



# ANNUAL INTERNAL AUDIT REPORT

2019/2020

## Annual Internal Audit Report 2019/20

**Section 1 – Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires the Head of Internal Audit to deliver an annual internal audit opinion and report which can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 1.2 The 2019/20 Internal Audit Plan outlined the assignments to be carried out to enable the Head of Internal Audit to form an annual opinion of the Council's overall control environment including, governance, risk management and internal control.
- 1.3 The Internal Audit Service is delivered through the expanded shared service that came into existence on 1<sup>st</sup> April 2019. The service is hosted by the Vale of Glamorgan Council and provides internal audit services to the Vale, Bridgend, Merthyr Tydfil & Rhondda Cynon Taf Councils. The arrangement is underpinned by a detailed legal agreement between the four Councils which sets out a range of obligations (the core service is the same for each Council but there are differences in what is provided outside of the core service).
- 1.4 The service reports to the four Audit Committees and is overseen at a strategic level by the Board which consists of the Chief Finance Officers of the four Councils.

**Section 2 – Summary of Reviews Undertaken 2019/20**

- 2.1 On completion of the audit reviews an audit opinion is formed providing assurance for management and those charged with governance on how well the internal controls and governance arrangements of the system, establishment or area of review are operating.
- 2.2 Based upon the findings and recommendations made, an overall conclusion as to the level of assurance that can be provided is given as follows:

*Substantial Assurance*

- Key controls exist and are applied consistently and effectively
- Objectives are being achieved efficiently, effectively and economically.

*Reasonable Assurance*

(some risk of loss, fraud, impropriety, or damage to reputation)

- Key controls exist but there may be some inconsistency in application;
- Compensating controls operating effectively;
- Objectives achieved but could be improved.

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Limited Assurance

(a high risk of loss, fraud, impropriety, or damage to reputation)

- Key controls exist but they are not applied, or they are not applied consistently and effectively;
- Objectives are not being met, or are being met without achieving efficiency or effectiveness

No Assurance

(a very high risk of loss, fraud, impropriety, or damage to reputation)

- Key controls do not exist;
- Objectives are either not met, or are met without achieving efficiency or effectiveness

**Table 1 – Audit Opinion Given to Completed Audit Reviews 2019/20**

Opinion	Follow Ups	Financial Systems	Other Audit Reviews	Grant Verification	Total	%
Substantial	1	3	3	0	7	20%
Reasonable	2	4	10	6	22	63%
Limited	0	1	5	0	6	17%
No Assurance	0	0	0	0	0	0%
<b>Total</b>	<b>3</b>	<b>8</b>	<b>18</b>	<b>6</b>	<b>35</b>	<b>100%</b>

- 2.3 Table 1 illustrates that a total of 35 reviews have been given an audit opinion. A detailed list of these is at **Annex 1**.
- 2.4 Based on the testing of the effectiveness of the internal control environment an audit opinion of substantial assurance has been given to 7 reviews (20%) and an opinion of reasonable to 22 reviews (63%). The remaining 6 have been given an audit opinion of limited, that is only limited assurance can be placed on the current systems of internal control. These are detailed in Section 3 below.
- 2.5 Progress against the 2019/20 Risk Based Plan is attached at **Annex 2**. This details the status of each planned review, the audit opinion and the number of any high or medium recommendations made to improve the control environment. It should be noted that some reviews listed have no audit opinion, for example advice and guidance, Audit Committee, External Audit liaison, Fraud, and Irregularity work. This is because the audit work carried out in respect of these items was planned but the nature of the work does not lead to testing and the formation of an audit opinion.
- 2.6 **Annex 2** illustrates that the majority of planned audit reviews have been undertaken during 2019/20 despite reduced staffing resources. Where planned work has not been undertaken, assurance has been gained where possible from other sources such as the Wales Audit Office reports on budgets and safeguarding. Some planned reviews were reassessed during the year and a decision made not to undertake the work whilst 4 audits will be carried forward into 2020-21.

