

GOVERNANCE & AUDIT COMMITTEE: 19 July 2022

INTERNAL AUDIT & INVESTIGATION TEAM - PROGRESS REPORT

REPORT OF THE AUDIT MANAGER

AGENDA ITEM: 9.2

Appendices D and E of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972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 period from 1 March - 30 June 2022, and follows the updates provided in the last Committee meeting held on 15 March 2022.

Background

3. The Governance and Audit Committee approved the Audit Charter and the risk-based Audit Plan 2022/23 on 15 March 2022 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. It is positive to report that no 'unsatisfactory' audit opinions have been provided over the reporting period.
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 Public Sector Internal Audit Standards (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

Conclusion of 2021/22

8. The appended progress reports contain sections in respect of the financial year 2021/22, which set out the work undertaken, the findings and outcomes of the Audit and Investigation Teams as at the financial year-end. A full account of the activities of the Internal Audit Team for the year is provided separately within the draft Internal Audit Annual Report 2021/22, for consideration by the Committee in agenda item 9.1. The draft Counter-Fraud Annual Report 2021/22 is scheduled for reporting to the Governance and Audit Committee in the September 2021 meeting, and will provide a full account of the activity of the Investigation Team during the year.
9. The pertinent year-end information in Annex 1 relating to Internal Audit activity, comprises the final position against the Audit Plan 2021/22 and the critical findings and emerging trends in March 2022. For the year overall there were 71 new audit engagements completed to at least draft output stage against an original plan of 116 audits (61%), and a further 23 draft outputs from the prior year were finalised.
10. In March 2022, four audit outputs were issued with draft audit opinions of 'insufficient with major improvement needed'. The details of these audit and the pertinent findings are outlined in detail within Annex 1, section 2.2 'Critical Findings or Emerging Trends (March 2022)'.
11. The Investigation Team Progress Report in Annex 2 contains the year-end position for 2021/22 in respect of the counter-fraud activity and impact. During 2021/22, in addition to COVID-19 related grants work, Four hundred and sixty-nine business as usual cases were identified for investigation, and four hundred and eighty-nine cases were concluded. With regards to the impact:
 - Seventy-three Blue Badge investigations concluded and forty-four offenders received a criminal sanction.
 - One hundred and fifty-three Council Tax Liability investigations concluded and identified £72,498 of under charged liability, to be recovered.
 - Eighty-six Council Tax Reduction investigations concluded resulting in overpayments of £9,726 being identified for recovery.
 - Sixty employee investigations concluded, resulting in 8 cases of management action, 2 written warnings, 2 resignations and 4 dismissals.
 - Thirty-five Insurance claims were amended or withdrawn, saving £750,332.
 - Thirteen tenancy investigations were completed, through which nothing untoward was found.
 - Sixty-nine 'other' cases concluded, of which sixty-four were in respect of Creditor / VAT data matching. The other five cases related to allegations of false invoices, breach of planning, grant and contract fraud. In total £24,880 was identified for recovery, which related to one grant and one instance of overpaid VAT.

Delivery 2022/23 (to date)

a) Audit

12. Annex 1 provides details of an external peer assessment, which is scheduled to commence during quarter three 2022/23, for external assurance of ongoing internal audit conformance with the PSIAS. This information is contained within section 1.4 'External Peer Assessment' together with details of the current assurance arrangements in place.
13. The report outlines how during quarter one 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 commence the delivery of assurance engagements from the Audit Plan.
14. At a time when the majority of audit work against the Audit Plan for 2021/22 has been concluded, a number of assurance audit engagements have commenced from the Audit Plan 2022/23. This work continues to be undertaken predominantly on a desktop basis, although site visits are taking place for establishment audits, and where there is a need to observe the operation of physical controls or operating practices. The Internal Audit Team has also continued to be available and to provide advice and guidance on the design and implementation of effective controls in the administration of Welsh Government grant schemes, to achieve compliance and control, and arrangements for the effective prevention and detection of fraud. Further details are provided within section 2.4. 'Current Activities'.
15. Section 2.5 'Resources', outlines the small restructure within the team during quarter one, whereby a vacant auditor post at 0.6 FTE was deleted, and a senior auditor post 1 FTE was created. The additional base budget allocation was agreed by the Corporate Director Resources, in recognition of the need for a greater level of senior auditor resource to support the consultation and assurance requirements of the team. A recruitment exercise is underway for the two available posts at the time of reporting with an advert closing date of 15 July 2022. The above vacant posts have had an impact on the available staff resource during quarter one, which has impacted on the progression of the audit plan. In the event that the recruitment exercise is unsuccessful, temporary staffing arrangements will be explored until the posts can be filled on a permanent basis. It is also not uncommon for performance to be lower in quarter one, as a new portfolio of audit engagements are worked on, some of which are well progressed but have not been concluded at the quarter end.
16. Section 2.6 'Annual Plan' provides details of the position against the audits targeted for delivery at the end of 2021/22 which were carried forward to the current Audit Plan, and information is provided on the arrangement for the independent oversight of the audit of Welsh Government Covid Grants – Assurance. It is reported that arrangements will be made for the audit to be overseen by an Operational Manager within Accountancy, with no involvement in the audit review from the Audit Manager, who has advised on the design and operation of controls in the administration of these grants.
17. In quarter one 2022/23, it is positive to report that all audit opinions provided were either 'effective' or 'effective with opportunity for improvement'. Within Annex 1, section 2.7 'Critical Findings or Emerging Trends (Q1 2022/23)', details are given on the findings of three audit engagements, one of which is the conclusion of the final fundamental system audit from the prior year, and the other two audit areas have been considered in some detail in recent Committee discussions and enquiries.

18. Proposed performance indicators are set to be realistic and stretching for the financial year within the ongoing environment, as detailed within section 3.2 'Performance'. Audits will be allocated on a basis that provides the greatest assurance and value, and mitigates any impairment to the annual opinion of the Audit Manager on the Council's control environment for 2022/23.
19. **Appendix A** shows a list of audits and their reporting status in the current year, as at 30 June 2022, in which fourteen new audit engagements have been completed to at least draft output stage. Outputs have been issued with an opinion of effective or effective with opportunity for improvement in all the audit opinions provided in 2022/23, as at 30 June 2022. The current position for the full Audit Plan is shown in **Appendix B**.

a) Investigations

20. Annex 2 outlines the activities of the Investigation Team in quarter one. For the year as a whole there are four hundred and forty-three chargeable days available based on current resources, indicatively split between strategic (80 days) and operational activities (363 days).
21. Excluding the one-off business grants work, and Insurance data, which is not currently available, in respect of all other quarter one casework:
- Fifty-six cases were identified for investigation so far this year, compared to one hundred and eight for the same period last year.
 - One hundred and seven investigations are ongoing, compared to one hundred and nineteen for the same period last year.
 - Thirty-seven investigations have concluded, compared to fifty-six over the same period last year.
 - £24,511 has been attributed concluded investigations, compared to £38,701 for the same period last year.
22. In addition to identifying and progressing investigation cases, the team has continued to provide counter-fraud advice, guidance, training and support across the Council.
23. The summary report in Annex 2 provides further details in respect of the above.

Audit Recommendations

24. The recommendations and progress at the reporting date are provided in the following appendices.

Appendix C	Recommendations Summary
Appendix D	Contains the red & red / amber open recommendations
Appendix E	Contains the red and red / amber recommendations completed since the last Committee meeting in March 2022.

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 Governance and Audit Committee 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 30 June 2022
- Appendix B** Audit Plan
- 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