

## **GOVERNANCE & AUDIT COMMITTEE: 15 March 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**Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972**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 26 January 2022.

#### **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 the year to date the priorities and approach of the Internal 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 28 February 2022, forty-seven new audit engagements had been completed to at least draft output stage and twenty-two audit engagements from the prior year had been finalised. Seventy-two percent of audit opinions provided were of 'effective' or 'effective with opportunity for improvement'. Further details are provided within section 2.1. 'Current Activities'.
12. Section 2.2 'Resources, outlines the reduced capacity in the team during over the year to date. Within this section of the report, it is with great sadness that we report the loss of a member of our Audit Team who passed away in recent weeks. Our thoughts are with the family of our dear friend and colleague at the current time.
13. We also report that our Principal Auditor has recently accepted a job outside of the Council and will be leaving the Team during March 2022. We wish him well in his new role, and a recruitment exercise is being initiated for a replacement officer to this important audit management role. Committee will be aware that to support the delivery of the Audit Plan, two audit engagements have been commissioned and are being delivered by an external provider under the direction and control of the Audit Manager.
14. Section 2.3 '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. As at 28 February, a number of audits are underway and at various stages of progression for which the detailed position is shown in Annex 1 – figure 4. It is intended to complete the majority of these audit to draft report stage by the end of March 2022, with the remaining audits to be completed early in the financial year 2022/23.

15. It is pleasing to report that all draft audit outputs issued in the reporting period had an opinion of effective or effective with opportunity for improvement. Within Annex 1, section 2.4 'Critical Findings or Emerging Trends' it is reported that an audit of Cardiff West Community High School has been finalised and accordingly the Executive Summary Report is included within Appendix B for the information of the Governance and Audit Committee. A follow up audit has been included within the draft Audit Plan 2022/23 for which Committee approval is sought as part of agenda item 7.2.
16. The performance position in respect of quarter three was provided to the Governance and Audit Committee in January 2022, with relevant commentary, and it is provided in section 3.2 'Performance' for reference ahead of the quarter four statistics which will be collated following the financial year-end.
17. A core focus of the team during the remainder of quarter four is to deliver the majority of the audit engagements listed in figure 4 to draft report stage. This will provide a strong level of coverage for the annual opinion from the Audit Manager on the Council's control environment. Alongside this work, focus is being given to finalising audits on a timely basis and the delivery of audit recommendations within the required timescales. The Audit Manager attended a Senior Management Team meeting on 1 March 2022 to provide relevant analysis, to discuss performance, and to emphasise the importance of continued management attention in these areas.
18. **Appendix A** shows a list of audits and their reporting status in the current year. **Appendix B** contains the Executive Summary Report for Cardiff West Community High School.
19. 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 January 2022.

#### **b) Investigations**

20. Annex 2 outlines the activities of the Investigation Team in the financial year to date. 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). To date the team have applied 452 chargeable days.
21. Excluding one-off business grants work, in respect of all other casework in the current financial year (as at 28 February 2022):
  - Three hundred and seventy-eight cases were identified for investigation, compared to one hundred and fifty-five for the same period last year.
  - Seventy-seven investigations are ongoing, compared to one hundred for the same period last year.
  - Four hundred and one investigations have concluded, compared to two hundred and eighty-five over the same period last year.
  - £633,757 has been attributed concluded investigations, compared to £431,953 for the same period last year.

22. 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.
23. 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. Twelve grant recipients are subject to ongoing review, the Investigation Team is also progressing one criminal investigation at the present time.
24. The summary report in Annex 2 provides further details in respect of the above, an update on the targeted blue badge scheme, and details on training supported by the Corporate Investigation Team.

### **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. 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 28 February 2022
- Appendix B** Cardiff West Community High School – 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 – Summary Report**