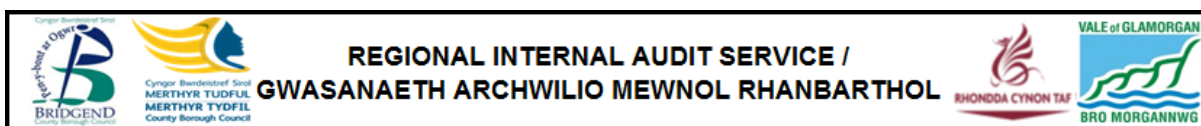




# ANNUAL INTERNAL AUDIT REPORT

## 2020/2021

**C. M. Thomas MAAT, CPFA**  
**Head of Regional Internal Audit Service**  
**June 2021**



## Annual Internal Audit Report 2020/21

**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 2020/21 has seen the Covid-19 pandemic have a major impact on how the Council has had to operate and the governance arrangements and processes that were put in place to ensure it could continue to support residents and businesses during this difficult and challenging year.
- 1.3 Covid-19 also changed how audit work was carried out in 2020/21 and all staff have worked from home for the year. Audits have been conducted remotely using various digital solutions, holding remote meetings, sharing of screens, and sending of data and evidence electronically.
- 1.4 Whilst there was a steep learning curve both for audit staff and auditees all have adjusted well to the new ways of working. Audits have taken longer in some instances due to responses to draft reports being delayed where services have been under pressure. It is likely that the audit service will continue to be delivered remotely for the foreseeable future with an element of office based/face to face working introduced over time when restrictions allow.
- 1.5 The 2020/21 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. Factors that were taken into account due to the impact of COVID-19 included risks arising from the pandemic and an emphasis being placed on looking at changed or new processes and governance arrangements introduced as part of every audit.
- 1.6 Other factors taken into account included potential availability of audit and service staff and challenges arising from the remote ways of working. The plan was also more flexible than usual to be able to respond to changing circumstances and events that may have occurred such as a second wave/outbreaks, pressures on services, the ability to access staff and evidence or requests to respond to new issues that may emerge.
- 1.7 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).

## Annual Internal Audit Report 2020/21

- 1.8 The service reports to the four Governance and 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 2020/21

- 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.

### 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 2020/21**

Opinion	Follow Ups	Financial Systems	Other Audit Reviews	Grant Verification	Total	%
Substantial	0	2	0	0	2	8%
Reasonable	2	2	14	4	22	85%
Limited	0	0	2	0	2	8%
No Assurance	0	0	0	0	0	0%
<b>Total</b>	<b>2</b>	<b>4</b>	<b>16</b>	<b>4</b>	<b>26</b>	<b>100%</b>

## Annual Internal Audit Report 2020/21

- 2.3 Table 1 illustrates that a total of 26 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 2 reviews (8%) and an opinion of reasonable to 22 reviews (85%). The remaining 2 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 2020/21 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, 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 most planned audit reviews have been undertaken during 2020/21 despite the pandemic and the impact that has had to demands on services as well as the impact of adopting to remote working. Where planned work has not been undertaken, assurance has been gained where possible from other sources such as previous work and coverage in other audits. Some planned reviews were not undertaken during the year following requests from services that were under intense pressure; these will be considered in the 2021-22 plan. In addition, two audits have started and will be completed during 2021/22.
- 2.7 Although the pandemic did have some impact on the delivery of the internal audit plan for 2020-21 the level of Internal Audit coverage was sufficient for the Head of Audit to be able to give an opinion.

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

- 3.1 Table 1 illustrates that 2 reviews identified control issues which meant that only limited assurance could be provided. These are detailed below:
- 3.2 **Supported Living Missing Money**  
Internal Audit were advised that £115 was missing from a cash tin held in a supported living establishment. Due to the Covid-19 pandemic Internal Audit staff were unable to visit the establishment but were provided with information by the Service Manager. It was found that regular checks and controls had not taken place and processes had lapsed. As a result of this incident, processes have been reviewed and updated and the importance of following them has been expressed to all staff. A follow up review will be undertaken to ensure that the amended processes are in place and being adhered to.

## Annual Internal Audit Report 2020/21

**3.3 Additional Learning Needs (ALN) Out of Authority Charges**

The objectives of the audit were to ensure effective and efficient systems of control are in place in respect of individuals placed in out of authority educational settings and that monitoring of expenditure is adequate and effective. The audit review identified the absence of a clear administration process, responsibilities were not defined, and information was not being communicated to key departments in a timely manner. In addition, agreements with other local authorities/independent settings for most placements could not be located at the time of the review. The recommendations made to improve the controls have been discussed and agreed with Management and progress will be monitored.

