



# Resources Directorate Internal Audit Section



## Internal Audit Progress Report (as at 31 December 2020)

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# INTERNAL AUDIT PROGRESS REPORT

## 1. INTRODUCTION

### 1.1 Background

The Internal Audit Progress Report 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.

The Internal Audit Plan provides the framework for audit work each year and is 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.

- The Audit plan 2020/21 was accepted by the Audit Committee through a period of consultation between 23 March – 3 April 2020, and received formal approval on 28 July 2020.
- To further 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.

This progress report provides a summary account of audit activities, findings and progress against the Audit Plan in quarter three 2020/21.

### 1.2 Independence and objectivity

The Internal Audit Section reports to the Audit Manager. In line with the provisions of the Public Sector Internal Audit Standards (1100), organisational independence is maintained, as 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.

### 1.3 Continuing professional development

Auditors completed their year-end personal reviews and formalised their objectives for 2020/21 in accordance with corporate timescales. Prior to discussing performance, auditors updated their skills assessments applying the IIA Professional Competencies Framework.

The results of personal reviews and skills assessments informed the year-end Audit Manager's review against the Quality Assurance and Improvement Programme (Standard 1300), from which a generally strong baseline of knowledge and skills were recognised across the audit team. Areas of the IIA Professional Competencies Framework where auditors scored themselves comparatively lower are being targeted through in-house team training sessions, which commenced in May 2020.

#### 1.4 Communication

In response to an action from a previous Audit Committee discussion, to communicate the role and work of Internal Audit more widely, a page on the Council's website has been developed and will be maintained with bilingual information, and reports following reporting to each Committee meeting.

- Welsh Link - <https://www.cardiff.gov.uk/CYM/Eich-Cyngor/Cyllid-y-cyngor/Rheoli-Cyllid-y-Cyngor/archwiliad-mewnol/Pages/default.aspx>
- English Link - <https://www.cardiff.gov.uk/ENG/Your-Council/Council-finance/Managing-the-Councils-Finances/internal-audit/Pages/default.aspx>

## 2. SUMMARY OF WORK PERFORMED

The following summary covers the work programme for 2020/21, and the associated activities, resources, findings and measures of performance as at the end of quarter three 2020/21.

### 2.1 Current activities

#### COVID-19 related consultancy services

As Audit Committee has been advised since the onset of the pandemic, significant audit attention has been given to providing critical advice and support to management as the Council adapted services and established new systems in response to the crisis. Consultation and engagement was provided in cases where there was a need for fundamental process change, a risk to resilience, the need to respond to a significant obligation or challenge as a result of the crisis, or a particular fraud or control risk.

Since quarter two, and thereafter, the majority of audit consultancy and support has been 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.

COVID-19 consultancy is recognised as three separate areas of audit work within the Audit Plan 2020/21, contained within the 100 days of bulk audit time available. The following table contains details of the COVID-19 consultancy work undertaken in the year to date.

**Figure 1.** COVID-19 consultancy work and status.

| Scope   | Area   | Scope   | Status    |
|---|--|---|-----------|
| <b>1. New system checks.</b><br>compliance,<br>internal controls<br>and counter-fraud | Start-up grants                                  | Supporting a multidisciplinary team with advice and guidance on design of the system through which grants were administered and paid. | Completed |
|   | Business grant administration                    |   |           |
|   | Wales culture recovery fund – freelancer support |   |           |
|   | Isolation payments                               |   |           |
|   | Lockdown grant                                   |   |           |
|   | Restrictions business fund                       |   |           |
|   | Supplier relief                                  | Discussion and engagement with commissioning and procurement and schools  | Completed |
|   | Coronavirus childcare assistance scheme          | Advice and guidance on processes and controls in the system for processing and administering payments.                                |           |
|   | Childcare provider grant                         |   |           |
|   | Care workers £500 payment scheme                 |   |           |
|   | Statutory sick pay enhancement scheme            |   |           |
| Childcare provider support (CWTCH) grant  |  |   |           |
| <b>2. Resilience, continuity &amp; control.</b><br>Consultancy                        | Procure to pay                                   | Advice and guidance in procurement systems and managed use of procurement cards.  | Completed |
|   | Procurement cards                                |   |           |
| <b>3. Counter-fraud prevention &amp; post assurance checks.</b>                       | Business grant administration                    | Active company checks, and validation of eligibility and fraud vulnerabilities for fraud prevention and detection.                    | Completed |

### Assurance audit engagements

As Audit Committee has been advised previously, at the outset of the financial year initial focus was given to the conclusion of audits which were already underway. Audits were progressed on a low impact on the capacity of the client, through an increased use of desktop testing, data and system interrogation, and a reduction in the level of management engagement during audit fieldwork where appropriate and feasible. Towards the end of quarter one, when Council services were moving to a documented and managed 'restart' across directorates, the audit team commenced a targeted delivery of assurance audit engagements from the Audit Plan.