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- 2.7 The Covid19 outbreak has had little impact on the delivery of the internal audit plan for 2019/20 as relevant testing in all but 4 reviews had been completed prior to the lockdown coming into force allowing final reports to be issued

**Section 3 – Limited Reports - Control Issues**

- 3.1 Table 1 illustrates that 6 reviews identified control issues which meant that only limited assurance could be provided. These are detailed below:
- 3.2 **Banks Automated Clearing System (BACS)**  
This review was to provide assurance on the adequacy and effectiveness of the control environment surrounding both direct debits and credits. Although it was found that BACS submissions were made in a timely manner and contingency measures were in place to safeguard the overall process in the event of any unplanned absences, some key control issues were identified. One fundamental weakness identified was that appropriate restrictions were not applied to all shared files. This recommendation was accepted, and action was immediately taken to rectify this. Staff were also reminded not to use such drives for confidential data. A follow up review will be undertaken to ensure that all the other agreed improvements have been made.
- 3.3 **Disabled Facilities Grants**  
The objectives of this audit were to ensure that adequate systems and controls are in place and operating satisfactorily in regard to assessing, awarding and spending funds for DFG. The review identified that although some improvements have been made which have reduced waiting times, targets are still missed, and processes still need to be improved.
- 3.4 **General Data Protection Regulations (GDPR)**  
Some significant opportunities for improvement in BCBC's data protection / GDPR control framework were identified during this review. One area identified is regarding the assessment of risks posed by GDPR. It has been recommended that a corporate risk assessment of the Council's GDPR processes is undertaken involving Corporate and Senior Managers across the Council. This is to ensure that all corporate risks relating to GDPR are identified and included in an action plan. All recommendations made during this review have been agreed by Officers. A follow up review to document progress against the recommendations made was undertaken and it was found that improvements have been made and the audit opinion is now deemed reasonable. Additional recommendations have been made to ensure continued improvement.
- 3.5 **Contract Management**  
The purpose of the audit was to ensure the Council is procuring its contracts in an efficient and effective manner, and in compliance with the relevant legislation. Where best value for money is not achieved by the appropriate application of Contract and Procurement Rules, this represents a high financial risk and potential reputational damage for the Council. For the review 12 contractors with the highest cumulative

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spends in 2018/19 and which did not appear to have a contract entered within the Corporate Contracts Register (CCR), were selected for testing. A limited opinion has been provided, as although elements of compliance with the Contract Procedure Rules (CPRs) and associated procurement guidance are operating effectively, opportunities for the introduction or improvement of internal controls in relation to the management of some contracts have been identified such as maximising the use of framework contracts and monitoring prices being paid to ensure they are the negotiated rate.

**3.6 Home to School Transport**

It is known that this service area carries a significant overspend against budget and decisions regarding discretionary elements and route planning are awaited to try and improve this. Whilst these areas are priority the audit review identified other areas which will support ongoing efficiency and service quality such as documenting contract variations and retaining supplier agreements as well as strengthening the DBS monitoring process currently in place. It was recognised that although areas for improvement have been identified a number of areas of good practice were also identified such as undertaking consistent procurement exercises and increasing income by selling surplus seats on transport.

**3.7 Ogmore Vale School**

This school has a relatively new Headteacher who is working towards making improvements. Recommendations were made to enhance controls particularly the processes in place for hiring out school facilities including contracts, fee setting and income collection. These recommendations were agreed by the school and a further visit will be undertaken to provide assurance that improvements have been made.

**Section 4 – Recommendations – 2019/20**

- 4.1 Recommendations are made at the conclusion of an audit review if it is felt that improvements should be made to mitigate risk. Recommendations are included in an implementation plan and following each audit report recipients are asked to complete an action / implementation plan showing whether they agree with the recommendations made and how they plan to implement them. The classification of each recommendation made assists management in focusing their attention on priority actions.

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**Table 2 – Analysis of Recommendations Made**

Recommendations	Follow Ups	Financial Systems	Other Audit Reviews	Grant Verification	Total	%
High		1	5		6	6%
Medium	12	17	66	2	97	94%
<b>Total</b>	<b>12</b>	<b>18</b>	<b>71</b>	<b>2</b>	<b>103</b>	<b>100%</b>

