

GOVERNANCE & AUDIT COMMITTEE: 19 JULY 2022

INTERNAL AUDIT ANNUAL REPORT 2021/22

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 9.1

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 Plan 2021/22 was approved by the Governance and Audit Committee on 23 March 2021, after consideration and agreement with the Council's Senior Management Team. The Plan provided the framework for audit work aligned to the Council's corporate governance arrangements, whilst also being responsive to any changes to the risks faced by the Council during the year. Each year the Plan is mapped to business objectives, and key systems, whilst being informed by risk, governance, and assurance assessments.
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 2021/22 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 2021/22. 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 the 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 in the context of the ongoing pandemic, 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. The Audit Plan:
 - Contained assurance audit engagements, designed to support a full annual audit opinion on the Council's control environment. The Plan was of sufficient size to enable decisions on the timing and prioritisation of audit engagements to be made as each year progressed
 - Included audit consultancy and support in respect of the administration of Welsh Government COVID-19 funds for a range of grant and relief payment schemes. The focus has been to provide guidance on the design and implementation of effective controls in the administration these schemes to achieve compliance and control, and arrangements for the effective prevention and detection of fraud
8. The report outlines how each year, a proportion of the Audit Plan is targeted for delivery, and the target for 2021/22 was 70%. During the financial year, the Audit Plan and approach to delivery have been designed 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. This has included adding a substantial provision in the Plan for COVID-19 related audit consultancy work, setting a prioritised approach to auditing fundamental systems and corporate governance, and progressing a targeted spread of wider assurance work. 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 Chartered Institute of Internal Auditors (CIIA), the Internal Audit Standards Advisory Board 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 2021/22 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 71 new audit engagements to at least draft output stage, and finalised a further 23 draft outputs from the prior year. The percentage of the Audit Plan Completed (at 61%), and the number of finalised audits per FTE (at 7.4), were lower than planned. During the

year, the Team has faced reduced capacity which has affected delivery of the Audit Plan, most notably from a small number of long-term sickness cases. In the context of reduced staff resource, it is considered that an effective outcome was achieved in terms of audit delivery, coverage and focus, whereby a full annual audit opinion has been provided.

11. Through the reports issued, 429 recommendations were agreed of which 200 were implemented before the year-end. The level of recommendations implemented on time was 68%, which is below the target set. Ongoing attention is given to progress through Senior Management Team attendance and reports, regular following up progress with audit clients, and the practice of reporting all recommendations and management progress updates to the Governance and Audit Committee.
12. 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*'.
13. 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.
14. 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 92% of audit reports were delivered within four weeks. Audit client feedback continues to be positive overall with 100% satisfaction, and 90% 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/AAT) and Internal Audit (CIA/CMIIA). One member of staff has received funding to study for an Information systems audit qualification (CISA).
15. 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

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

Financial Implications

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

RECOMMENDATIONS

18. 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
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CHRIS PYKE
AUDIT MANAGER

The following report is attached:

Appendix A - Internal Audit Annual Report 2021/22