



AUDIT COMMITTEE – 21ST OCTOBER 2020

SUBJECT: ANNUAL INTERNAL AUDIT REPORT 2019/20

REPORT BY: ACTING INTERNAL AUDIT SERVICES MANAGER

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform the 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 2019/20 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.

3. RECOMMENDATIONS

- 3.1 That the Audit Committee notes the content of this report

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that the Audit Committee is aware of the level of Internal Audit coverage during the 2019/20 financial and the overall opinion derived from undertaking this work.

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 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 2019/20 financial year.
- 5.3 The opinion is a key element of the annual governance review process and forms part of the published Annual Governance Statement.

- 5.4 The approach adopted for reviewing and evaluating the internal controls and processes revolves around a flexible well constructed plan that considers several factors such as risk, impact, nature and history etc. Audits undertaken are evaluated against pre-set criteria to provide a ranking which is used to feed into the overall assessment.
- 5.5 Information used within the assessment process can also be obtained from other work undertaken such as grant certification work, system advice, participation on working groups and special investigations etc. all of which provide audit staff with intelligence which can both inform the audit planning function and inform the overall assurance provided by the audit opinion.
- 5.6 The Audit Management Software system, MK Insights was introduced in 2019 and a significant amount of the Internal Audit Manager and the Group Auditor's time was invested in implementing and developing the system, including populating the audit universe, audit planning, developing audit work programmes and reporting and then training the staff to use the system. The system went live with a phased approach commencing in September 2019 and management were continuing to work with the software providers in developing management reporting up until late March 2020 when work was suspended due to the impact of Covid-19 and the national lockdown. Work on MK Insights will continue into 2020/21 in order to fully implement the system over all audits and to introduce and embed the integrated recommendation tracking system and management portal.
- 5.7 A number of large or complex pieces of work, some of which relate to work commenced in 2018/19, have taken resource away from previously planned areas for 2019/20; however, as previously discussed with the Audit Committee through having the ability to prioritise and reschedule, the Team is able to respond to emerging or new risks.
- 5.8 The Head of Financial Services & S151 Officer took the decision to suspend the general work of the Internal Audit Section in March 2020 due to the need to support other priority services directly linked to Covid-19. As a result a number of audits remained uncompleted at the year end and these will be prioritised when the audit programme recommences during the 2020/21 financial year.
- 5.9 The audits completed, opinions generated and recommendations made, used to generate the overall opinion are shown in tables below (5.16, 5.17 and 5.18) which also highlight the extent of the work completed and its diversity.
- 5.10 During 2019/20 there were a number of ongoing investigations, three within schools and the other relating to the Council's Waste Service. The school issues are isolated incidents relating to individual members of staff and are not something that is common across our school estate. Once these investigations are concluded any changes or system improvements will be addressed and appropriate action plans agreed. The Waste Service investigation relates to irregularities with the working practices of operatives and potential weaknesses in respect of contract management. This investigation is yet to be concluded but in response to the findings to date a Waste Review Group has been established to review areas such as working practices, structures and service standards and several improvements have been implemented in relation to contract management.
- 5.11 Audits have been carried out over a wide range of areas and establishments in order to gain an overall opinion of the effectiveness of the internal control system operating within the Council. Systems audits cover the key financial systems but may also address non-financial systems which are considered to be high risk or high impact. In the main systems or processes related to cash, income, payments or where high transaction volumes exist are covered in this way. Council operational establishments i.e. Schools etc. are audited on a rotational basis. The control systems and processes in establishments cover most of the administrative/financial operations carried out at the establishment, some of which feed into corporately managed systems which are audited centrally.

