report	Report issued	
Environment					
Asset Register	M				
Stores/Equipment	M				
Planning	M	Audit in planning stage	In progress	Audit almost complete delay due to sickness and IT issues with the planning system	
Grant Funding	H				
CRC Submission	H			Audit planned and due to commence next quarter	
Cross Directorate					
Special Investigations	N/A	1 Report issued. No new investigations currently in progress	4 currently in progress	2 reports issued and 5 investigations currently in progress	
Advice and Guidance Requests	N/A	On-going	On-going	On-going	
I.T. Audit	N/A	1 audit in progress	Audit complete awaiting agreement of draft report	Report issued in relation to IT asset management	
Contract Audit	N/A			Final account work ongoing	
Corporate Governance	N/A	On-going	On-going	On-going	
Arrangements					
Bribery Act	N/A		In progress	Audit complete and report issued	
Officer Declarations	M	Audit completed and report issued			
Data Protection	H				
Petty Cash	M		In progress	Audit complete and report issued	
Risk Management	M				

AUDIT PLAN MONITORING 2014 - 2015

Audit Plan Item	Risk Factor	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Banking System Administrator	N/A	On-going	On-going	On-going	
Other Commitments					
Attendance at Working Parties	N/A	On-going	On-going	On-going	
Servicing/Attendance at Audit Committee	N/A	On-going	On-going	On-going	
FOI Requests	N/A	None received to date	1 received and answered	1 received and answered	
Review of Accounting Instructions	N/A	On-going	Ongoing		
Contingencies	N/A				
Vision Impaired West Glamorgan	N/A		In progress	Audit complete and report issued	
WPI Work inc. Performance Indicators	L	Audit in planning stage	1 report issued, no further work will be done in this area due to resource issues in the service areas	Agreed with Head of Corporate Strategy & Democratic Services that a review of systems in place regarding PI collection across the Authority will be undertaken. Work to commence next quarter	

INTERNAL AUDIT CHARTER

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

INTERNAL AUDIT CHARTER

1. Introduction

1.1 The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility.

1.2 For the purposes of internal audit activity the following terms are defined as follows:

“board” – the Audit Committee

“senior management” - Chief Executive, Corporate Directors and Heads of Service

2. Purpose, Scope & Authority

2.1 Purpose

The Public Sector Internal Audit Standards 2013 (PSIAS) defines Internal Audit as: “... an *independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*”

2.2 Scope

Financial Regulations 4.9.8 state that it is the responsibility of the Director of Finance & Corporate Services to ensure that internal auditors have the authority to a) access Authority premises at reasonable times; b) access assets, records, documents, correspondence and control systems; c) receive any information and explanation considered necessary concerning any matter under consideration; d) require any employee of the Authority to account for cash, stores or any other Authority asset under their control; e) access records belonging to third parties, such as

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contractors, when required; f) directly access the head of paid service, the executive and Audit Committee; g) to ensure that effective procedures are in place to investigate promptly any fraud, irregularity or malpractice.

2.3 Authority

The authority for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit Regulations 1996 (SI 1996/590), regulation 5, more specifically require that a “relevant body shall maintain an adequate and effective system of internal audit of their accounting records and control systems”.

3. Objectives

3.1 Internal Audit’s main objectives are to:

- Provide a quality, independent and objective audit service that effectively meets the Council’s needs, adds value, improves operations and helps protect public resources
- Provide assurance to management that the Council’s operations are being conducted in accordance with external regulations, legislation, internal policies and procedures
- Provide advice and support to management to enable an effective control environment to be maintained
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- Investigate allegations of fraud, bribery and corruption

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4. Roles and responsibilities

4.1 Role of Internal Audit

To meet Internal Audit objectives, Internal Auditors are responsible for:

- Reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management
- Reviewing and assessing the effectiveness of internal controls and making recommendations for improvement, where appropriate
- Reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- Checking for compliance with legislation, Council policies and procedures
- Promoting and assisting the Council in the effective use of resources
- Undertaking independent investigations into allegations of fraud and irregularities in accordance with Council policies and procedures and relevant legislation

4.2 Provision of the Internal Audit Function

The Internal Audit Function is provided "in house" and consists of the Audit Manager, 2 Senior Auditors, 4 Auditors and 2 Audit Assistants (9 people 7.81 FTE). The role of Head of Internal Audit is undertaken by the Head of Financial Services.

