

**AUDIT COMMITTEE: 26 January 2021**

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

**REPORT OF THE AUDIT MANAGER**

**AGENDA ITEM: 10.1**

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**Appendices E and F in Annex 1 of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**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 Audit Committee Terms of Reference 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 Audit Committee Members with an update on the work and performance of the Internal Audit and Investigation Teams as at 31 December 2020.

**Background**

3. The Audit Committee formally approved the Internal Audit Plan 2020/21 on 28 July 2020, following a process of consultation and agreement between 23 March and 3 April 2020. The planned activity of the Investigation Team was provided for Audit Committee consideration and information on 28 July 2020. To clarify the priority areas of audit focus this year, against a performance target to deliver 60% of the original Audit Plan, the Audit Committee approved the deferral of 32 Audits on 17 November 2020.
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 Audit Committee.
5. The Investigation Team Progress Report (**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 Audit 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 Audit Committee for audit-related matters. There have been no impairments of independence or objectivity.

## Issues

### a) Audit

8. **Annex 1** outlines how the audit activities in quarter three have continued to adapt and respond to the current environment in which the Council is operating. In the context of the ongoing pandemic, whilst management focus on critical and priority matters, the team has continued to tailor its consultancy and assurance activities to provide support and attention where it is most required.
9. There has been a continuation of COVID-19 related audit consultancy services during quarter three, with the majority of support provided in respect of the administration of Welsh Government funds for a range of grant and relief payment schemes. As administration responsibilities are allocated to the Council for further schemes, audit colleagues will continue to be available to provide advice and guidance on the design and application of robust controls. A number of pieces of work seeking targeted assurance relating to the pandemic have been completed to at least draft output stage. Details of the nature, focus and findings of this work are outlined within section 2.1. 'Current Activities'.
10. As Committee has been advised previously, the initial focus of assurance work this year was to conclude ongoing audits with a low impact on the capacity of audit clients where possible. Towards the end of quarter one, the audit team commenced a targeted delivery of assurance audit engagements from the Audit Plan 2020/21, at a time when Council services were moving to a documented and managed 'restart'. Delivery of assurance audit engagements has continued thereafter, but has been affected by staff sickness and caring responsibilities, for which further details are provided within section 2.2. 'Resources'.
11. **Appendix A** shows a list of audits and their reporting status in the current year, as at 31 December 2020, whereby 52 new audit engagements have been completed, of which 26 audits have been finalised and 26 audits are at draft output stage. A further 21 draft audits from last year have been finalised in the year to date. Audit opinions of 'effective' or 'effective with opportunity for improvement' have been assigned for 79% of the assurance audit outputs issued in the year to date.
12. **Appendix B** shows the current position against the full Audit Plan 2020/21. Audit Committee was advised when considering and approving the Audit Plan, in March and July 2020 respectively, that due to a range of factors linked with the COVID-19 crisis, delivery would be significantly lower than usual. Members were advised that the Audit Plan would be delivered in a targeted way to maximise assurance and prioritise high-risk areas. Progress against the Plan was strong during quarter three, as outlined in Section 3.2 – 'Performance' in Appendix 1. However, in the context of a critical stage in the pandemic and some associated and wider resource issues, whilst there is good momentum to maintain a high level of audit delivery, this may not be feasible to sustain.
13. During the financial year, the Audit Plan and approach to delivery has been adapted in order to target assurance on key risks and controls, and to provide a body of assurance

work which is adequate 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. This approach is supported by professional and peer officer discussions, consideration of a recent publications from CIPFA, and relevant IIA briefings. During quarter three, two new audits have been added to the Audit Plan which, due to their size, have been agreed within the delegation of the Audit Manager to approve individual audit engagements, which are of no more than ten audit days. From the provision for grant audits, an audit of the Rumourless Cities Grant has been added to the plan, and audit participation has been arranged to support the National Fraud Initiative exercise.