- 5.12 Some high risk areas traditionally covered by systems work received audit coverage via the evaluation and investigation of data matches identified from the National Fraud Initiative (NFI) data upload in 2018. Data matches were released in January 2019 and this work was carried forward into 2019/20 for completion. Detailed outcomes of the NFI will be the subject of a separate report once these have been collated.
- 5.13 Where findings are reported, each is risk rated and recommendations are made to management, who are required to indicate the actions they are planning to take to address the findings noted. These form part of action plans which are either followed up as a separate process or built into the planning of the next audits of particular systems.
- 5.14 The individual findings are evaluated and these then inform an overall opinion for the Audit in line with the report to Audit Committee in October 2018.
- 5.15 Furthermore, in line with PSIAS, systems 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.
- 5.16 The following table summarises the opinions reported in respect of finalised audit assignments in 2019/20. Not all audits generate an opinion for example grants certification, however any issues found are reported to management as part of the audit work. In accordance with the recommendations of the External Auditors the number of recommendations and the risk ratings for each audit are also reported in the table.

Finalised audits

Audit Title	Opinion	High Risk	Medium Risk	Merits Attention
		Number	Number	Number
Bryn Awel Primary	In need of improvement	7	7	0
YG Gilfach Fargoed	In need of improvement	2	3	0
Hendredenny Primary	Effective with opportunity for improvement	0	8	0
Cwrt Rawlin Primary	Effective with opportunity for improvement	0	8	2
Tourist Information Centre	In need of improvement	1	1	0
Cwmfelinfach Primary	Effective with opportunity for improvement	0	7	0
Brooklands Day Centre	In need of improvement	1	5	1
Bargoed Library	Effective with opportunity for improvement	0	2	4
Machen Primary	Effective with opportunity for improvement	0	13	0
Brondeg Day Centre	In need of improvement	2	4	0
Ystrad Mynach Primary	Effective with opportunity for improvement.	0	4	3
Glyngaer Primary	Effective with opportunity for improvement.	0	9	0
Rhydri Primary	In need of improvement	4	6	1
YG Trelyn	Effective with opportunity for improvement			
Cwmaber Juniors	Effective with opportunity for improvement.	0	2	1
Blackberry Catering	In need of Improvement	1	3	1
Winding House	In need of Improvement	2	6	1
Trinant Primary	Effective with opportunity for	0	3	1

Audit Title	Opinion	High Risk	Medium Risk	Merits Attention
	improvement.			
Springfield Day Centre	Effective with opportunity for improvement.	0	4	0
Castle View HFE	Effective with opportunity for improvement.	0	8	0
Leavers and IT processes	Effective with opportunity for improvement.	0	8	1
Education Improvement Grant (£6m)	Unqualified certification	N/A	N/A	N/A
Pupil Deprivation Grant	Unqualified certification	N/A	N/A	N/A
Supporting People Finance (£6m)	Unqualified certification	N/A	N/A	N/A
Supporting People Outcomes	Unqualified certification	N/A	N/A	N/A
CCTV (Public Open Space) Scheme 2019-20	Effective/ Effective with Opportunity for improvement	0	10	5
Youth Service Grant	Unqualified certification	N/A	N/A	N/A
Social Services - External Providers deceased residents data match	In need of Improvement	0	9	2
Homelessness	Effective with opportunity for improvement	1	20	1
NFI 2018/2020	All high risk matches reviewed	N/A	N/A	N/A
Rents High Level controls (Calculation and collection of rents)	Effective	0	0	0
Rents High Level controls (Arrears management and recovery)	Effective	0	0	0

5.17 The table below provides the Audit Committee with an updated position for audit reviews completed and reported from previous periods. Showing progress made in the implementation of agreed recommendations it will enable the Committee to see that satisfactory progress is being made and also review those areas where additional focus may be required. Revisits / follow up reviews and action plan reviews are normally planned to take place when the proposed timescales have elapsed and the actions proposed have been implemented. However, in some cases workload, service area constraints and other issues can impact on the timing of these reviews.