Auditors have continued to complete their work while working remotely from home and, although it is noted that it can take longer than usual to receive all of the information and documents necessary to complete an audit, the process is generally working well. This year any site visits will be considered on the basis of business necessity only, and will be supported by authorised risk assessments and control processes.

The table below shows the list of audits completed and their reporting status in the current year to 31 December 2020. There have been 52 new audit engagements completed this year, 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. A summary of the audit outputs and opinions in the year to date is shown below.

**Figure 2.** Audit outputs and opinions (at 31 December 2020)

| Status       | Number of completed audits | Opinion   |  |   |                |                  |
|--------------|----------------------------|---|--|---|----------------|------------------|
|              |                            | Effective                                       | Effective with opportunity for improvement | Insufficient (major improvement needed) | Unsatisfactory | No opinion given |
| Draft        | 26                         | 5   | 17   | 3                                       | 1              | 0                |
| Final        | 47                         | 7   | 21   | 9                                       | 0              | 10               |
| <b>TOTAL</b> | <b>73</b>                  | <b>12</b>                                       | <b>38</b>                                  | <b>12</b>                               | <b>1</b>       | <b>10</b>        |
|              | 52                         | <i>New Audit Engagements completed</i>          |  |   |                |                  |
|              | 21                         | <i>Finalised Audit Engagements from 2019/20</i> |  |   |                |                  |

Since the last reporting period, one draft audit output has been issued with a draft opinion of unsatisfactory, and three draft outputs have been issued with opinions of insufficient with major improvement needed. Information on the findings of these audits is provided within Section 2.4 (Critical Findings or Emerging Trends).

**Figure 3.** Breakdown of audit outputs and opinions (at 31 December 2020)

| No.                                   | Assurance Audit Engagement                                  | Audit Opinion                              |
|---------------------------------------|---|--|
| <i>Delivery of Audit Plan 2020/21</i> |   |  |
| 1.                                    | Governance and Legal Services – Commissioning & Procurement | Effective                                  |
| 2.                                    | Codes of Conduct  |  |
| 3.                                    | Payroll – In-year Testing (2019/20)                         |  |
| 4.                                    | Payroll – In-year Testing (2020/21)                         |  |
| 5.                                    | Governance Arrangements 2020/21                             |  |
| 6.                                    | Business Grants Assurance                                   |  |
| 7.                                    | People and Communities – Commissioning and Procurement      |  |
| 8.                                    | Governance and Legal Services - Income and Debtors          |  |
| 9.                                    | Digital Services - Hybrid Mail                              | Effective with opportunity for improvement |
| 10.                                   | Health and Safety - Resources                               |  |
| 11.                                   | Programme and Project Risk Management                       |  |
| 12.                                   | Directorate Risk Management                                 |  |
| 13.                                   | Complaints and Compliments                                  |  |
| 14.                                   | City Deal 2019/20   |  |
| 15.                                   | PTE - Trolleys  |  |
| 16.                                   | Pensions and Investment In-year testing                     |  |
| 17.                                   | Resources – Commissioning & Procurement                     |  |
| 18.                                   | PTE – Commissioning & Procurement                           |  |
| 19.                                   | People & Communities – Asset Management                     |  |
| 20.                                   | Recruit   |  |
| 21.                                   | Economic Development – Commissioning & Procurement          |  |
| 22.                                   | Education Improvement Grant 2019/20                         |  |
| 23.                                   | Corporate Landlord  |  |
| 24.                                   | Follow up – Contacts in Waste Management                    |  |
| 25.                                   | Follow up – Income Procedures in School Kitchens            |  |
| 26.                                   | Commissioning and Procurement - Education                   |  |
| 27.                                   | Income and Debtors - Education                              |  |
| 28.                                   | Income and Debtors – Social Services                        |  |
| 29.                                   | Additional Payments (payroll & allowances)                  |  |
| 30.                                   | Follow up – Pontprennau Primary                             |  |
| 31.                                   | People and Communities – Income and Debtors                 |  |

