



GOVERNANCE AND AUDIT COMMITTEE - 14TH JUNE 2022

SUBJECT: ANNUAL INTERNAL AUDIT REPORT 2021/22

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 2021/22 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 The annual audit opinion should include an evaluation of 3 elements; governance arrangements, risk management and internal control. The audit opinion informs the annual governance review process and is incorporated into the Draft 2021/22 Annual Governance Statement which is included separately on the agenda.
- 2.3 All audits performed with the exception of most grant certifications and contract final accounts generate an overall opinion. A report was presented to the Audit Committee in 2018 which provided details of the methodology supporting how the audit opinions are generated. Grants and Contracts are usually approved by the issuing of a certification which indicates no issues of non-compliance were noted. This can be considered a positive opinion.
- 2.4 All opinions are rated as "Effective", "Effective with Opportunity to Improve", "In need of improvement" or "Inadequate and in need of Immediate Improvement".

- 2.5 These opinions then support the assurance that can be gained overall as those audits noted as “Effective” support full assurance, “Effective with Opportunity to Improve” supports substantial assurance, “In need of improvement” supports partial or limited assurance and “Inadequate and in need of Immediate Improvement” supports no assurance.
- 2.6 Therefore overall assurance in relation to the Council’s system of internal controls can be gained by considering the range and number of audits and the report opinions generated.

3. RECOMMENDATIONS

- 3.1 The Governance and Audit Committee is asked to note the content of this report and the Internal Audit Manager’s annual opinion for the 2021/22 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 2021/22 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, 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.
- 5.5 As in the previous year, during the 2021/22 financial year challenges continued to be encountered in relation to staffing the Internal Audit Team. As a result, following some further staff retirements and resignations, at one point the team was operating at 50% of normal capacity.

- 5.6 Good progress has now been made in filling vacancies and at the time of drafting this report there is just one vacancy remaining. Some of the senior posts were filled from within the team however whilst the majority of the staff appointed have a finance/risk management background some have had no Internal Audit experience. It should be noted that overall resources will have increased due to the creation of full-time posts where part-time staff have left. As some of those appointments were made part way through the year this has off-set to some extent the reduction in resources and will of course benefit the service going forward.
- 5.7 As Members may be aware, PSIAS requires that all Internal Audit staff undertake CPD, so allocation of resources to training and developing staff is essential and will pay dividends in the future as a well-trained, skilled team will be more resilient to undertake future challenges.
- 5.8 Notwithstanding the staffing challenges audit work did carry on throughout the year. A number of audits remained uncompleted at the end of the 2020/21 financial year and work was performed to complete these in 2021/22, together with new assignments started in-year. Some 2021/22 audits which remain incomplete will be concluded in early 2022/23. A full list of audits is attached at Appendix 1 and this includes audits brought to completion in the year and those started but which were incomplete and are carried forward into 2022/23. Some delays in progressing audits has been experienced as a result of conflicting demands on time and availability of service managers and the lingering effects of the pandemic
- 5.9 In addition, other work undertaken such as grant certification work, internal control advice, system advice, and special investigations etc. can both inform the overall assurance provided by the audit opinion.
- 5.10 The Audit Management Software system, MK Insights was introduced in 2019 and is now in use for all audit assignments and reporting but some aspects are still in development which requires input from senior staff.
- 5.11 The total number of opinions generated between 1/4/21 and 31/3/22 are shown in the table below. .

| Opinion | Number | Percentage |
|---|---------------|-------------------|
| Effective | 38 | 22% |
| Effective with opportunity to Improve | 55 | 32% |
| In need of Improvement | 24 | 14% |
| Inadequate | 12 | 7% |
| No adverse opinion (e.g. grants contracts, draft) | 43 | 25% |
| TOTAL | 172 | 100% |

It can be seen that nearly 80% of the audits completed in the year generated a positive opinion.