Outstanding recommendations from previous periods

Audit Review Title	Rating	Reviewed in 19/20	Revised Rating
Islwyn High	Inadequate	Yes	Effective with opportunity for improvement
Park Primary	In need of	Yes	Effective with

Audit Review Title	Rating	Reviewed in 19/20	Revised Rating
	improvement		opportunity for improvement
Risca Primary	In need of improvement	Yes	Effective with opportunity for improvement
White Rose Primary	In need of improvement	Yes	Some improvement noted – working with the school to further improve
YG Bro Allta	In need of improvement	Yes	Effective with opportunity for improvement
Llanfabon Infants	In need of improvement	Yes	Effective with opportunity for improvement
Gilfach Fargoed Primary	In need of improvement	Yes	Effective with opportunity for improvement
Bryn Awel Primary	In need of improvement	Yes	Some improvement noted – working with the school to further improve
YG Gilfach Fargoed	In need of improvement	Yes	Some improvement noted – working with the school to further improve
Visit Caerphilly	In need of Improvement	Visit deferred	O/S
Brooklands day centre	In need of Improvement	Visit planned – now deferred	O/S
Rhydri Primary	In need of Improvement	Visit planned – now deferred	O/S
NFI payroll	In need of improvement	Followed up in 19/20 -in progress	O/S
WHQS data Compliance	In need of improvement	Yes	Improvements noted
Treasury Mgt	In need of improvement	Yes	Actions in place to address issues
School Transport - Taxis	Unsatisfactory/ In need of improvement	Yes	Considerable revisions to working practices have been proposed which should achieve improvements.
Section 17 payments Compliance	In need of improvement	O/S	
Customer and Digital Services – cash handling processes	In need of improvement	Not able to progress. Service area now undergoing changes so will a new review will be needed once working practices have been developed	

5.18 A number of audits commenced during 2019/20 but were not completed at the end of the

year. It is planned to complete these when possible although allowances will have to be made for changes in working practices and other considerations arising from the Covid-19 pandemic. These are shown in the table below.

Audit reviews started but ongoing at end of period

Audit	Status
Payroll -deductions high level control review	In progress
Payroll -employee existence high level control review	In progress
Payroll -leavers high level control review	In progress
Payroll -starters high level control review	In progress
Payroll -variation to pay high level control review	In progress
St James Primary	In progress
YG Cwm Derwen	In progress
Schools IT inventory control and recording themed audit (20 schools)	In progress
Purchase ledger creditor payments high level control review	In progress
Trinity Fields School	Deferred due to COVID
Penllwyn Primary	In Progress
YG Bro Sannon	In Progress
Blackwood Primary	In Progress
Idris Davies School	In Progress
Pontllanfraith Primary	In Progress
Compliance with Flexible Working Policy	In Progress
VAT mismatch	In progress
NFI payroll match to PL	In progress

5.19 Other audit work undertaken during the period under review included regularity work, advisory work, supporting working parties and advising on best practise in relation to new systems and processes.

5.20 A number of Welsh Government grants are received by the Authority that are subjected to a review of accuracy and compliance with terms and conditions requiring a year-end certification. Significant revenue streams arise from these grants.

5.21 Audit staff supported the IT Section in retaining the authority's PCI (Payment Card Industry) accreditation. This required certain systems and processes to be in place and for these to be reviewed and checked at least annually. Failure to adhere to these Standards could result in the withdrawal of the facility to accept card income and the imposition of fines and penalties. In 2019/20 all locations that accept debit and credit card income were visited and reminders of best practice and any breaches noted were reported to site managers and a full report was issued to the PCI forum and IT Security Officer. Recommended improvements were put in place and the Authority remains fully compliant with the Standard.

5.22 Audit staff had continued to provide advice and guidance to the Purchase Ledger Team in respect of best practices in administering and complying with the requirements of HMRC in paying contractors and limited companies and identifying instances of "deemed employment". This is considered to be a high risk area as the regulations issued are recent and case law

and practice is emerging in this area whilst fines and penalties imposed by HMRC for non-compliance have the potential to be major.