|  |   |   |
|--|---|---|
| 32.  | Follow up – St Peters R.C Primary                                   |   |
| 33.  | Programme and Project Governance -                                  |   |
| 34.  | Economic development - Income and Debtors                           |   |
| 35.  | PTE - Asset Management  | Insufficient with major improvement needed      |
| 36.  | Street Scene (Waste Management) - Asset Management                  |   |
| 37.  | Social Services – Commissioning & Procurement                       |   |
| 38.  | Bereavement Services  |   |
| 39.  | Gatehouse   |   |
| 40.  | Mileage and Subsistence   |   |
| 41.  | Follow up – Fly Tipping   |   |
| 42.  | British Council Grants  | Unsatisfactory                                  |
| <b>Audit Work with 'No Opinion'</b>          |   |   |
| 43.  | Joint Committees - Prosiect Gwyrdd                                  | Consultancy, certification, advice and guidance |
| 44.  | Joint Committees - Port Health Authority                            |   |
| 45.  | Joint Committees - Glamorgan Archives                               |   |
| 46.  | New system checks - compliance, internal controls and counter-fraud |   |
| 47.  | Resilience, continuity & control - Consultancy                      |   |
| 48.  | Counter-fraud prevention & post assurance checks                    |   |
| 49.  | Payroll CRSA  |   |
| 50.  | Creditor payments CRSA  |   |
| 51.  | Schools CRSA  |   |
| 52.  | Private Rental Leasing Scheme                                       |   |
| <b>Concluded Reports from the prior year</b> |   |   |
| 53.  | Health and Safety - People and Communities                          | Effective                                       |
| 54.  | Major Projects Governance   |   |
| 55.  | Creditors - mid year testing 2019/20                                |   |
| 56.  | Digital Services - Virtual Agent                                    |   |
| 57.  | Health & Safety - PTE   | Effective with opportunity for improvement      |
| 58.  | Health and Safety - Economic Development                            |   |
| 59.  | Income collection - Cardiff High School                             |   |
| 60.  | Governance Arrangements 2019/20                                     |   |
| 61.  | Performance Management  |   |

|     |   |                                     |
|-----|---|-------------------------------------|
| 62. | Safeguarding - follow up                          |                                     |
| 63. | NNDR in-year testing                              |                                     |
| 64. | Lamby Way Stores - Follow Up                      |                                     |
| 65. | Pentyrch Primary School                           |                                     |
| 66. | Health and Safety – Social Services               |                                     |
| 67. | Foster Carers                                     |                                     |
| 68. | Health and Safety – Governance and Legal Services |                                     |
| 69. | Econ Dev - Asset Management                       | Insufficient with major improvement |
| 70. | IT inventory and asset management                 |                                     |
| 71. | Cardiff Film Office                               |                                     |
| 72. | Health and Safety - Waste Management              |                                     |
| 73. | Social Services – Asset Management                |                                     |

Further to the table above, the outputs that were not been given an assurance opinion and the reasons for this were as follows:

**Figure 4.** Completed audits without an assurance opinion (at 31 December 2020)

| Audit   | Comments   |
|---|--|
| Joint Committees - Prosiect Gwyrdd                                  | Work to support completion of Statement of Accounts, 2019/20   |
| Joint Committees - Port Health Authority                            |  |
| Joint Committees - Glamorgan Archives                               |  |
| New system checks - compliance, internal controls and counter-fraud | COVID-19 advice and guidance on establishing new systems and processes.  |
| Resilience, continuity & control - Consultancy                      | COVID-19 advice and guidance in procurement systems and managed use of procurement cards.  |
| Counter-fraud prevention & post assurance checks                    | Participation in data analytics and follow up checks to identify ineligible / fraudulent business grant cases.   |
| Payroll CRSA  | Control Risk Self-Assessment (CRSA) responses received. The assertions made in the management responses will be followed up with detailed audit testing during the year, at which time an audit opinion will be allocated.   |
| Creditor payments CRSA  |  |
| Schools CRSA  | Control Risk Self-Assessment (CRSA) prepared, presented to School Budget Forum and issued to schools for completion by the end of January 2021. The assertions made from Schools are being checked in the returns and supporting evidence received, with guidance provided as appropriate. |
| Private Rental Leasing Scheme                                       | Advice and guidance on the development of effective controls in the scheme.  |

The report status for the year to date is shown in **Appendix A**.

## COVID-19 related assurance audit engagements

As Audit Committee will be aware, the scope of all audits is based on an assessment of risk, and accordingly, governance, risk and control matters associated with the pandemic are subject to consideration and appropriate coverage in each audit engagement in the current environment. However, there have also been some targeted pieces of work which have focused more directly on receiving assurances relating to the pandemic, which have now been completed to at least draft output stage, for which further details are provided below.

**Figure 5.** COVID-19 completed assurance work

| Audit Area & Scope   | Key Findings   |
|--|--|
| <p><u>Governance Arrangements</u></p> <p>The audit focused on the arrangements and systems in place within the context of the Covid 19 pandemic. At the time of the audit the normal mechanisms for good governance, as represented by the Council’s Code of Corporate Governance, had been overtaken through the need to invoke emergency management reporting, decision making and control processes on an ongoing basis since the end of quarter four 2019/20. In the context of the ongoing pandemic, these systems represented a core element of day-to-day governance arrangements, and are the focus of this audit.</p> <p>The audit provided an assurance opinion of <i>effective</i>.</p> | <ul style="list-style-type: none"> <li>• The Council applied and adapted existing processes and invoked plans for business continuity and emergency responses.</li> <li>• A command and control approach for cascading communications and decision making was applied through designated Gold and Silver Officers.</li> <li>• Senior Management Team (SMT) meetings became a daily Strategic Coordination Group (SCG) on a cross directorate basis to manage issues such as PPE, food delivery, grant administration etc.</li> <li>• Instructions and templates were provided by the Emergency Management Unit for directorates to complete and return daily operational decisions and issues, with clear roles and responsibilities.</li> <li>• Other governance processes continued as usual or restarted relatively promptly with a level of development / adaptation promptly, e.g. the re-establishment of Committee meetings, Risk registers, which were developed to contain matters associated with the pandemic.</li> </ul> |
| <p><u>Income and Debtors (thematic review)</u></p> <p>A review of income and debtors was arranged in each directorate. The audits considered the processes and controls in place in the normal operating environment (during 2019/20), and has separately considered the management of associated risks in the context of the ongoing pandemic.</p>  | <ul style="list-style-type: none"> <li>• Through review and verification of records held, and processes outlined, there was general assurance on the systems in place to account for and reclaim lost income from Welsh Government associated with the pandemic in each directorate.</li> <li>• Draft recommendations have been raised with directorates in instances where it was considered that greater attention is required as part of the budget</li> </ul>  |