4.3 Management Structure

Internal Audit is part of the Financial Services Division of the Finance & Corporate Services Directorate. However to ensure independence Internal Audit has the right of access to the Chief Executive and or the chair of Audit Committee should a situation warrant it.

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4.4 Audit Manager's Responsibilities

- In managerial terms to the Head of Financial Services
- To manage and lead the Internal Audit Team
- For the performance of the Internal Audit Service
- Presenting the internal audit charter to the Chair of Audit Committee for approval
- Presenting and obtaining approval of the annual audit plan from Audit Committee
- Reporting quarterly to the Audit Committee on the work undertaken by the service
- Reporting to Audit Committee on any serious weaknesses found in the internal control systems and any instances where recommendations have not been acted upon
- Providing an annual audit opinion of the overall adequacy and effectiveness of the Council's internal control environment

5. Code of Ethics

5.1 The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) 2013 by ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency.

5.2 Internal Audit Staff are required to complete a declaration of interests on an annual basis and are aware of the need to make known any changes which may affect their declaration as and when the changes occur.

6. Service Standards

6.1 What you can expect from us

Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work.

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It is essential that Auditors are impartial so that when an audit opinion is given it is unbiased and based on the facts available. Should a situation arise where impartiality could be questioned then another Auditor will be assigned to undertake the audit.

Where an Auditor was previously employed in a service area subject to audit then the Audit Manager will ensure that the Auditor concerned is not assigned audits in that area until at least 2 years have elapsed.

6.2 Annual Audit Plan

An annual audit plan is produced using a risk based methodology. During the planning process all Heads of Service are contacted and asked if there are any areas they wish to be included in the plan. The plan is then approved by the Audit Committee in March each year. The plan is flexible and includes a contingency to allow for a change in priorities, emerging risks, specific service requests and ad hoc projects. An allowance is also included every year to allow for any special investigations i.e. allegations of fraud, theft of malpractice to be investigated.

7. **Reporting**

7.1 Audit Reports

Audit reports:

- Give an opinion of the service as at the time of the audit
- Provide a risk rating of the service audited
- Detail the work carried out and subsequent recommendations together with management responses where applicable

INTERNAL AUDIT CHARTER

7.2 Reporting Standards

Upon completion of the audit a draft report is issued to the service manager for agreement of findings and recommendations made. In accordance with professional standards a post audit review is carried out after an agreed period to ensure that agreed recommendations have been implemented.

Any agreed recommendations not implemented within a reasonable timescale will be reported to Audit Committee.

Internal Audit works to the reporting quality standards of:

- Draft report issued within 10 days of field work being completed
- Final report issued within 2 working days of draft report being agreed

8. **Quality Assurance**

8.1 Internal Review

Audits are fully reviewed by senior internal audit staff upon completion of field work, in addition to this all draft reports are reviewed by the Audit Manager prior to issue.

The Head of Internal Audit also monitors/reviews a sample of internal audit work programmes, working papers and reports to provide reasonable assurance that the work conforms to the relevant professional standards.

8.2 External Review

External assessments of the internal audit service are conducted annually by the Council's external auditor.

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It is also a requirement of the PSIAS that all internal audit services are subject to a fully independent review every 5 years by a qualified independent assessor from outside the Authority.

9. Relationships

- 9.1 Internal Auditors will treat all staff with respect, courtesy and professionalism at all times. Any confidential or sensitive issues raised with or reported to Internal Audit staff will be dealt with in an appropriate manner. Where issues are likely to cause embarrassment to or adversely affect the reputation of the Authority these will be raised with senior management promptly and dealt with as a priority.
- 9.2 Internal Auditors will ensure that they explain fully the purpose of the audit and the various stages the audit will follow. Internal Audit will agree with service managers the timing and scope of the audit prior to its commencement.
- 9.3 The normal course of communication with Councillors will be via the Audit Committee which meets 4 times per year. The Audit Manager has access to the Chair of Audit Committee outside of the normal meeting should this be required in the event of a serious issue coming to light.
- 9.4 Internal audit will liaise with the Authority's external auditors in order to build a co-operative and professional working relationship, eliminate duplication of effort and ensure appropriate sharing of information.

10. Fraud and irregularities

- 10.1 Internal audit is responsible for investigating and reporting on all instances of suspected fraud, malpractice and theft whether reported directly to them or via the Authority's Whistleblowing Policy.

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- 10.2 The Authority also participates in the National Fraud Initiative data matching exercise and Internal Audit investigate a range of the matches and co-ordinates the response to those best dealt with by the service areas.

November 2014

Due for review December 2015