- 5.12 Further information can also be gleaned in relation to the audits performed by a more detailed analysis of the findings generated from the audits performed. The MK system allows findings to be analysed on a granular level and this analysis can also further inform the Committee as to the assurance levels and framework of internal controls. The table below shows an analysis of the findings generated between 1/4/21 and 31/3/22 and the risk ratings associated with them.

| Risk rating | Number | Percentage |
|----------------------|---------------|-------------------|
| High | 75 | 13% |
| Medium | 247 | 43% |
| Merits attention | 245 | 42% |
| For information only | 14 | 2% |
| Total | 581 | 100% |

It can be seen that only 13% of findings noted were rated as high risk. It should also be noted that in many cases where a system or process is found to be effective no findings are generated at all as we report on an exception basis.

- 5.13 A brief overview of other audit work can be given as follows. During 2021/22 two investigations have continued from previous years, albeit audit input has reduced. One of these concluded in 2021 with a successful prosecution and recovery of the funds defrauded. A lessons learnt exercise has been conducted with the establishment and control improvements agreed.
- 5.14 The other case is still with external agencies to conclude and progress so consequently this is not under the Council's control. Some staff time has been required to support the case.
- 5.15 Systems audits have been carried out over some of the Council's systems by means of internal control reviews and interviews with service managers.
- 5.16 Work on NFI data matches has continued, some new matches arose from the release of HMRC data relating to income, property and capital.
- 5.17 As previously reported schools have not had face-to-face visits since February 2020, however a new process of self-assessment control risk evaluations was launched in January 2021 and outcomes of those that have been completed are reported.
- 5.18 Grant certification - 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.
- 5.19 Internal Audit continues to support internal groups such as the Information Governance Stewards' Group and the Complaints Group.
- 5.20 The Internal Audit Manager is a member of the Corporate Governance Panel and minutes of these meetings are reported to the Governance and Audit Committee for information. The Panel has significant input into the Annual Governance Statement process.
- 5.21 Internal Audit Services has continued to undertake final account reviews and other contract audit work.
- 5.22 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. 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.

- 5.23 Internal Audit also log and record cheques returned to the Authority. 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.
- 5.24 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.
- 5.25 The Internal Audit Manager has also developed the Anti-Fraud Strategy which is included separately on today's agenda. Work is also being undertaken on a review of the Council's Financial Regulations, the outcome of which will be presented to the Committee later this year. The Internal Audit Manager has also supported the Committee in the appointment of the new lay members required by the Local Government and Elections (Wales) Act 2021.
- 5.26 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.
- 5.27 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. The next internal self-assessment is due in 2022 and external review in 2023. The Internal Audit Service continued to conform to the Standards during 2021/22 and no significant deviations have been noted.
- 5.28 An in previous years, the Senior Leadership Team under the direction of the Chief Executive and advice of the Head of Financial Services & S151 Officer and the Head of Legal Services & Monitoring Officer has adopted a robust and clear demonstration of governance and internal controls. The Governance Panel has met regularly and it is considered that governance continues to be effective.
- 5.29 As in previous years the Council's risk management processes and risk register has been reported to this Committee and it is considered that this continues to be effective and has been further strengthened by a Covid-19 specific risk register.

Conclusion

- 5.30 **Internal Audit manager's opinion** - The Internal Audit Manager's opinion is based on the output of the work undertaken in the year including assessments and judgements on Governance arrangements and the findings and opinions from individual audits as detailed in paragraphs 5.11 and 5.12.
- 5.31 The data in relation to work undertaken, audit findings and opinions supports the opinion that the Council's systems and control procedures are effective.

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 equalities 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.

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 (Wales) 2021

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Consultees: R Edmunds, Corporate Director for Education and Corporate Services
S Harris, Head of Financial Services and S151 Officer
C Harrhy, Chief Executive

Appendices:

Appendix 1 Audit work undertaken in the period to 30/3/2022