



GOVERNANCE AND AUDIT COMMITTEE - 8TH JUNE 2021

SUBJECT: ANNUAL INTERNAL AUDIT REPORT 2020/21

REPORT BY: ACTING INTERNAL AUDIT SERVICES MANAGER

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform the Governance and Audit Committee of the Internal Audit Manager's overall opinion on the Authority's Internal Control Systems derived from the work undertaken by Internal Audit Services during the 2020/21 financial year.

2. SUMMARY

- 2.1 It is a requirement the Council's Financial Regulations, the Internal Audit Charter, and the Public Sector Internal Audit Standards (PSIAS) that the Head of Internal Audit provides an annual report to support the Annual Governance Statement. The report should: -
- Include an opinion on the overall systems of internal controls.
 - Present a summary of the audit work that has been undertaken on which this opinion is based.
 - Draw attention to any issues which may impact on the level of assurance provided.
- 2.2 This audit opinion informs the annual governance review process and is incorporated into the draft 2020/21 Annual Governance Statement which is included separately on the agenda.

3. RECOMMENDATIONS

- 3.1 The Governance and Audit Committee is asked to note the content of this report and the Internal Audit annual opinion for the 2020/21 financial year.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that: -
- the Governance and Audit Committee is aware of the level of Internal Audit

- coverage and the overall opinion derived from undertaking this work;
- adequate supporting information and evidence has been supplied to the Governance and Audit Committee to enable the Committee to meet its requirements under the Committee's terms of reference; and
- adequate assurance is provided to support the Annual Governance Statement process.

5. THE REPORT

- 5.1 Both the Council's Financial Regulations and the Internal Audit Charter set out the reporting requirements for Internal Audit Services and the Public Sector Internal Audit Standards (PSIAS) introduced in 2013 have also reinforced the links with corporate governance and the assurance framework.
- 5.2 The purpose of this report is to provide Members of the Governance and Audit Committee with an opinion or view of the robustness and effectiveness of the internal control systems and procedures in place within the organisation during the 2020/21 financial year.
- 5.3 The opinion is a key element of the annual governance review process and forms part of the Annual Governance Statement, which is included separately on the agenda.
- 5.4 The approach adopted for reviewing and evaluating the internal controls and processes would usually revolve around a flexible well-constructed plan that considers several factors such as risk, impact, nature, and history etc. However, the outbreak of the Covid-19 pandemic and resulting emergency status imposed on the Country has had a significant impact on the authority as a whole, including Internal Audit Services.
- 5.5 The internal audit programme was temporarily suspended in April 2020 with some staff being redeployed to support the Track, Trace and Protect (TTP) service and some staff providing financial support to the Caerphilly Buddy Volunteer Shopping Scheme. This left a minimum core of Internal Audit staff to provide advice and guidance on good practice and amendment of control processes to adapt to Covid-19 new ways of working. This is similar to the experiences of other Internal Audit Sections across Wales. The Chartered Institute of Public Finance & Accountancy (CIPFA) has issued guidance in relation to the impact of the pandemic and this document has been used as a reference point.
- 5.6 Internal Audit work recommenced during the second half of the 2020/21 financial year with a revised plan being approved by the Audit Committee at its meeting on the 21st October 2020. Work undertaken from October 2020 to the end of the year concentrated on high risk financial systems and completing a number of outstanding audits from 2020. There were also some staffing changes which have impacted on available resources, but steps have now been taken to begin to rectify those issues.
- 5.7 Section 2050 of the Public Sector Internal Audit Standards (PSIAS) states that reliance may be placed on other sources of assurance in supporting the annual audit opinion. Information used within the assessment process can also be obtained from the reported control environments over the last few years, and from other sources. These other sources include audit report opinions, historical knowledge of systems, staffing, software etc. and the experience of risk, whether there has been maintenance of governance processes, risk management and internal control

arrangements, and the adoption and maintenance of an assurance framework.

