

## **GOVERNANCE & AUDIT COMMITTEE: 25 January 2022**

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

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

#### **AGENDA ITEM: 7.1**

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**Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**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 quarter three period 2021/22, and follows the updates provided in the Committee meeting held on 23 November 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.
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 three 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 all schools sampled. 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 31 December 2021, forty-two new audit engagements had been completed to at least draft output stage and twenty-one audit engagements from the prior year had been finalised. Sixty-nine 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 2.1 'Resources, outlines that there has been a reduced capacity in the team during quarter three. A member of staff returned from long term sickness on phased return, but there have been two further long-term sickness cases, and as the team is small there has been an impact on the delivery of the audit plan. To support the delivery of the audit plan, two audit engagements have been commissioned with an external provider under the direction and control of the Audit Manager.
13. Section 2.2 '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. All areas of the audit plan are being progressed, although in allocating and delivering work, the team are mindful of the current crisis in Social Services at the present time in terms of service demands, and the availability and priorities of key officers and management. There will be a continued focus on increasing the coverage of the Audit Plan in quarter four.
14. A number of audits are at a stage of active fieldwork or quality assurance at the time of reporting and substantial planning has taken place to commence further audit engagements. Each auditor has a full allocation of work to progress, subject to regular

monitoring and review processes. Audits are 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.

15. In quarter three 2021/22, one audit output was issued with an opinion of ‘unsatisfactory’ audit assurance and one audit output provided an opinion of ‘insufficient with major improvement needed’. The findings of these audits are outlined within Annex 1, section 2.4 ‘Critical Findings or Emerging Trends (Q3 2021/22)’. Once the management response has been received for the ‘unsatisfactory’ assurance audit and the audit has been finalised, the Governance and Audit Committee will receive an executive summary report of the findings and actions for improvement in the following Committee meeting in accordance with the Audit Protocol.
16. 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 2.2 ‘Resources’. Work is being prioritised and the position is being monitored by Audit Management Team, who will take steps to mitigate any risk to the sufficiency of audit coverage. The target is currently being met for draft outputs delivered within four weeks of completing fieldwork, although performance is lower when compared to the previous reporting periods. The percentage of audit recommendations implemented within the agreed timescales has improved compared to the prior quarter. The position is periodically reported to Senior Management Team, at which time performance and the importance of the timely implementation of agreed actions are discussed.
17. **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**.
18. 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 November 2021.

## **a) Investigations**

19. Annex 2 outlines the activities of the Investigation Team in quarter three. 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 one-off business grants work, in respect of all other casework in the current financial year (as at 31 December 2021):
  - Three hundred and five cases were identified for investigation, compared to one hundred and forty-one for the same period last year.
  - Eighty-five investigations are ongoing, compared to one hundred and ten for the same period last year.
  - Three hundred and seventeen investigations have concluded, compared to two hundred and fifty-seven over the same period last year.
  - £616,738 has been attributed concluded investigations, compared to £383,743 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. 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. Fifteen grant recipients are subject to ongoing review, the Investigation Team is also progressing one criminal investigation at the present time.
23. The summary report in Annex 2 provides further details in respect of the above, in addition to providing compliance data in respect of the completion of fraud awareness training.

## **Legal Implications**

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

## **Financial Implications**

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

## **RECOMMENDATIONS**

26. The Governance and Audit Committee is recommended to:
  - 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 December 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**