- 4.2 Table 2 illustrates that a total of 103 high or medium recommendations have been made to improve the control environment of the areas reviewed during 2019/20. Management has given written assurance that these will be implemented or have accepted the identified risk if the recommendation has not been accepted. The implementation of these recommendations is being monitored to ensure that improvements are being made.
- 4.3 6 recommendations have been deemed fundamental / high priority. 4 of these 6 relate to a review of Arbed, a grant funded scheme where the review was undertaken to provide assurance that the financial and procurement aspects of the scheme, undertaken during 2012/13, adhered to Council's policies and procedures. Concerns were identified relating to the governance, decision making processes, procurement, monitoring and control aspects of this scheme. However, due to the historic nature of the findings, no audit opinion was provided. Recommendations were made to undertake testing on more recent grant funded schemes to ensure the identified weaknesses are not inherent in other grant funded programmes. This review is included in the audit plan 2020-21.
- 4.4 The remaining 2 fundamental recommendations related to the BACS review and the GDPR review. Both these have been addressed and the perceived high risk no longer exists.
- 4.5 The implementation of the 97 significant / medium priority recommendations, which have been accepted, is monitored by Internal Audit.
- 4.6 Where it is deemed appropriate to do so, Merits Attention recommendations are made. These relate specifically to an action that is considered desirable but does not necessarily have an impact on the control environment. Therefore, these recommendations are not included on the Management Implementation Plan or logged on the Internal Audit Management Information system. Therefore, a formal written response is not required from the client.

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**Section 5 – Counter Fraud Work**

- 5.1 One matter was referred to Internal Audit for review during 2019/20. This was a complaint raised by a member of the public that personal information supplied to the Council had been used to create a fraudulent bank account application. The matter was investigated, and the complainant interviewed. The complainant was advised during the interview that there was no evidence that the information supplied to BCBC had been used in the way it was alleged. This was followed up and as a result the complaint was withdrawn. However, during this work an opportunity to strengthen the internal processes and controls was identified and relayed to the Department concerned.
- 5.2 As reported in last year's annual report, the potential misuse of a Council purchasing card by an employee had been identified and the matter had been referred to the police. It was identified that this misuse happened due to weak internal controls. A further audit review has been undertaken in this service area during 2019/20 and the control environment has improved. The police case has also been concluded and the former employee was found guilty of fraud, ordered to repay the Council the amount identified as stolen and given a suspended sentence and community service.
- 5.3 The National Fraud Initiative is also included in our audit plan. Internal Audit facilitates the upload of data, user account management and provides assistance and advice to officers reviewing the data matches. During 2019/20 a total of £24,721 of recoverable fraud/errors were identified through the initiative along with £262,142 of notional savings.
- 5.4 A separate report will be presented to the Audit Committee in relation to Corporate Fraud including the detailed results of the National Fraud Initiative.

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## Section 6 – Key Performance Measures – Client Satisfaction Questionnaires

- 6.1 The Internal Audit Service has for several years operated a system to enable clients to feedback with comments on the work undertaken by internal auditors. The client satisfaction questionnaires provide managers with the opportunity to feedback on the performance, professionalism and conduct of the auditor as well as the audit process in general.

The questions covered are below:

No.	Question
1	Where appropriate, briefing of client and usefulness of initial discussion.
2	Appropriateness of scope and objectives of the audit.
3	Timelines of audit.
4	Response of Officer to any requests for advice and assistance.
5	General helpfulness and conduct of Auditor (s)
6	Discussion of findings / recommendations during or at the conclusion of the audit.
7	Fairness and accuracy of report.
8	Practicality and usefulness of recommendations
9	Standard of report.
10	Client agreement with overall audit opinion.

- 6.2 The returned surveys have confirmed satisfaction with the audit approach. In addition to the above, the client also has an opportunity to make their own comments on the Client Satisfaction Survey. Set out below are two examples that have been received during the period.



- 6.3 The number of returned questionnaires has reduced in recent years and a mechanism to automate the chase up of responses will be explored through the new Internal Audit Software that is being introduced.



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**Section 7 – Key Performance Measures – Staff Training**

- 7.1 Investment in the development of staff continues as it is recognised that with the increasing challenges and complexity facing local government and other public sector services, the need for well trained, motivated and versatile audit staff has never been higher.
- 7.2 In terms of professional training, one member of staff is currently studying for the Chartered Institute of Public Finance and Accountancy qualification and has successfully completed the Professional and Diploma stage of the qualification and is undertaking the final Strategic stage. Another member of staff has commenced the Chartered Institute of Internal Auditors Certified Internal Auditor qualification which consists of 3 modules. To date one module has been successfully completed.
- 7.3 Staff are also encouraged to attend courses or seminars or complete on-line courses to develop their skills and networking opportunities. Listed below are a number of training courses that staff have completed during 2019-20: -
- WAO Finance for the Future Conference attended
  - CIPFA Wales Annual Conference attended
  - General Data Protection Regulations & Data Protection
  - Safeguarding Children & Adults – Raising Awareness
  - Cyber Crime online training
  - Microsoft Excel Training
  - Fraud Awareness- Finance Team Development training
  - Violence against Women, Domestic Abuse and Domestic Violence
  - CIPFA Strategic Public Finance Web Classes – various subjects
  - ISACA Webinar – various subjects

