
GOVERNANCE & AUDIT COMMITTEE: 23 November 2021

INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 5.1

Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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 quarter two period 2021/22, and follows the updates provided in the Committee meeting held on 20 July 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

Delivery 2021/22 (to date)

a) Audit

8. Annex 1 outlines how during quarter two 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 progress targeted assurance engagements from the Audit Plan.
9. Following a Control Risk Self-Assessment (CRSA) exercise completed towards the end of the financial year 2020/21, action plans containing recommendations have been issued for twenty-seven of the thirty-two schools sampled. The remaining five actions plans were being prepared for issue at the quarter end. Alongside individual school audits being completed this year, the implementation of recommendations through the CRSA exercise will be tracked, monitored and reported to support effective control environments across schools.
10. 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.
11. Audits continue to be undertaken predominantly on a desktop basis, and as at 30 September 2021, twenty-eight new audit engagements had been completed to at least draft output stage and sixteen audit engagements from the prior year had been finalised. Sixty-seven percent of audit opinions provided were of 'effective' or 'effective with opportunity for improvement'. Further details are provided within section 2.4. 'Current Activities'.
12. Section 2.5 'Resources, outlines that there has been a reduced capacity in the team during quarter two. One long-term sick case which began towards the end of quarter four 2020/21 has remained ongoing, there have been some instances of short-term sickness absence and greater development / wellbeing initiatives time has been used by the team. The Audit Management Team is monitoring the ongoing resources available closely, and in the event of a risk to the sufficient level of assurance work to support the annual audit opinion, options for additional temporary resourcing will be explored.
13. Section 2.6 'Annual Plan' outlines how the annual Audit Plan is designed to be of sufficient size to enable decisions on the timing and prioritisation of audit engagements to be made as each year progresses. Reflecting on audit coverage, in order to provide a sufficient body of assurance work to provide a full audit opinion for the year as a whole, at the mid-year point the Audit Plan has been subject to audit management review and senior officer engagement.

14. For the remainder of the year, it is proposed to target all planned audits of fundamental systems, a high level of coverage in areas of core governance and a spread of directorate level systems. Appendix B shows twenty-nine audit engagements highlighted in green which at this stage are not intended to be targeted for completion during 2021/22. The approval of the Committee is sought to formalise deferring these items from the current Audit Plan. It should be noted that the proposal does not impact the performance target, it instead indicates strategic priorities. The revised Audit Plan would still contain 75% of the audit engagements approved by Committee at the beginning of the year. The target is to deliver 70% of the original plan.
15. Making up the audits proposed for deferral are a small number of corporate audits, for which the reasons are contained within the section 2.6 'Annual Plan'. At a directorate level, it is proposed that a thematic audit in each directorate of performance management is deferred until early 2022/23 and replaced in 2021/22 with a single corporate audit of performance management, which would review the overall system and would contain testing of directorate application and compliance. This would release audit time to be applied in prioritised areas of the Audit Plan, whilst providing assurance on the performance framework and its application through the proposed single audit, for which Committee approval is requested. A spread of further directorate audits which it is not proposed to commence during 2021/22 are indicated within Appendix B.
16. In quarter two 2021/22, four 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 (Q2 2021/22)'.
17. Performance against the indicators set for the financial year is detailed within section 3.2 'Performance'. Lower audit delivery than planned is indicative of the lower capacity of the team as outlined in Section 2.5 'Resources'. Work is being prioritised and the position is being monitored by Audit Management Team, who will take steps to mitigate any risk to audit coverage in respect of the annual audit opinion. All draft outputs have been delivered within four weeks of completing fieldwork, in recognition of the importance of prompt reporting and timely management assurance. The importance of a timely response to audit recommendations has been reinforced through Senior Management Team agenda items and updates.
18. **Appendix A** shows a list of audits and their reporting status in the current year, and the current position for the full Audit Plan is shown in **Appendix B**.
19. 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 the last Committee meeting in July 2021.

a) Investigations

20. 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).
21. Excluding one-off business grants work, in respect of all other casework in the current financial year (as at 30 September 2021):
- Two hundred and fifty cases were identified for investigation, compared to one hundred and eight for the same period last year.
 - One hundred and thirty-one investigations are ongoing, compared to one hundred and fifty-seven for the same period last year.
 - Two hundred and sixteen investigations have concluded, compared to one hundred and seventy-nine over the same period last year.
 - £420,709 has been attributed concluded investigations, compared to £349,505 for the same period last year.
22. 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.
23. Through four separate post payment verification and assurance exercises in respect of Welsh Government Business Grants linked to non-domestic properties, one thousand two hundred and fifty-six priority matches were identified for review, of which thirty-nine are subject to ongoing enquiry.
24. The Investigation Team has worked with colleagues across the Council to prepare a series of articles to be communicated, as part of the internal campaign publicising International Fraud Awareness Week (commencing 15 November 2021). Particular areas of focus are: Corporate Criminal Offence, Insurance fraud, Payment Cards - Payment Card Industry Data Security Standard (PCI DSS).
25. Mandatory Fraud Awareness training continues to be delivered, and as at the 30 September, more than five thousand seven hundred employees had completed the eLearning or attended a face-to-face session.
26. 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.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

29. The Governance and Audit Committee is recommended to:

- Note and consider the contents of the Internal Audit and Investigation Team Progress Reports.
- Approve the addition of a corporate audit on performance management
- Approve the deferral of 29 audit engagements from the Audit Plan 2021/22 as identified within the Audit Plan (Appendix B)

CHRIS PYKE
AUDIT MANAGER

The following are attached:

Annex 1 - Internal Audit Progress - Summary Report

Appendix A Report Status as at 30 September 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