14. **Appendix C** contains a recent high-level advisory from CIPFA for Heads of Audit and Audit Committees on the annual audit opinion in the current environment. In what has been an extraordinary year, subject to the ongoing reasonable availability of management and auditors, in the context of a critical stage of the pandemic, it is not anticipated that a limitation to the annual opinion on the Council's control environment will be necessary. Further information is provided within Annex 1, section 3.3 – 'Audit Plan – Development'.
15. In quarter three, four audit reports were issued with adverse audit opinions. One 'unsatisfactory' audit opinion was provided in respect of 'British Council Grants', and three 'insufficient with major improvement needed' draft assurance opinions were issued in respect of 'Gatehouse', 'Fly Tipping – Follow up' and 'Mileage and Subsistence'. The findings of these audits are outlined within Annex 1, section 2.4 'Critical Findings or Emerging Trends'. Further information is contained within section 3.3 – 'Audit Opinion – Development' of Appendix 1. Once the management response has been received for the 'unsatisfactory' audit, and the report has been finalised, Audit Committee will receive an executive summary report of the findings and actions for improvement.
16. Performance information and statistics are provided within section 3.2 'Performance'. The delivery of the Audit Plan at the end of quarter three was 38%, against an annual target of 60%, for which targeted progress remains a priority. The audit team have worked with management to finalise a number of audits, and to pursue updates and evidence of the completion of agreed recommendations. Performance is steadily improving, with a greater number of reports being finalised each quarter, and an increased proportion of recommendations being implemented within an agreed timescale. Given the escalation of the pandemic at the outset of quarter four, requests for management responses and updates will continue to be made, but it is recognised that at times performance may be impacted if management prioritise more critical activities associated with front line delivery and risk management.
17. An updated Control Risk Self-Assessment (CRSA) was issued to all schools towards the end of the autumn term, with requested response date of the end of January. Given the challenging and changing situation that schools have been managing since the start of quarter four is expected that the level of response by the requested date will be lower than usual. However, audit colleagues will engage with schools in the exercise during quarter four to request outstanding responses. Audit assurance on the control environment in schools will be targeted through a combination of CRSA response and evidence reviews, and individual school audits (albeit at a lower level than in typical years).

18. The status of audit recommendations is summarised in **Appendix D** to provide an overview of management progress. The detailed position against each red and red/amber recommendation is provided for open recommendations in **Appendix E**, and for recommendations closed since last considered by Committee in **Appendix F**.

### **a) Investigations**

19. **Annex 2** outlines the investigation activities as at the end of quarter three. For the year as a whole the Investigation Team has four hundred and ninety four chargeable days available based on current resources (2.5 fte), indicatively split between strategic (80 days) and operational activities (414 days). Three hundred and ninety two days have been applied as at the end of December 2020 as detailed in the progress report.

20. Six hundred and forty two cases have been concluded, in respect of post payment verification investigations associated with Business Grants, administered on behalf of Welsh Government. As Audit Committee was advised in November 2020, the cases were identified through a combination of data matching and manual exercises by Audit and Investigation Team staff.

21. Excluding the one off business grants work, in respect of all other casework as at the end of quarter three:

- One hundred and fifty one cases were identified for investigation so far this year, compared to one hundred and eighty four for the same period last year;
- One hundred and twenty nine investigations are ongoing, compared to one hundred and thirty eight for the same period last year;
- Two hundred and ninety four investigations have been concluded, compared to one hundred and sixty nine over the same period last year;
- £383,743 has been attributed concluded investigations, compared to £556,076 for the same period last year.

22. Mandatory fraud awareness training also continues to be delivered, and as at the 31 December, in the region of four and a half thousand staff and school governors had completed the eLearning or attended a face-to-face session.

23. The progress report also provides information on the outcomes of the latest biennial National Fraud Initiative (NFI) exercise in Wales, policy development and training updates, and details of participation in Fraud Awareness Week during November 2020.

24. The summary report in Annex 2 provides further details in respect of the above.

### **Legal Implications**

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

### **Financial Implications**

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

## **RECOMMENDATIONS**

27. That the Audit Committee considers and reviews the content of the Internal Audit and Investigation Team Progress Reports.

**Chris Pyke**  
**Audit Manager**

The following are attached:

**Annex 1 - Internal Audit Progress Report**

- Appendix A** Report Status as at 31 December 2020
- Appendix B** Audit Plan
- Appendix C** CIPFA Guidance – Head of Audit Annual Opinions
- Appendix D** Recommendations Summary
- Appendix E** Red & Red / Amber Open Recommendations
- Appendix F** Red & Red / Amber Recommendations Completed since last Committee

**Annex 2 - Investigation Team Progress Report**