

## **GOVERNANCE & AUDIT COMMITTEE: 20 July 2021**

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### **INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT**

#### **REPORT OF THE AUDIT MANAGER**

#### **AGENDA ITEM: 5.2**

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**Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**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 Terms of Reference of the Governance and Audit Committee 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 the Governance and Audit Committee with an update on the work and performance of the Internal Audit and Investigation Teams. This progress report covers the period from 1 March - 30 June 2020, and follows the updates provided in the last Committee meeting held on 23 March 2021.

#### **Background**

3. The Audit Committee (subsequently renamed as a Governance and Audit Committee) approved the Audit Charter and the risk-based Audit Plan 2021/22 on 23 March 2021 at which time the planned activity of the Investigation Team was also provided for consideration.
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 Governance and Audit Committee. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.
5. The Investigation Team Progress Reports (**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 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 Governance and Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

## Issues

### **Conclusion of 2020/21**

8. The appended progress reports contain sections in respect of the financial year 2020/21, which set out the work undertaken, the findings and outcomes of the Audit and Investigation Teams as at the financial year-end. A full account of the activities of the Internal Audit Team for the year is provided separately within the draft Internal Audit Annual Report 2020/21, for consideration by the Committee in agenda item 5.1. The draft Counter-Fraud Annual Report 2020/21 is scheduled for reporting to the Governance and Audit Committee in the September 2021 meeting, and will provide a full account of the activity of the Investigation Team during the year.
9. The pertinent year-end information in Annex 1 relating to Internal Audit activity, comprises the final position against the Audit Plan 2020/21 and the critical findings and emerging trends in March 2021. For the year overall there were 75 new audit engagements completed to at least draft output stage against an original plan of 137 audits (55%), and a further 32 draft outputs from the prior year were finalised. Seventy-three percent of audit opinions provided were of 'effective' or 'effective with opportunity for improvement' in the year overall.
10. In March 2021, six audit outputs were issued with draft audit opinions of 'insufficient with major improvement needed'. The details of these audit and the pertinent findings are outlined in detail within Annex 1, section 2.2 'Critical Findings or Emerging Trends (March 2021)'.
11. The Investigation Team Progress Report in Annex 2 contains the year-end position for 2020/21 in respect of the counter-fraud activity and impact. During 2020/21, in addition to COVID-19 related grants work, one hundred and ninety two business as usual cases were identified for investigation, and three hundred and forty four cases were concluded. With regards to the impact:
  - Thirty-seven Blue Badge investigations concluded and twenty-nine offenders received a criminal sanction.
  - One hundred and forty-six Council Tax Liability investigations concluded and identified £74,264 of under charged liability, to be recovered;
  - Forty-four Council Tax Reduction investigations concluded resulting in overpayments of £9,455 being identified for recovery;
  - Twenty-two employee investigations concluded, resulting in 2 cases of management action, 1 written warning, 1 resignation and 2 dismissals;
  - Twenty-seven Insurance claims were amended or withdrawn, saving £396,505;
  - Six tenancy investigations were completed, through which nothing untoward was found;
  - Sixty-two 'other' cases concluded, of which fifty-three were in respect of Social Services / Direct Payment data matching. The nine other cases included pension life check, residential parking, carer credentials and falsified claims, council tax exemption, and conflict of interest. In total £7,374 was identified for recovery, which related to a pension case.

## **Delivery 2021/22 (to date)**

### **a) Audit**

12. Annex 1 outlines how during quarter one the priorities and approach of the audit team were to deliver a combination of management support through consultation and engagement in high risk areas, and to commence the delivery of assurance engagements from the Audit Plan.
13. The Internal Audit Team has continued to provide advice and guidance on the design and implementation of effective controls in the administration of Welsh Government COVID-19 grants schemes to achieve compliance and control, and arrangements for the effective prevention and detection of fraud. After concluding the Audit Plan for 2020/21, a number of assurance audit engagements have also commenced, and this work continues to be undertaken predominantly on a desktop basis. Further details are provided within section 2.4. 'Current Activities'.
14. Section 2.5 'Resources, outlines that there has been a reduced capacity in the team during quarter one. One long-term sick case which began towards the end of quarter four 2020/21 has remained ongoing, and a Principal Auditor post was vacant for the majority of the quarter, until the new appointee started on 21 June 2021. The impact on the delivery of the Audit Plan has been broadly commensurate with above issues, which reduced the staff resources available during the quarter.
15. Section 2.6 'Annual Plan' provides details of the two audits targeted for delivery at the end of 2020/21 which were carried forward to the current Audit Plan, and information on the arrangement for the independent oversight of three Audit engagements linked to counter-fraud work.
16. In quarter one 2021/22, two audit outputs were issued with draft audit opinions of 'insufficient with major improvement' audit assurance. The findings of these audits are outlined within Annex 1, section 2.7 'Critical Findings or Emerging Trends (Q1 2021/22)'.
17. Proposed performance indicators are set to be realistic and stretching for the financial year within the ongoing environment, as detailed within section 3.2 'Performance'. Audits will be allocated on a basis that provides the greatest assurance and value, and mitigates any impairment to the annual opinion of the Audit Manager on the Council's control environment for 2021/22.
18. **Appendix A** shows a list of audits and their reporting status in the current year, as at 30 June 2021, in which fifteen new audit engagements have been completed to at least draft output stage. Outputs have been issued with an opinion of effective or effective with opportunity for improvement in 70% of the audit opinions provided in 2021/22, as at 30 June 2021. The current position for the full Audit Plan is shown in **Appendix B**.

### **a) Investigations**

19. Annex 2 outlines the activities of the Investigation Team in quarter one. For the year as a whole there are four hundred and forty two chargeable days available based on current resources (2.5 fte), indicatively split between strategic (80 days) and operational activities (362 days).

20. Excluding the one off business grants work, in respect of all other quarter one casework:

- One hundred and nine cases were identified for investigation so far this year, compared to sixty for the same period last year;
- One hundred and forty three investigations are ongoing, compared to two hundred and sixty four for the same period last year;
- Sixty nine have concluded, compared to seventy six over the same period last year;
- £355,790 has been attributed concluded investigations, compared to £95,992 for the same period last year.

21. In addition to identifying and progressing investigation cases, the team has continued to provide targeted counter-fraud advice, guidance and checks to support the control environment and the prevention and detection of fraud and error in the administration of grants on behalf of the Welsh Government.

22. The Committee has been previously advised of the post-payment verification process in respect of business support grants, for which the application system opened and payments to eligible businesses commenced in March 2020. From the £69 million distributed by the Council, to date £780k has been identified as paid in error of which £461k has been recovered. Seventy-seven cases are subject to ongoing review.

23. Following the Council's participation in a Cabinet Office / Audit Wales National Fraud Initiative pilot exercise, post award verification matches have been rolled out to all Local Authorities. Work will continue on these matches throughout the next quarter.

24. The summary report in Annex 2 provides further details in respect of the above, in addition to outlining the current position in respect of the roll out of fraud awareness training.

### **Audit Recommendations**

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

<b>Appendix C</b>	Recommendations Summary
<b>Appendix D</b>	Contains the red & red / amber open recommendations
<b>Appendix E</b>	Contains the red and red / amber recommendations completed since the last Committee meeting in March 2021.

### **Legal Implications**

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

### **Financial Implications**

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

## **RECOMMENDATIONS**

28. That the Governance and Audit Committee note and consider the contents of the:

- Internal Audit and Investigation Team Progress Reports.

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

The following are attached:

**Annex 1            - Internal Audit Progress - Summary Report**

**Appendix A**    Report Status as at 30 June 2021

**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**