|  |   |
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| <p>In reviewing the position, relevant engagement was made with accountants and directorate management to understand and consider the reasonableness of current processes to reclaim lost income from Welsh Government as a result of the ongoing pandemic, and the reasonable development of income / budget plans for once this support ends.</p> <p>Governance and Legal Services received an audit opinion of <i>effective</i>, and the other directorates have received opinions of <i>effective with opportunity for improvement</i>. At the time of reporting, the fieldwork in respect of PTE and Resources is ongoing.</p>  | <p>setting process in respect of plans for lost income, for when ongoing support ends.</p> <ul style="list-style-type: none"> <li>• Wider common findings and recommendations related to maintaining up to date Payment Card Industry training for appropriate officers, and to document and align debt recovery processes in certain directorates.</li> </ul>  |
| <p><u>Commissioning &amp; Procurement (thematic review)</u></p> <p>A review of commissioning and procurement was arranged in each directorate. The objective of the audits was to provide assurance that Commissioning and Procurement activities are effective, undertaken in compliance with Contract Standing Orders and Procurement Rules (CSOPR), and appropriately monitored and overseen.</p> <p>The audit approach was delivered through an examination of:</p> <ul style="list-style-type: none"> <li>• Procurement transactions and activities in 2019/20, to understand typical procurement environment for the directorate in normal operating circumstances;</li> <li>• Procurement activities during the COVID-19 crisis, through officer interviews and examination of relevant records.</li> </ul> <p>The audits in People and Communities and Governance and Legal Services directorates received audit opinions of <i>effective</i>. The Resources, PTE, Economic Development and Education directorates received audit opinions of <i>effective with opportunity for improvement</i>, and the Social Services directorate received an audit opinion of insufficient <i>with major improvement needed</i>.</p> | <ul style="list-style-type: none"> <li>• The mechanisms for reporting and monitoring compliance were generally considered to be operating effectively across directorates, although in Social Services, as outlined in the last progress report to Audit Committee (17 November 2020), it was considered that a targeted strategic approach was required to recover from the current position, whereby a number of contracts were out of date or subject to extension and direct award, on a managed and targeted basis.</li> <li>• The audit recognised the communications to given to service managers and schools in respect of supplier relief.</li> <li>• Procurement activities during the pandemic were materially operated in compliance with due process, but there were some administrative gaps in the documentation of appropriate authorisations, for which recommendations were raised as appropriate.</li> <li>• A wider common finding from aged vendor analysis highlighted outstanding transactions that directorates needed to systematically review and clear from the GR/IR account to avoid payment delays or error.</li> </ul> |

|  |  |
|--|--|
| <p><u>Corporate Landlord</u></p> <p>As part of the audit review which considered the strategic and operational approach to managing the Council’s statutory obligations as Corporate Landlord, particular attention was given to reviewing compliance and control in the context of the ongoing pandemic, whereby after initial widespread homeworking, there was a managed reopening of the Council’s non-domestic estate.</p> <p>The audit provided an assurance opinion of <i>effective with opportunity for improvement</i>.</p> | <p>The audit recognised that there has been a well structured approach to risk assessments for staff, offices and buildings with senior officer sign off and health and safety officer support:</p> <ul style="list-style-type: none"> <li>• Before buildings could be reopened, a risk based approach has been followed with three forms of risk assessment required (re. gas, legionella and fire alarms), and very few buildings stayed open for essential officers at the start of the pandemic.</li> <li>• Prior to opening schools, a risk assessment was completed with the support of health and safety colleagues, and key checks were made.</li> </ul> <p>The overall compliance position has not been monitored or reported using the normal regime since March 2020. It is recommended that reports should now recommence to senior management team and other relevant health and safety oversight functions on statutory compliance, with focus given to isolating assurance on compliance of buildings that are operational.</p> <p>The audit raised wider recommendations to support and coordinate the strategic vision of the corporate landlord approach, to manage contractor performance issues, and to maintain effective security during the reduced level of presence in operational buildings.</p> |
| <p><u>Business Grants - Assurance</u></p> <p>The objective of the audit was to provide assurance that effective controls were put in place for the administration of the Covid-19 business support grants scheme.</p> <p>The audit provided an assurance opinion of <i>effective</i>. The auditor who completed the work had not been involved in the associated audit consultancy work in this area.</p>  | <p>The audit considered that Internal and external risk mitigation controls had been appropriately designed and a clear risk based database system was developed, with sound authorisation controls, record keeping and separation of duties in place, to prevent the majority of cases of fraud and error at the point of application, supplemented with mechanisms and arrangements to detect and take appropriate action in any cases where grants were paid in error.</p>  |