- 5.23 Primary school meal income amounts to over £1million per annum and issues relating to the administration and collection are a recurring theme in schools. Further ongoing advice and support has been provided to Catering Services and individual schools as the cashless primary school meals system was embedded in the pilot schools. The rollout of cashless catering is proposed for the wider school estate during the 2020/21 financial year.
- 5.24 The Group Auditor was assigned as the Corporate Finance Information Governance Steward during 2017/18, a role that has continued into 2019/20.
- 5.25 One member of staff was seconded full time to the housing department to assist with the data validation exercise being undertaken as a result of previous internal audit review of WHQS. This continued until February 2020 when the member of staff retired.
- 5.26 Internal Audit Services has continued to undertake final account reviews and other contract audit work with 73 contractors' final accounts being reviewed during the year (63 in 2018/19). These had a value of £10.8m (£23.5m 2018/19).
- 5.27 Anonymous letters, reports and complaints are received and assessed within Internal Audit to ensure that they are properly considered and if necessary, they are then passed to appropriate departments for further investigation or review. Resource demand for this process is difficult to forecast due to their very nature. During the year there were 48 letters logged (59 in 2018/19). These communications cover a range of possible issues and include highways, planning, anti-social behaviour, tipping, animal control, neighbour issues, child protection and safeguarding and possible other illegal activities. Each report is assessed individually and referred appropriately. Where allegations relate to criminal activities, benefit fraud, staff irregularities or safeguarding immediate referrals are made to relevant parties.
- 5.28 Internal Audit also log and record cheques returned to the Authority. These are scrutinised to ensure they do not relate to breakdowns in control processes. 40 were logged in 2019/20 (61 in 2018/19). Any breakdown in processes identified can then be followed up and investigated if necessary. Resources for this process are difficult to forecast, however these numbers are showing a continued downward trend which is to be expected as the number of cheque payments issued by the Council reduces.
- 5.29 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.
- 5.30 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.
- 5.31 The results of an external assessment in 2017/18 were reported to the Audit Committee in January 2018. The assessment noted that there were no significant deviations from the Standards but a small number of recommendations to improve conformance were made and these are being progressed. The Internal Audit Service continued to conform to the Standards during 2019/20 and no significant deviations have been noted.

INTERNAL AUDIT MANAGERS OPINION

5.32 The Internal Audit Manager's opinion is that overall the Council's systems and control procedures are effective.

6. ASSUMPTIONS

6.1 There are no assumptions in this report as its content reflects actual audit activity undertaken during the 2019/20 financial year.

7. LINKS TO POLICIES

7.1 The work of Internal Audit Services provides assurance on the robustness of internal controls and the corporate governance arrangements operating within the Authority and identifies areas for improvement.

7.2 The Audit universe has also been mapped to the Corporate Well-being Objectives where relevant in order to link the relevance of the audit work to those Objectives.

8. WELL-BEING OF FUTURE GENERATIONS

8.1 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.

8.2 Strong corporate governance arrangements are also an essential element of ensuring that the Council's key priorities are effectively delivered and this in turn contributes to the following Well-being Goals within the Well-being of Future Generations Act (Wales) 2015: -

- A prosperous Wales.
- A resilient Wales.
- A healthier Wales.
- A more equal Wales.
- A Wales of cohesive communities.
- A Wales of vibrant culture and thriving Welsh Language.
- A globally responsible Wales.

9. EQUALITIES IMPLICATIONS

9.1 There are no equalities implications.

10. FINANCIAL IMPLICATIONS

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

11. PERSONNEL IMPLICATIONS

11.1 There are no personnel implications.

12. CONSULTATIONS

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

13. STATUTORY POWER

13.1 Local Government Act 2000

Author: D. Gronow Acting Internal Audit Manager
Tel: 01443 863425 Email: gronode@caerphilly.gov.uk

Consultees: S. Harris, Head of Financial Services & S151 Officer
R. Edmunds, Director of Education & Corporate Services