

AUDIT COMMITTEE: 17 November 2020

INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 7.1

Appendices D and E in Annex 1 of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for this Report

1. The Audit Committee Terms of Reference requires that Members:
 - Consider reports from the Audit Manager on Internal Audit's performance during the year;
 - Review the assessment of fraud risks and potential harm to the council from fraud and corruption;
 - Monitor the Counter-fraud strategy, actions and resources.
2. A progress report has been prepared to provide Audit Committee Members with an update on the work and performance of the Internal Audit and Investigation Teams as at 30 September 2020.

Background

3. The Audit Committee formally approved the Internal Audit Plan 2020/21 on 28 July 2020, following a process of consultation and agreement between 23 March and 3 April 2020. The planned activity of the Investigation Team was also provided for Audit Committee consideration and information on 28 July 2020.
4. The Internal Audit Progress Report (**Annex 1**) sets out performance in relation to the Internal Audit Plan. It summarises the work performed, the priority recommendations raised, the critical findings, emerging trends, and relevant value for money findings across the Council for the assurance of the Audit Committee. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.
5. The Investigation Team Progress Report (**Annex 2**) focuses on proactive and reactive fraud awareness, detection and investigation activities, including participation in initiatives, such as National Fraud Initiative (NFI) data matching exercises.
6. As part of progress updates, there is an opportunity to consider emerging risks, issues and sources of assurance, and to potentially refocus priorities. Prior to presenting to Audit Committee, progress reports are discussed with the Corporate Director Resources.
7. The Internal Audit Section reports to the Audit Manager. To meet the provisions of PSIAS 1100 (Organisational Independence), the Audit Manager is not responsible for

managing any functions beyond the Internal Audit and Investigation teams. The Audit Manager reports administratively to the Head of Finance and functionally to the Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

Issues

a) Audit

8. **Annex 1** outlines how the audit activities in quarter two have continued to adapt and respond to the current environment in which the Council is operating. In the context of the ongoing pandemic, whilst management focus on critical and priority matters, the team has continued to tailor its consultancy and assurance activities to provide support and attention where it is most required.
9. There has been a continuation of COVID-19 related audit consultancy services during quarter two, with the majority of support provided in respect of the administration of Welsh Government funds for a range of grant and relief payment schemes. As administration responsibilities are allocated to the Council for further schemes, audit colleagues will continue to be available to provide advice and guidance on the design and application of robust controls. Details of the nature and focus of the COVID-19 consultancy activities are outlined within section 2.1. 'Current Activities'.
10. As Committee was advised in the quarter one update, the initial focus of assurance work this year was to conclude ongoing audits with a low impact on the capacity of audit clients where possible. Towards the end of quarter one, the audit team commenced a targeted delivery of assurance audit engagements from the Audit Plan 2020/21, at a time when Council services were moving to a documented and managed 'restart'. Delivery of assurance audit engagements has continued throughout quarter two, but has been affected by staff sickness, for which further details are provided within section 2.2. 'Resources'.
11. **Appendix A** shows a list of audits and their reporting status in the current year, as at 30 September 2020, whereby 27 new audit engagements have been completed, of which 12 audits have been finalised and 15 audits are at draft output stage. A further 11 draft audits from last year have been finalised in the year to date. Audit opinions of 'effective' or 'effective with opportunity for improvement' have been assigned for 77% of the assurance audit outputs issued in the year to date.
12. Audit Committee was advised when considering and approving the Audit Plan, in March and July 2020 respectively, that due to a range of factors linked with the COVID-19 crisis delivery would be significantly lower than usual. Members were advised that the Audit Plan would be delivered in a targeted way to maximise assurance and prioritise high-risk areas. As part of this targeted approach, approval is sought to defer 32 audit engagements (24% of the original audit plan) that would not be subject to audit consideration in 2020/21. Audit resources would target the three core categories of assurance from the Audit Plan, namely 'fundamental', 'corporate governance' and 'other assurance' audits. These audit areas are considered essential to providing the annual audit opinion on the Council's control environment, and would be prioritised.
13. **Appendix B** shows the current position against the full Audit Plan 2020/21, and identifies the audits that are proposed to be deferred, of which the majority of audits fall within 'service specific' audit categories. It is proposed that:

- **All 'Fundamental' and 'corporate governance' audits are prioritised** for delivery, and that the only audit included in the 'other assurance' category of audits to be deferred is 'value for money on digital initiatives';
 - **Three thematic audits across directorates are deferred**, namely performance management, information management and pre-contract assurance. It is considered that these audits can be deferred, as corporate audits of performance management and information governance were completed in 2019/20, with each receiving an assurance rating of effective with opportunity for improvement. The audit of pre-contract assurance, is proposed for deferral as commissioning and procurement thematic audits are being delivered this year, as well as individual contract audit work;
 - **A number of service specific audits are deferred**, which have been considered and agreed with directorate management as part of recent Relationship Management meetings.
14. Two new audits have been added with the Audit Plan, which due to their size have been agreed within the delegation of the Audit Manager, to approve individual audit engagements of no more than ten audit days. One audit is of a consultancy nature, to provide advice and guidance on the development of effective controls in a private rental leasing scheme, and the second audit is to certify the use of the education improvement grant 2019/20.
 15. In quarter two 2020/21, two audit outputs were issued with draft audit opinions of 'insufficient with major improvement needed'. The audit outputs covered 'Bereavement Services' and 'Social Services - Commissioning and Procurement', and the findings of these audits are outlined within Annex 1, section 2.4 'Critical Findings or Emerging Trends'.
 16. Performance information and statistics are provided within section 3.2 'Performance'. The delivery of the Audit Plan at the end of quarter two was 20%, against an annual target of 60%, for which targeted improvement remains a priority. The audit team have been working with management to finalise a number of audits, and pursuing updates and evidence of the completion of agreed recommendations. After the audit team stood down from seeking management updates and finalising audits in quarter one, over quarter two the position has improved, but the finalisation of draft reports, and reinforcing the importance of the timely delivery of audit recommendations, are priority actions for quarter three.
 17. School audits have been the last area in the Audit Plan to recommence. An updated Control Risk Self-Assessment (CRSA) has been developed, to which all schools will be asked to respond in quarter three. A number of CRSA style school audits are planned, through which there will be direct testing on the assertions made in the self-assessed responses, and a number of full school audit engagements will also be delivered. An approach has been developed to deliver audit fieldwork remotely and on a desktop basis, in order to safeguard schools and audit staff during the pandemic.
 18. The status of audit recommendations is summarised in **Appendix C** to provide an overview of management progress. The detailed position against each red and red/amber recommendation is provided for open recommendations in **Appendix D**, and for recommendations closed since last considered by Committee in **Appendix E**.

a) Investigations

19. **Annex 2** outlines the activities of the Investigation Team as at the end of quarter two. For the year as a whole there are four hundred and ninety four chargeable days available based on current resources (2.5 fte), indicatively split between strategic (80 days) and operational activities (414 days). Two hundred and fifty one days have been applied as at the end of September 2020 as detailed in the progress report.
20. The progress report provides details of the processes applied to mitigate the risk of fraud and error in the administration of £68.142 million of business grants on behalf of Welsh Government to date, through a process of up front and post payment verification exercises. Extensive work has taken place, including the use of two separate data matching exercises, one of which was a pilot National Fraud Initiative (NFI) data matching exercise, working with Audit Wales and the Cabinet Office prior to a proposed national roll out. To date thirty-six grants have been identified as paid in error with a total value of £495,000, of which, £220,000 has been recovered and work continues to recover the remainder.
21. Excluding the one off business grants work, in respect of all other casework as at the end of quarter two:
 - One hundred and eighty cases were identified for investigation so far this year, compared to one hundred and fourteen for the same period last year;
 - One hundred and seventy four investigations are ongoing, compared to one hundred and thirty seven for the same period last year;
 - One hundred and seventy nine investigations have concluded, compared to ninety three over the same period last year;
 - £349,505 has been attributed concluded investigations, compared to £294,497 for the same period last year.
22. The Investigation Team has worked with the Communications Team to prepare a series of articles to be communicated in the week commencing 16 November 2020, as part of the internal campaign publicising the International Fraud Awareness Week. Particular areas of focus are money laundering, impersonation fraud, and raising awareness of different fraud risks and fraud red flags. Mandatory Fraud Awareness training also continues to be delivered, and as at the 30 September, more than three thousand eight hundred employees had completed the eLearning or attended a face-to-face session.
23. The summary report in Annex 2 provides further details in respect of the above.

National Fraud Initiative Self-Appraisal

24. Audit Committee will be familiar with the National Fraud Initiative work that the Council participates in, and through which a significant proportion of the cases identified for investigation, are generated. The National Fraud Initiative (NFI) is a UK-wide counter-fraud exercise. In Wales, the exercise is undertaken by the Auditor General for Wales (Auditor General) under his statutory data-matching powers in Part 3A of the Public Audit (Wales) Act 2004.
25. In July 2020, Audit Wales published a two-part National Fraud Initiative self-appraisal checklist, which all participating bodies were encouraged to use to self-appraise their involvement in the NFI prior to and during the NFI exercises.

- **Part A is designed to assist audit committee members** when reviewing, seeking assurance over or challenging the effectiveness of their body's participation in the NFI.
- **Part B is for officers** involved in planning and managing the NFI exercise.

26. Within **Annex 2 - Appendix A**, Cardiff Council management commentary has been provided against the nine questions in Part A and the 20 questions in Part B, for the information and consideration of the Audit Committee.

Audit Recommendations

27. The recommendations and progress at the reporting date are provided in the following appendices.

Appendix C	Recommendations Summary
Appendix D	Contains the red & red / amber open recommendations
Appendix E	Contains the red and red / amber recommendations completed since last considered by Audit Committee in July 2020.

Legal Implications

28. There are no legal implications arising from this report.

Financial Implications

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

RECOMMENDATIONS

30. That the Audit Committee:

- Considers and reviews the content of the Internal Audit and Investigation Team Progress Reports.
- Approve the proposed deferral of 32 audit engagements from the Audit Plan 2020/21.

Chris Pyke
Audit Manager

The following are attached:

Annex 1 - Internal Audit Progress - Summary Report

Appendix A Report Status as at 30 September 2020

- Appendix B** Audit Plan
- Appendix C** Recommendations Summary
- Appendix D** Red & Red / Amber Open Recommendations
- Appendix E** Red & Red / Amber Recommendations Completed since last Committee

Annex 2 - **Investigation Team Progress – Summary Report**

- Appendix A** National Fraud Initiative Checklist - Completed