3.4 Table 1 also identifies that two follow up audits have been concluded; these are audits undertaken on previous limited assurance reports to ensure that improvements have been made to mitigate the risks previously identified. It is pleasing to note that both the BACS follow up audit and Ogmore Vale Primary school audit demonstrated improvements, and both were given a reasonable audit opinion.

## Section 4 – Recommendations – 2020/21

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.

**Table 2 – Analysis of Recommendations Made**

Recommendations	Follow Ups	Financial Systems	Other Audit Reviews	Grant Verification	Total	%
High	0	0	0	0	0	0%
Medium	3	1	32	2	38	100%
<b>Total</b>	<b>3</b>	<b>1</b>	<b>32</b>	<b>2</b>	<b>38</b>	<b>100%</b>

4.2 Table 2 illustrates that a total of 38 medium recommendations have been made to improve the control environment of the areas reviewed during 2020/21. No high recommendations were made. Management has given written assurance that the recommendation made 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.

## Annual Internal Audit Report 2020/21

- 4.3 The implementation of the 38 significant / medium priority recommendations, which have been accepted, is monitored by Internal Audit. Auditors contact the relevant identified recommendation owner, after the specified implantation date, and seek assurance that the recommendation has been implemented and is working effectively to mitigate the identified risks. In respect of the recommendations made during 2020/21 all that were due to be implemented have been.
- 4.4 Where it is deemed appropriate to do so, Merits Attention (low) 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.

**Section 5 – Counter Fraud Work**

- 5.1 Two matters were referred to Internal Audit for review during 2020/21. One was the missing money in Supported Living and the other a potential security breach. The findings of the investigation into the missing money is explained in paragraph 3.2 of this report and weaknesses in processes were identified and improved. Subsequently the money was found. The second matter regarded a potential security breach where it was alleged that data was accessed or browsed for non-work-related reasons. The investigational work undertaken found that adequate processes, policies, and training were in place to mitigate the risks of this occurring. This matter is being dealt with through the disciplinary process.
- 5.2 The National Fraud Initiative is also included in our audit plan. Internal Audit facilitates the upload of data and provides advice to officers reviewing the data matches. A new biennial exercise commenced during 2020 when data was extracted from the various Council systems and submitted for matching in October 2020. The matches were returned in January 2021 and work is ongoing to review the data matches to identify if there any fraud or error has occurred.
- 5.3 A separate Annual Corporate Fraud Report will be presented to the Governance and Audit Committee which will outline the counter fraud work undertaken during 2020-21.

## Annual Internal Audit Report 2020/21

**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. The number of returned questionnaires has reduced in recent years however a mechanism to automate the chase up of responses is included within the new Internal Audit Software that is being implemented during 2021/22.

**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 successfully completed the Chartered Institute of Public Finance and Accountancy qualification and is now a fully qualified accountant. Another member of staff is working towards the Chartered Institute of Internal Auditors Certified Internal Auditor qualification which consists of 3 modules. To date two modules have been successfully completed.

## Annual Internal Audit Report 2020/21

7.3 Staff are also encouraged to complete on-line courses to develop their skills and networking opportunities. Listed below are a few training courses that staff have completed during 2020/21: -

- ISACA Webinars – various IT /digital subjects
- Assert Yourself training
- Cyber Security
- Change Management
- Digital Literacy
- Freedom of Information
- Conflict Resolution
- Safeguarding Children and Adults
- Data Protection Essentials

## Section 8 – Key Performance Measures – Benchmarking

8.1 The Internal Audit Service participates annually in the Welsh Chief Auditors Group (WCAG) benchmarking exercise. The results for BCBC for 2019/20 and 2020/21 are illustrated in Table 3 however the comparable data is yet to be received for those years from the WCAG.

**Table 3 – Performance Data**

Performance Indicator	RIAS Performance BCBC 2020/21	RIAS Performance BCBC 2019/20	IASS Performance BCBC 2018/19	WCAG Average Performance 2018/19
Percentage of Planned Audits Completed	74%	78%	94%	85%
Percentage of Audits Completed in Planned Time	71%	63%	71%	74%
Percentage of directly chargeable time versus total available	69%	73%	77%	70%

8.2 The PI's illustrate that the performance within BCBC is still comparable to the average performance published for 2018/19 despite the challenges of Covid and remote working.