## 2.2 Resources

At the end of quarter three, a Principal Auditor left the team to work within the Accountancy Section. The audit post is considered as essential, and accordingly has been promptly advertised, with a closing date for applications of 29 January 2021.

The COVID-19 crisis has significantly affected the activities and capacity of audit clients, and it also had a material impact on the capacity of the audit team and the audit resources. The audit team has followed corporate guidance, whereby officers received special leave for periods that they have needed to care for dependants and have been unable to work. However, the team has shown significant personal flexibility in their commitment to limiting the use of special leave as far as possible.

In previous audit progress reports this year, Audit Committee was advised that available staff resources have also been impacted by an increased level of sickness and bereavement leave. At the start of the financial year, one member of the team was also temporarily deployed for a number of weeks to support their personal development and assist the finance team in preparation of the Statement of Accounts 2019/20, which also affected the staff resource.

Following two cases of long-term sickness within the team during quarter two, there has been one long-term sickness case during the majority of quarter three, which is presently ongoing. Given the relatively small team size, any cases of long-term sickness affect the level of progress that can be made against the plan during the quarter.

As all operational auditors and the audit assistant record all actual time worked, there is useful management information available for planning, monitoring and reporting purposes. Timesheet data contained 1,121.8 chargeable days as at the end of quarter three, against a pro-rata plan of 1,433.8 days, showing that the team has been operating at a chargeable capacity of circa 78% of planned. The audit targets for delivery of the Audit Plan 2020/21, as set out in section '3.3 - Performance', are based on delivery at 75% of the level targeted under normal conditions, given the current environment.

One member of the team has been approved to study for ISACA's Certified Information Systems Auditor (CISA) qualification, which they intend to commence during quarter four, to enhance the

IT audit skills within the team. One member of the team continues to be supported through a CIA qualification with the IIA, and is working towards their third and final exam. Funding to study for the CIA qualification for another member of the team has ceased due to unsuccessful attempts at second exam.

The audit team has received its latest CIPFA trainee placement, as CIPFA placements operate on an annual rotation across finance teams. As part of the trainee rotation there is a continuity of CIPFA placement resource for the audit team.

### 2.3 Annual plan

In considering the Audit Plan in March 2020, and in giving formal approval on 28 July 2020, the Audit Committee was advised that due to a range of factors linked with the COVID-19 crisis, delivery would be significantly lower than usual. The Plan was built on auditor and client availability and capacity in a normal operating environment, but targeted delivery of the Plan was set at 60% for the year, for which the typical target is 80%.

On 17 November 2020, Audit Committee agreed a targeted deferral of 32 audit engagements from the Audit Plan, to provide a clear risk-based focus on the areas where audit resources would be targeted. There has been limited subsequent change to the audit plan. 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.

The team has focussed on delivering their portfolio of audit engagements, and delivery has ramped up to provide a more favourable position at the end of quarter three, compared to prior reporting periods, as shown in figure 7 within the section '3.2 – Performance'. Whilst there has been an improved delivery of the assurance audit plan in quarter three, there will be significant challenges to deliver the 60% of the audit plan as targeted given the current environment of a critical stage of the ongoing pandemic, a vacant Principal Auditor post, and an ongoing long-term sickness case. However, there is good momentum and commitment in the team to continue to progress strongly in delivering the audit plan. It should also be noted that a significant amount

of COVID related consultancy work which whilst critical in nature, is represented as three units of audit work. This work, as detailed in Figure 1 of '2.1 – Current Activities' has been essential and will continue alongside the wider assurance audit plan. **Appendix B** shows the current position against the Audit Plan.

Whilst set on an annual basis, the Audit Plan is adaptable and responsive and will be subject to ongoing risk assessment, prioritisation and review throughout the year to maximise assurance and management support. In-year changes may be introduced where appropriate, to respond to emerging risks and issues as the year progresses. Further information on the targeted approach to adapting and delivering the Plan is contained in section 3.3. – 'Audit Opinion – Development'

#### 2.4 Critical findings or emerging trends

Over the reporting period, four audit outputs were issued with adverse audit opinions for which further details are provided in the paragraphs below. At the reporting date, the audits referred to below were at a draft status, for which the findings were being discussed with management, and once finalised, the final opinion and recommendations will be reported to Audit Committee.