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**Section 8 – Key Performance Measures – Benchmarking**

8.1 The Internal Audit Service participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2018/19 have been received and are as shown in Table 3 below:

**Table 3 – Performance Data**

Performance Indicator 2018/2019	IASS Performance BCBC 2018/19	WCAG Average Performance 2018/19	IASS Performance BCBC 2017/18	WCAG Average Performance 2017/18
Percentage of Planned Audits Completed	94%	85%	79%	85%
Percentage of Audits Completed in Planned Time	71%	74%	59%	73%
Percentage of directly chargeable time versus total available	77%	70%	60%	67%
Percentage of directly chargeable time actual versus planned	64%	87%	58%	86%

8.2 It should be noted that 18 of the 22 Councils returned their performance figures for 2018/19 representing a return rate of 82%. It is clear from the figures provided that the Section's performance improved when compared with that of 2017/18 which is partly due to the successful recruitment of 2 Auditors during 2018/19.

**Section 9 – Public Sector Internal Audit Standards**

9.1 The Public Sector Internal Audit Standards encompass the following mandatory elements:

- Definition of Internal Auditing;
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing.

9.2 The Standards aim to promote further improvement in the professionalism, quality and effectiveness of Internal Audit Services across the public sector. The Standards require that each public sector Internal Audit Service has in place robust arrangements for quality assurance and requires that Internal Audit be the subject of an external assessment at least once every 5 years.

9.3 The Internal Audit Service received an external assessment in accordance with the Standards in 2017 and another will be due in 2022. No areas of non-compliance that would affect the overall scope or operation of the Internal Audit activity were

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identified and the assessment noted that there were no significant deviations from the Standards.

- 9.4 No significant changes have occurred in respect of the working practices since the Regional Internal Audit Service was set up in April 2019. As a result, the Service continues to conform to the Standards during 2019/20.

## Section 10 – Regional Internal Audit Service Progress

- 10.1 As stated above in Section 1 the expanded shared service came into existence on 1<sup>st</sup> April 2019. The service is hosted by the Vale of Glamorgan Council and provides internal audit services to the Vale, Bridgend, Merthyr Tydfil & Rhondda Cynon Taf Councils.

- 10.2 A vision for the service has been produced alongside a number of objectives.

### Vision

To be the provider of Internal Audit Services of choice to the public sector in South Wales and be a centre of excellence for public sector internal auditing.

To be a service that is regarded as:

- ✓ Professional
- ✓ Approachable
- ✓ Flexible
- ✓ Independent but internal to the organisation – a critical friend

- 10.3 The immediate priorities for the service were identified as follows:

- Ensure a seamless transition from previous arrangements
- Ensure Internal Audit plans for each Council have been developed, consulted on and are deliverable within the likely resources available
- Production of Annual Internal Audit Reports for each Council
- Continue to support all four Audit Committees
- Continue to deliver the planned Audits for each Council

These were all delivered.

- 10.4 The priorities identified for the first 12 months for the Service were:

- Develop a structure taking into account TUPE requirements and SWOT analysis
- Confirm ICT solution & arrangements
- Identify & evaluate different approaches/ methodologies of each Internal Audit team and identify most appropriate to adopt

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- 10.5 A new staffing structure has been developed and agreed and it is planned to commence recruitment when the restrictions around the Pandemic allow. New ICT equipment was purchased for staff to ensure consistency and compatibility. A new software solution for the service has been agreed and procured. This will be rolled out to staff during 2020/21.
- 10.6 Work has commenced on evaluating different approaches/ methodologies of each internal audit team to identify and develop the most appropriate to adopt. This will continue linked with the roll out of the new software however Covid will impact on how the service is delivered for the foreseeable future and remote auditing will have to be developed.
- 10.7 The longer-term success of the service includes plans to develop a commercial approach and analysing the potential public sector market. Limited progress has been made on this aspect as the foundations referred to above need to be embedded before progressing this.