- 5.8 Formal meetings of the Council including the Audit Committee were suspended in the initial stages of the pandemic and the Council enabled the Executive functions to continue via a temporary delegation of powers to the Chief Executive. The Senior Leadership Team under the direction of the Chief Executive and with advice from the Head of Financial Services & S151 Officer and the Head of Legal Services & Monitoring Officer adopted a robust and clear demonstration of governance and internal controls throughout 2020/21.
- 5.9 In addition other audit work undertaken can inform the overall assurance provided by the audit opinion, and further detail is given in Appendix 1.
- 5.10 As agreed by the Audit Committee in October 2020, the plan for the second half of the 2020/21 financial year prioritised systems audits which have been carried out on some of the high risk and key financial systems. Audits were progressed with a low impact on the capacity of Service Managers through the increased use of desktop exercises, internal control reviews and remote interviews with Service Managers, although detailed testing has been limited. These areas reviewed include income management, debtors, purchase ledger controls, AP Forensics system, treasury management, NNDR Covid grants, PCI compliance, safeguarding and payroll. Some of these audits are not fully completed but for those that have been no major issues have been identified.
- 5.11 As a result of the concentration on financial audits, audit coverage in the Social Services and Communities Directorates has reduced but an evaluation of those Directorates Head of Service Governance and Risk Checklists have not indicated any specific risks or emerging issues that would impact on the annual opinion.
- 5.12 Internal Audit staff have continued to work in an agile manner mostly from home with minimal office contact. It has been noted that it can take longer to receive all information to conduct and complete audits remotely, and this has had an impact on report clearance.
- 5.13 Some high risk areas traditionally covered by systems work have also received audit coverage via the evaluation and investigation of data matches identified from the National Fraud Initiative (NFI) data matches released in January 2021. A number of match reports relating to duplicated payments have already been concluded. The results indicate there has been no increase in duplicated payments and this also provides assurance for the payments and purchase ledger systems.
- 5.14 No on-site establishment audits have taken place however the MK Insights software system is being used to deliver Control Risk Self-Assessments (CRSAs) for schools and it is intended to roll these out to other establishments in 2021/22. These provide a breadth of baseline data to support assurance within schools. It is intended to repeat the exercise annually and CRSAs will be followed up during 2021/22 and data held within the MK insights system will be used to identify themes and issues of risk. This information will support school audits and direct auditor resource when on-site visits restart.
- 5.15 Internal Audit reports risk rate each individual finding, and the MK Insights system is also able to evaluate a score for each section of the audit and an overall score for the whole audit. A high score will indicate that test results show high levels of compliance and a low number of negative responses. However, this does not take account of the risk rating of the individual findings, so some nuance is still required. The score and

the number / risk rating of the findings can then be used to inform an overall opinion on the adequacy of the system of controls and the compliance with the system in place if transactional tests were also performed. The current 4 tier opinion system is still in use i.e. Effective; Effective with Opportunity to Improve; In need of Improvement and Inadequate and the numerical scoring assessment plus the data on numbers / risk ratings of recommendations provides robust support for the assurance opinion.