An audit of 'British Council Grants' was issued with an opinion of 'unsatisfactory'. The audit reviewed compliance and control in the administration of British Council Grants by International School Linking (ISL), which is a team within the Education and Lifelong Learning directorate. The audit also sought assurance that a third party entity, International Links (Global) (IL(G)), which has no link to the Council but has been operating from the same location as ISL in Greenway Primary School, has full and proper separation from the activities, funding streams and resources of ISL. The audit considered that a number of control gaps need to be addressed by management to provide the necessary assurance on good governance in the administration of funds. It has also been reported that the operating environment and structure have inhibited a separate demarcation between each entity, as the lead Council officer (ISL Manager) was also a lead officer and director of the separate entity, to whom Council and private staff members reported and worked in a shared office. A series of recommendations have been raised for management consideration, and once the management response has been received and the audit has been finalised, Audit Committee will receive an executive summary report of the findings and actions for improvement in the following Committee meeting.

An audit of 'Gatehouse', operated to record weighbridge activity in Lamby Way and Bessemer Close, provided an insufficient assurance opinion. Following a previous audit during 2019/20, a key area still requiring attention relates to access rights for the Gatehouse system. Three officers, who were the administrators / super users of the Gatehouse system, had the ability to change system passwords and the access rights of all users. However, the system did not offer an audit trail of the amendment of system access or passwords, meaning that, in the event of an access concern or discrepancy, it may not be possible to identify those involved. Additionally, during the current audit, due to a system fault, it was not possible to view a report, showing the system users, their levels of access, or system activity status. Management has identified the procurement of a new weighbridge operations system, and associated CCTV, as the longer-term solution to a number of the control issues identified and have advised that it is anticipated that this will now be achieved by April 2021. The audit has, in general, noted good practices for recording waste movements on Gatehouse. However, a reconciliation was not being performed between entries recorded on the Gatehouse system and those captured separately on site. At the conclusion of the audit, management advised that this control had been reinstated.

A follow up audit of 'Fly Tipping' has provided an opinion of 'insufficient with major improvement needed'. The previous audit undertaken in 2019/20 received an unsatisfactory assurance opinion as processes were fragmented, fly tipping was not systematically recorded and properly evidenced at the point of receipt, and management monitoring and performance management arrangements were not sufficient, leaving the Council exposed to risk. The follow up audit has identified process development and alignment, in that the Council's Startraq system is being used to log fly tipping events and waste, and a greater level of evidence is being systematically obtained to support fly tipping waste collection activities. However, the agreed monitoring regime and data validation have slipped due to the demands of the ongoing pandemic. A number of other recommendations were being progressed and, whilst their progression to date has provided a level of mitigation, the current control environment still required improvement in order to provide the necessary assurance that risks are effectively controlled.

An audit of 'Mileage and Subsistence' provided an opinion of 'insufficient with major improvement needed'. The audit identified that authorisation to drive documentation, certifying that officers driving for work purposes had a valid insurance, MOT and driving licence was not being kept up to date. A material proportion of receipts for mileage claims were also not attached

to DigiGOV claims to allow for clear visibility and auditability of compliance and control, and individual claims did not consistently contain valid VAT receipts to cover all journeys claimed. In respect of subsistence, some matters of eligibility in respect of Council policy are being discussed with HR. The overall findings will be discussed with the management in HR and the Council's VAT Accountant, together with the proposed recommendations for improvement.

## 2.5 Follow up audits

Audit Committee will be aware that, in accordance with the Audit Protocol, in each case where an audit is assigned an unsatisfactory audit opinion, arrangements are made for a follow up audit in order to seek assurance that the necessary improvements have been made.

Draft audit outputs have been issued for four follow up audits, representing areas previously assigned unsatisfactory assurance opinions. In three follow up audits, sufficient progress was considered to have been made, for audit opinions of 'effective with opportunity for improvement' to be allocated. In the remaining follow up audit an opinion of 'insufficient with major improvement needed' was allocated. Further details are outlined below.

The follow up audit of 'Contracts in Waste Management' provided an assurance opinion of effective with opportunity for improvement. It was recognised that management have provided substantial attention to reviewing their existing contract position, and coordinating improvements. Over the last twelve months, the incidence of high value procurements without a current contracts in place, have been significantly reduced / addressed. In addition, a number of re-procured and newly procured contracts were well progressed and either out to tender and/or in the standstill of award/pipelines, albeit some contracts were delayed due to the COVID-19 crisis and officer availability. Discussions were also ongoing between senior officers in Waste Management and Commissioning & Procurement to develop use of the Proactis system, to facilitate ongoing contract monitoring and management. Areas still requiring management attention from the previous audit, related to processes for income contracts, contract and variation planning, performance monitoring, and contract management and reporting for which actions were ongoing.

