

**INTERNAL AUDIT ANNUAL REPORT 2020/21**

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 5.1**

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**Reason for this Report**

1. The Terms of Reference of the Governance and Audit Committee requires that Members consider the Audit Manager's annual report including the:
  - Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control;
  - Summary of the work supporting the opinion,
  - Statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN), and;
  - Results of the Quality Assurance and Improvement Programme (QAIP) that support the statement.

**Background**

2. The Audit Committee meeting of 24 March 2020 was cancelled due to the onset of the pandemic. The Audit Plan for the year ahead, which had been developed and agreed with Senior Management Team in the weeks and months prior to this date, required some further reflection, review and a process of consultation with the Audit Committee outside of the normal Committee meeting environment. The Audit Committee subsequently approved the Internal Audit Charter 2020/21 and the Audit Plan 2020/21 in its first Committee meeting of the year on 28 July 2020,
3. During the year, the Committee has received detailed progress reports outlining the work and progress against the Audit Plan, as well as the key findings, trends and risk-based changes to planned work. The Committee has also received assurance from the Audit Manager throughout 2020/21 on ongoing organisational independence, and continued conformance with the Public Sector Internal Audit Standards (PSIAS).
4. In line with the provisions of the PSIAS (1100), organisational independence has been achieved throughout 2020/21. The Audit Manager reports administratively to the Head of Finance (Deputy Section 151 Officer) and has direct reporting access to the Chief Executive, Section 151 Officer, the Chair of the Governance and Audit Committee and all elected Members where required.
5. The Annual Report (attached at Appendix A) provides a review of the internal control environment of the Council and Audit Manager opinion. The report details the audit work completed to support the opinion, and assurance of ongoing conformance with the PSIAS, as reaffirmed through annual review against the CIPFA Local Government Application Note (LGAN) and the results of the Quality Assurance and Improvement Programme (QAIP).

## Issues

6. The Council has a duty to maintain an adequate and effective system of internal audit. In addition, the Council has a duty to prepare an Annual Governance Statement (AGS). Contained within the draft AGS is the annual Audit Manager opinion, as included within the Annual Report.
7. Section 2 of the Annual Report outlines the responsive approach taken since the onset of the pandemic, whereby significant audit attention was given to providing critical advice and support to management as the Council adapted services and established new systems in response to the crisis. Consultation and engagement was provided in cases where there was a need for fundamental process change, a risk to resilience, the need to respond to a significant obligation or challenge as a result of the crisis, or a particular fraud or control risk.
8. The report outlines how the Audit Plan was built on auditor and client availability and capacity in a normal operating environment, but with targeted delivery of the Plan set at 60% for the year, whilst the typical target is 80%. The lower target was set in anticipation of the range of difficulties associated with the pandemic that would affect the capacity of audit staff and clients. During the financial year, the Audit Plan and approach to delivery adapted in order to target assurance on key risks and controls, and to provide an adequate body of assurance work to support a full annual opinion on the Council's control environment. All decisions in respect of the Plan have been made with appropriate attention to risk, professional standards and advisories from the Chartered Institute of Public Finance and Accountancy (CIPFA), the Institute of Internal Auditors (IIA), the Internal Audit Standards Advisory Board (IASAB) and the advice of professional and peer officers.
9. Section 3 of the report contains the opinion and sets out the rationale of how the control environment has been reviewed. Throughout the year, a targeted approach was taken in the delivery of the Audit Plan to achieve, within a particularly challenging environment, an adequate breadth of assurance upon which a full audit opinion is provided within the Annual Report. The Annual Report sets out that, based on the programme of audit work undertaken to assess the framework and application of governance, risk management and control, the annual opinion for 2020/21 is 'effective with opportunity for improvement'.
10. Sections 4 and 5 summarise the work performed, provide details of audit reports issued, and the progress made against recommendations raised. During the year Internal Audit completed 75 new audit engagements to at least draft output stage, and finalised a further 32 draft outputs from the prior year. Through the reports issued, 478 recommendations were agreed of which 137 were implemented before the year-end. The level of recommendations implemented on time is better than last year at 69%, but further improvements are considered necessary. Ongoing attention is given to progress through regular following up progress with audit clients, and the practice of reporting all recommendations and management progress updates to the Governance and Audit Committee.
11. The QAIP is, according to the PSIAS '*designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*' The QAIP developed for Cardiff Council's Internal Audit Team is included in a compilation of good practice CIPFA case studies 'Leading internal audit in the public sector – principles into practice, 2019'.

12. The Annual Report outlines how, through application of the QAIP, assurance is provided of ongoing conformance with the PSIAS and application of the Code of Ethics. An element of the review was an Audit Manager assessment against the LGAN, which breaks down the requirements of the PSIAS into a detailed self-assessment of conformance. Through this review, the Audit Manager can report conformance with the PSIAS, supported by the LGAN through the operation of the Internal Audit Team and its work, upon which the annual opinion is provided.
13. The Internal Audit function remains committed to delivering the highest professional standards and the Annual Report details the methods and key performance measures. The report highlights that all audit reports were delivered within six weeks. Audit client feedback continues to be positive overall with 97% of responses identifying that audit offered added value to managers. Sustained focus is given to maintaining and improving the diverse skills and professional qualifications of the Internal Audit Team. Auditor staff hold various qualifications appropriate to their work, including qualifications in accountancy (CIPFA/ACCA/AAT) and Internal Audit (CIA/CMIIA). At the end of 2020/21, one member of staff was being supported in their studying for the CIA qualification and another member of staff was being supported to study an Information systems audit qualification (CISA).
14. The Annual Report includes a number of appendices. These include a full account of the audit reports issued, cancelled and deferred through the year and the QAIP process applied.

### **Legal Implications**

15. There are no direct legal implications arising from this report.

### **Financial Implications**

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

### **RECOMMENDATIONS**

17. That the Committee note and consider the Internal Audit Annual Report, including the:
  - Opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control;
  - Summary of the work supporting the opinion,
  - Statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN), and;
  - Results of the Quality Assurance and Improvement Programme (QAIP) that support the statement.

**CHRIS PYKE**  
**AUDIT MANAGER**

The following report is attached:

Appendix A - Internal Audit Annual Report 2020/21