

AUDIT COMMITTEE: 23 March 2021

INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 7.2

Appendices D and E in Annex 1 of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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. Progress Reports have been prepared to provide Audit Committee Members with an update on the work and performance of the Internal Audit and Investigation Teams as at 28 February 2021.

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 audit activities have continued to adapt and respond to the current environment. 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, for which the majority of 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. Details 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'. A recruitment exercise has been completed successfully for a vacant Principal Auditor post, and the new post holder is scheduled to commence at the beginning of May 2021.
11. **Appendix A** shows a list of audits and their reporting status in the current year, as at 28 February 2021, whereby 58 new audit engagements have been completed, of which 38 audits have been finalised and 20 audits are at draft output stage. A further 26 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 76% of the assurance audit outputs issued in the year to date.
12. 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 pandemic, 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. Within section 2.3. 'Annual Plan' the position is outlined in respect of audits which are targeted for completion by the financial year-end. If each of these audits are completed as planned, delivery of Plan will be in the region of 56%, which is short of the target of 60%, although in the current unprecedented environment it would be considered as an effective outcome. Any slippage in delivering the targeted audits would affect the performance against this measure, for which monitoring and support arrangements are in place.

13. In respect of schools, priority has been given to maximising completion and review of CRSA responses. All schools have been required to participate in a Control Risk Self-Assessment (CRSA) exercise, requiring them to respond to a detailed set of control statements, to identify actions for improvement in the event of any gaps, and to provide a portfolio of evidence to support the assertions made within their returns. A large desktop sample review of CRSA returns will be completed to provide a breadth of baseline assurance across schools to support the annual audit opinion.
14. Subject to the reasonable delivery of the audit engagements targeted, and the school CRSA review, it is not anticipated that a limitation to the annual opinion on the Council's control environment will be necessary for 2020/21. Peer and professional discussions / reviews are continuing, and will inform the approach taken to reporting following the financial year-end. In the meeting on 26 January 2021, Audit Committee was provided with a high-level advisory from CIPFA for Heads of Audit and Audit Committees on the annual audit opinion in the current environment for information.
15. Over the short reporting period since the Committee's last update, one draft audit output was issued with an opinion of insufficient with major improvement needed in respect of 'Cardiff Bus – Governance'. The findings of this audit are within section 2.4 'Critical findings or emerging trends'. In early March, following the end of the reporting period, the audit of British Council Grants was finalised. This audit received an unsatisfactory assurance opinion, and was reported to Audit Committee at the draft report stage on 26 January 2021. An executive summary report is included within **Appendix B** for Audit Committee information.
16. The status of audit recommendations is summarised in **Appendix C** to provide an overview of management progress. The detailed position against each red and red/amber recommendation is provided for open recommendations in **Appendix D**, and for recommendations closed since last considered by Committee in **Appendix E**.

b) Investigations

17. **Annex 2** outlines the investigation activities as at 28 February 2021. 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). Four hundred and seventy eight days have been applied to date, as detailed in the Progress Report.
18. Nine hundred and sixty 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. The outputs of a further data matching exercise with the NFI are due shortly, and cases will be progressed accordingly.
19. Excluding the one off business grants work, in respect of all other casework as at 28 February 2021:
 - One hundred and seventy four cases were identified for investigation so far this year, compared to three hundred and sixty three for the same period last year;
 - One hundred and twenty eight investigations are ongoing, compared to two hundred and sixty seven for the same period last year;

- Three hundred and twenty three investigations have been concluded, compared to two hundred and seventeen over the same period last year;
- £431,953 has been attributed concluded investigations, compared to £616,127 for the same period last year.

20. Mandatory fraud awareness training continues to be delivered, and over four thousand eight hundred staff / school governors have completed the eLearning or attended a face-to-face session. An Anti-Money Laundering eLearning module has been developed and communicated for completion by relevant officers, as referred to in the Progress Report.
21. The Progress Report also provides information on the outputs of the latest biennial National Fraud Initiative (NFI) exercise in Wales, and the results of the CIPFA Fraud and Corruption Tracker 2020.
22. The summary report in Annex 2 provides further details in respect of the above.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

25. 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 28 February 2021
- Appendix B** British Council Grants – Executive Summary
- 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 Report