- 5.16 This is a new, enhanced way of reporting our findings and the MK Insights system will allow a more granular evaluation and identification of themes across audits at audit level or even at test result level as it is further developed. Also, the system will allow analysis of recommendations and findings by risk or across audit types or Service areas and this functionality is being developed.
- 5.17 Where findings are reported, recommendations are made to management, who are required to indicate the actions they are planning to take to address the findings noted. The MK Insights system enables an online portal to manage recommendations and enable reporting and tracking of progress, however recommendation tracking is currently being managed manually. An update report on the Recommendation Tracker is included separately on the agenda.
- 5.18 In line with PSIAS, reports now also contain a “direction of travel” indicator to show whether there has been an improvement/ reduction in the nature or type of risks reported.
- 5.19 Other work that has been undertaken during the year includes ad-hoc advice, supporting working parties and advising on best practise in relation to new systems and processes, grant certification, provision of the Corporate Finance Information Governance Steward role, some final account checks, review and monitoring of anonymous letters and the logging of returned cheques. Internal Audit also provided support and advice for the administration of the Covid-19 £500 carers’ payment to ensure compliance with the terms and conditions of the scheme and financial best practice and data protection requirements. The Acting Internal Audit Manager is also developing counter-fraud work via contacts with the Welsh Fraud Officers Group and by attending presentations by the National Anti-Fraud Network (NAFN)) and the Credit Industry Fraud Avoidance Scheme (CIFAS).
- 5.20 MK Insights holds an Audit Universe but it also allows all audits to be mapped to the Corporate Well-being Objectives and 6 fundamental principles; Internal control; Governance; Risk Management; Fraud; Safeguarding and Financial Resilience, which also provides evidence and support of assurance in those areas.
- 5.21 The audits completed and used to generate the overall opinion are shown in tabular format in Appendix 1. This shows the work that has been undertaken, the status within MK insights which broadly reflects stage of progress towards completion of the audit and the overall audit score for each piece of work. Where the audit is incomplete the score reflects the result of work to date and may be subject to change as work is completed. There are a number of audits where field work has been completed but draft reports and associated recommendations have not yet been agreed or assigned to responsible officers. Generally, this has been as a result of conflicting demands on time and availability of Service Managers or locations being closed or not allowing visits. These matters will be progressed in 2021. In some cases where there have been significant changes in services/systems under review an update will be performed to ensure that findings remain accurate and relevant.

- 5.22 The Public Sector Internal Audit Standards (PSIAS) came into force on the 1st April 2013 and consist of the following: -
- Definition of internal audit.
 - Code of Ethics.
 - Standards for the Professional Practice of Internal Auditing.
- 5.23 The Standards aim to promote further improvement in the professionalism, quality, and effectiveness of Internal Audit across the public sector. The Standards require that each public sector Internal Audit Service has in place robust arrangements for quality assurance and requires that Internal Audit is subject to an external assessment at least once every 5 years.
- 5.24 The results of an external peer review in 2017/18 were reported to the Audit Committee in January 2018. The assessment noted that there were no significant deviations from the Standards. The Internal Audit Service continued to conform to the Standards during 2020/21 and no significant deviations have been noted. A new review cycle has now been entered into and the Internal Audit Service is due for a further external peer review in 2023.

Conclusion

- 5.25 **Internal Audit Manager's Opinion** - The Internal Audit Manager's opinion is that overall, the Council's systems and control procedures are effective based on the reduced level of audit coverage during the 2020/21 financial year. There has been some impact due to the Covid-19 pandemic and staffing issues but not enough to adversely affect the annual opinion.
- 5.26 Plans are now in place to overcome these limitations in 2021/22 with the adoption of new working practices, the gradual reopening of locations and establishments and the appointment of staff to fill the vacancies in Internal Audit Services.

6. ASSUMPTIONS

- 6.1 There are no assumptions in this report.

7. SUMMARY OF INTEGRATED IMPACT ASSESSMENT

- 7.1 The Council will be unable to deliver its Well-being Objectives in the absence of effective corporate governance arrangements.
- 7.2 Strong corporate governance arrangements are a key element in ensuring that the Well-being Goals within the Well-being of Future Generations Act (Wales) 2015 are met, in that a prosperous Wales and a resilient Wales requires an effective Internal Audit service to protect public funds.
- 7.3 There are no other implications arising from this report in relation to other equalities issues.

8. FINANCIAL IMPLICATIONS

8.1 There are no direct financial implications arising from this report.

9. PERSONNEL IMPLICATIONS

9.1 There are no personnel implications other than the steps being taken to fill the vacancies within the team.

10. CONSULTATIONS

10.1 Any comments received from consultees have been included within the report.

11. STATUTORY POWER

11.1 Local Government and Elections Act 2021

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Appendices:

Appendix 1 – Complete List of Audit Work 2020/21