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**Section 11 - Opinion Statement 2019/20**

This statement of opinion is underpinned by:

**Internal Control Framework**

The control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During the year, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. Creditors, Debtors, Business Rates, Treasury Management etc.) or generally in the reviews undertaken in respect of directorate systems. Due to the resourcing issues during the year within the Internal Audit Shared Service, audit work was also commissioned from SWAP Internal Audit Services.

In providing my annual audit opinion, it should be noted that assurance can never be absolute. The most that internal audit can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work in the financial year 2019/20 and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at my opinion, the following matters have been taken into account:

- The results of all internal audits undertaken during the year ended 31<sup>st</sup> March 2020
- The results of follow-up reviews of action taken to address audit recommendations;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the Council's objectives and activities.
- Other sources of assurance

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**Risk Management**

Effective Risk Management forms a key aspect of assurance and governance. The Corporate Risk Management Policy is aligned with Directorate Plans and the Council's performance management framework.

Key risks are distilled in the Corporate Risk Assessment. This sets out how the Council is addressing these risks and the mitigating actions it will put in place to reduce them. It is regularly reviewed and challenged by both senior management and the Audit Committee.

It is not possible to eliminate all risk of failure to meet the targets in the Council's policies, aims and objectives and cannot therefore provide absolute assurance of effectiveness, but one of **reasonable assurance** is given.

**Governance Arrangements**

Good Governance will facilitate effective management that can deliver long term success and performance of an organisation.

Interim arrangements have been in place during the year in relation to key Statutory Officers of the Council and members of the Corporate Management Board.

Whilst no single audit was conducted specifically on governance, governance arrangements are considered as part of every audit. Assurance has also been drawn from the responses received in relation to the Annual Assurance Statements from Head Teachers and Chairs of Governors.

No significant issues were identified from a governance perspective therefore an opinion of **reasonable assurance** is given.

**Internal Control**

I have based my opinion on internal control using the work undertaken by internal audit during the year.

A total of 35 reviews culminating in an overall opinion have been completed, 29 (83%) of which have been closed with either a substantial or reasonable assurance opinion level. 6 reviews (17%) have identified weaknesses in the overall control environment, and these have been summarised in Section 3 above.

Therefore an opinion of **reasonable assurance** can be given on internal control .

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**Head of Internal Audit Opinion Statement 2019/20**

From the work undertaken during the financial year 2019/20 and taking into account other sources of assurance, the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2019-20 is:

**“Reasonable Assurance”**

The opinion states that, based on the work completed by the Regional Internal Audit Shared Service for the financial year and the contribution to the Audit Plan made by the SWAP Internal Audit Services, no significant cross-cutting control issues have been identified that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific.

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**Annex 1 – Audits Completed with an Opinion & Recommendations 2019/20**

Audit	Opinion			Recommendations	
	Substantial	Reasonable	Limited	High	Medium
C/F Debtors System		√			2
C/F Security & Information Transfer		√			1
C/F Arbed				4	0
Coychurch Crematorium Annual Financial Return		√			0
Porthcawl Harbour Annual Financial Return		√			0
Supporting People Outcomes		√			0
Bus Services Support Grant (BSSG)		√			0
Education Improvement Grant 2018-19		√			0
Supporting People Grant		√			2
Creditor NFI Matches		√			0
Business Rates	√				1
Treasury Management	√				0
IR35	√				0
Retrospective Orders		√			4
Standing Data inc. PO Box Addresses		√			0
Banks Automated Clearing System (BACS)			√	1	9
Insurance		√			1
ICT Network Management	√				0
ICT Business Continuity Review	√				0
ICT Dynamics CRM	√				2
Asset Management		√			3
Disabled Facilities Grants			√		6
Licensing Complaint		√			0
Taxi Licensing		√			4
Healthy Organisation Review – follow up	√				4



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Audit	Opinion			Recommendations	
	Substantial	Reasonable	Limited	High	Medium
General Data Protection Regulations (GDPR)			√	1	10
GDPR - Follow Up		√			6
Contract Management			√		6
Home to School Transport			√		2
School CRSA		√			2
Cefn Glas School		√			8
Ogmore Vale School			√		8
Brynteg School		√			7
Pcard Review- Early Intervention & Prevention Programmes		√			7
Direct Payments Follow Up		√			2
DOLS		√			0
<b>Total Audits providing an overall assurance opinion (35)</b>	<b>7</b>	<b>22</b>	<b>6</b>	<b>6</b>	<b>97</b>