## Annual Internal Audit Report 2020/21

**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 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 2020/21.

**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

## Annual Internal Audit Report 2020/21

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

10.5 A new staffing structure has been developed and is expected to be agreed very shortly. Consultation with the Trade Unions and staff will take place over the summer with recruitment to vacant posts will commence shortly after.

10.6 Covid has had a major impact on how audit work has been carried out in 2020/21 and all staff have worked remotely for the year. Audits have been conducted remotely using various digital solutions, remote meetings, sharing of screens and sending of data electronically.

10.7 Whilst there was a steep learning curve both for audit staff and auditees all have adjusted well to the new ways of working. Audits have taken longer in some instances due to responses to draft reports being delayed where services have been under pressure. It is likely that the audit service will continue to be delivered remotely for the foreseeable future with an element of office based/face to face working introduced over time when restrictions allow.

10.8 A new Audit Software solution was procured in 2020. Intensive work has taken place to set up the system, train the staff and to determine and agree consistent working practices and methodologies across the Service including new report format and consistent terminology. The new approach is being rolled out from April 2021.

10.9 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.

## Annual Internal Audit Report 2020/21

**Section 11 - Opinion Statement 2020/21**

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 and Debtors) or generally in the reviews undertaken in respect of directorate systems.

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 2020/21 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 2021
- 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

## Annual Internal Audit Report 2020/21

**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. It is regularly reviewed and challenged by both senior management and the Audit Committee. A Risk Management audit was undertaken during 2020/21 and a reasonable opinion provided with some low (merits attention) recommendations made for advisory purposes

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 the Chief Officer Finance, Performance & Change post and 2 new Corporate Directors started to with the Council and are 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 Remote Working questionnaires issued Council wide.

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 26 reviews culminating in an overall opinion have been completed, 24 (93%) of which have been closed with either a substantial or reasonable assurance opinion level. 2 reviews (8%) 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.

## Annual Internal Audit Report 2020/21

**Head of Internal Audit Opinion Statement 2020/21**

From the work undertaken during the financial year 2020/21 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 2020-21 is:

**“Reasonable Assurance”**

The opinion states that, based on the work completed by the Regional Internal Audit Shared Service for the financial year, 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.

As described the way the Council has had to operate during 2020-21 has been severely affected by the COVID 19 pandemic. Many staff have worked remotely, and systems & processes have had to be adjusted to cater for the new ways of working. Similarly, Internal Audit has worked remotely, conducting audits and obtaining evidence digitally. Each audit has considered the potential impact of COVID 19 and remote working to ensure adequate controls and governance arrangements remained in place.

The pandemic did have some impact on the delivery of the internal audit plan for 2020-21 and a limited number of audits were deferred due to the pressures on some service areas. These audits will be carried out in 2021-22. The Internal Audit coverage was still sufficient for the Head of Audit to be able to give an opinion.

The recommendations made to improve governance, risk management and control have been accepted and are at various stages of implementation.

## Annual Internal Audit Report 2020/20

## Annex 1 – Audits Completed with an Opinion &amp; Recommendations 2020/21

Audit	Opinion			Recommendations	
	Substantial	Reasonable	Limited	High	Medium
Safeguarding		√			0
Education Improvement Grant 2019/20		√			0
Housing Support Grant 2019/20		√			1
Purchasing Cards		√			6
External Funding		√			0
Risk Management		√			0
COVID - Remote Working		√			0
Income Collection & Cash Control	√				0
Creditors		√			1
Debtors		√			0
Payroll		√			3
Members Code of Conduct		√			2
Distribution of ICT Equipment		√			2
Homelessness		√			0
Coychurch Crematorium Annual Financial Return		√			1
Porthcawl Harbour Annual Financial Return		√			0
Ogmore Vale School Follow Up		√			0
School deficits		√			2
ALN - Out of County Charges			√		8
Care Home Contracts		√			2
C/F Council Tax Reduction Scheme	√				0
C/F MasterGov System		√			1
C/F Capital		√			0
BACS Follow Up		√			3

Annual Internal Audit Report 2020/20

Audit	Opinion			Recommendations	
	Substantial	Reasonable	Limited	High	Medium
Effectiveness of Internal Audit		√			1
Supported Living Missing Money			√		5
<b>Total Audits providing an overall assurance opinion (26)</b>	<b>2</b>	<b>22</b>	<b>2</b>	<b>0</b>	<b>38</b>