The follow up audit of 'Income Procedures in School Kitchens' provided an assurance opinion of effective with opportunity for improvement. The audit identified that the pertinent areas for

which the previous audit opinion was unsatisfactory had been mitigated through an enhanced digitisation of processes. From March 2020, the start of the Covid-19 pandemic, the rollout of a cashless method of collection of income was accelerated to aid schools and the Council in the provision of food to free school meal pupils. There were, however, a small number of schools that, for varying reasons, were not using the cashless method of collection. The updated arrears policy based on a cashless catering school was yet to be issued, as not all schools had previously been moved to the cashless catering function. Debts had not risen substantially but there is a risk that this will change due to the current and future uncertain economic environment.

The follow up audit of 'Pontprennau Primary' provided an assurance opinion of effective with opportunity for improvement. The audit recognised improvements in the governance arrangements in place at the school. The Governing Body had been strengthened and policies updated; three governors had not yet completed their mandatory training but, at the time of the audit, were within the timetable set for the completion of the training. The school's charging and remissions policy and authority list had been updated but needed further revision to strengthen internal controls. There had also been improvements in the level and frequency of budget monitoring information provided to the Finance Committee. Information was being provided to governors on a monthly basis, which gave the governors an opportunity to monitor the school's spending profile. Although it was appreciated that the school's private fund was now a standing item on the agenda of meetings of the Finance Committee, further improvement was recommended in its management, as the account had not been audited in some time.

The only follow up audit output issued with an adverse audit opinion was in respect of 'Fly Tipping', for which information is provided in section 2.4 – 'critical findings or emerging trends'.

## 2.6 Value for money findings

There were no value for money themed audits undertaken within the reporting period. The vast majority of audits undertaken by the Internal Audit Team have objectives which cover value for money assurances, from which a general satisfactory level of assurance can be provided for the reporting period. However, within the audits of a lower assurance opinion, there were control gaps, which need to be addressed to provide assurance that the objectives of these services are being run with proper attention to a combination of economy, efficiency and effectiveness.

### 3. AUDIT PERFORMANCE AND ADDED VALUE

#### 3.1 Added value

Relationship Management meetings have continued to be held on a quarterly basis with senior officers in each directorate. Particular focus has been given to understanding the priorities and risks within each management team, and the changes to systems or processes planned or underway, in order to direct audit advice and inform the planning of audit engagements. Attention has also been given to discussing progress against the delivery of audit recommendations and the finalisation of audit reports.

Feedback from audit clients has been positive in the year to date. Twenty five questionnaire responses have been received and in all areas responded to auditors were assessed as at least 'satisfactory'. In all responses received clients advised that the audit 'added value'.

In the audit outputs issued to date (as at 31 December 2020), there have been 397 recommendations made: 194 recommendations have been agreed, and the remaining 203 are being considered by audit clients through draft audit outputs. These are summarised below:

**Figure 6.** Recommendations raised and agreed

| Rating        | Recommendations made | Recommendations agreed | Recommendations being considered |
|---------------|----------------------|------------------------|----------------------------------|
| Red           | 32                   | 11                     | 21                               |
| Red / amber   | 172                  | 81                     | 91                               |
| Amber / green | 165                  | 87                     | 78                               |
| Green         | 28                   | 15                     | 13                               |
| TOTAL         | 397                  | 194                    | 203                              |

#### 3.2 Performance

As outlined in section 2.1 ('Current Activities'), the focus of audit work at the start of the financial year was to provide audit consultancy and support to areas where Council services needed to change and adapt to the crisis. This was followed by a more formal commencement of assurance audit engagements and a managed return to business as usual in June 2020, at the time when services has commenced a formal 'restart' phase. This assurance work ramped up during quarter three, and whilst efforts will continue to sustain performance in quarter 4, it is expected that delivery will be affected as audit staff and client work through a critical stage of the ongoing pandemic.

As outlined in 2.2 ('Resources'), there are various reasons why the audit service has been operating at a lower capacity, and in some cases efficiency, than usual. In recognition of the current environment which can impact on the capacity and availability of both auditors and clients, performance targets were lowered from their usual levels, and set at stretching but more realistic levels for the year, and discussed with Audit Committee in July and shown in Figure 7. The average number of audit productive days to date is in line with expectations in the current environment, and the team has continued to deliver draft reports promptly, after the conclusion of audit fieldwork.

Audit Committee was advised on 28 July 2020 that, during quarter one, the audit team stood down from seeking management responses and progress against recommendations raised, and finalising audits. This action was taken to give management the space to address crisis management matters. The normal regime resumed in quarter two, following which 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.

The last area of the Audit Plan to commence related to school audits. An updated Control Risk Self-Assessment (CRSA) was issued to all schools towards the end of the autumn term with a 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, it 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. School audits commenced during quarter three on a desktop basis, in order to safeguard schools and audit staff during the pandemic. 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). It is anticipated that this will achieve sufficient assurance work to avoid having to report a limitation on the annual assurance opinion in respect of schools. Further information is provided in section 3.3 – 'Audit opinion - development'.

**Figure 7.** Performance against targets for 2020-2021 (to date)

| Performance Indicator   | 2019/20 Outcome | 2020/21 Target | Q1 Outcome | Q2 Outcome | Q3 Outcome  |
|---|-----------------|----------------|------------|------------|-------------|
| The percentage of the Audit Plan completed                                      | 70%             | 60%            | 9%         | 20%        | <b>38%</b>  |
| The average number of audit productive days per FTE                             | 169             | 130            | 33         | 67         | <b>109</b>  |
| The average number of finalised audits per FTE                                  | 11              | 9              | *0.54      | 2.48       | <b>5.06</b> |
| The percentage of draft audit outputs delivered within six weeks                | 86%             | 85%            | 100%       | 100%       | <b>100%</b> |
| The percentage of audit recommendations implemented within the agreed timescale | 60%             | 80%            | **0%       | 50%        | <b>82%</b>  |

\* Draft reports not chased up to be finalised in Q1, to allow for attention on COVID-19 priorities.

\*\* Implementation of recommendations not chased up in Q1, to allow for attention on COVID-19 priorities.

### 3.3 Audit opinion - development

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.

All decisions in respect of the Plan have been made within appropriate attention to risk, professional standards and advisories from CIPFA and the IIA, and the advice of professional and peer officers. CIPFA has recently published guidance on 'Head of Internal Audit Annual Opinions', which is contained in **Appendix C**, as a high-level advisory for Heads of Audit and Audit Committees.

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. The capacity of management in the Education and Social Services areas of the Council is particularly impacted by the current phase of the pandemic, but a reasonable level of work has been completed in respect of Social Services to date, with further work underway. In respect of Education, a reasonable level of the Plan has been completed, and an approach is in place to complete a targeted CRSA exercise with schools during quarter four, and undertake further individual school audits on a desktop basis.

### 3.4 Recommendations

A summary of the open audit actions is included within **Appendix D**, to support the Audit Committee to monitor and review the management response to recommendations raised.

Included within **Appendix E** are the red and red/amber open recommendations including the current management response for the information and monitoring of the Audit Committee. **Appendix F** contains the red and red/amber recommendations, which have been completed since they were last considered by Audit Committee. Amber / green and green recommendations are provided to Committee via a separate route.

The position against recommendations is reported, to monitor progress and target discussions on the effective management of risk management, in relationship management meetings each quarter. The table below shows the instances where implementation dates have been revised, typically by audit clients on SharePoint (as at 31.12.20).

**Figure 8.** Revised recommendation implementation dates and status

| Directorate / Audit Category       | Number of recommendations with revised dates | Actions now implemented | Actions still open |
|------------------------------------|--|-------------------------|--------------------|
| Education and Lifelong Learning    | 41   | 22                      | 19                 |
| Social Services                    | 17   | 11                      | 6                  |
| Resources                          | 7  | 4                       | 3                  |
| Housing and Communities            | 4  | 2                       | 2                  |
| Planning Transport and Environment | 6  | 3                       | 3                  |
| Waste Management                   | 54   | 37                      | 17                 |
| Central Transport Services         | 9  | 5                       | 4                  |
| Economic Development               | 21   | 16                      | 5                  |
| External and grants                | 8  | 1                       | 7                  |
| Fundamental                        | 9  | 6                       | 3                  |
| Corporate Governance               | 13   | 6                       | 7                  |
| Governance and Legal Services      | 2  | 0                       | 2                  |
| Other assurance                    | 17   | 6                       | 11                 |
|                                    | 208  | 119                     | 89                 |
| Schools                            | 192  | 130                     | 62                 |
| <b>TOTAL</b>                       | <b>400</b>                                   | <b>249</b>              | <b>151</b>         |

**NB** - It should be noted that the table above represents the quarter-end position, whereas the recommendation tracker appendices show the detailed position against each recommendation at the closest possible date to each Committee meeting.

## 4. CONCLUSION

### 4.1 Summary

Quarter three has seen a continued, albeit lower need to deploy audit resources for advice, guidance and support services to management as systems and processes have responded to the crisis. The majority of COVID-19 related consultancy services now relate to the provision of advice and guidance on the application of effective controls in administration of a range of Welsh Government funds.

Assurance audit engagement activity has ramped up during the year, and there has been a recovery against the audit plan during quarter three. 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.

However, following an agreed reprioritisation of the Audit Plan in November 2020, there has been a continued, targeted and informed approach to delivering the Plan. All fundamental system and corporate governance reviews are being completed from the Plan, and a provision of work is targeted in each further area of the Plan, to provide a sufficient breadth of assurance work, and avoid the requirement to limit the annual assurance opinion based on the actual programme of work completed at the end of the year. This approach is supported by professional and peer officer discussions, in consideration of a recent publication from CIPFA, and relevant IIA briefings.

The regime of chasing up management responses to recommendations and finalising audits is in place, and performance has been improving, but it is recognised that some management teams may consider it necessary to prioritise front-line critical issues associated with the ongoing pandemic.