



ANNUAL INTERNAL AUDIT REPORT

2021/2022

C. M. Thomas MAAT, CPFA
Head of Regional Internal Audit Service
June 2022

Annual Internal Audit Report 2021/22

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 Covid-19 pandemic continued to have an impact on how the Council has operated and the governance arrangements and processes in place to ensure it could continue to support residents and businesses during the year.
- 1.3 Audit work has been carried out remotely with staff predominantly working from home. Audits have been conducted using various digital solutions and whilst there was a steep learning curve both for audit staff and auditees all have adjusted well to this way of working. It is likely that the audit service will largely continue to be delivered remotely with an element of office based/face to face working as required.
- 1.4 The 2021/22 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. The plan had regard to the continuing impact caused by the pandemic and the changes that have been made to the way the Council is operating.
- 1.5 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 flexible 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.
- 1.6 The Internal Audit Service is delivered through the expanded shared service that came into existence on 1st 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).
- 1.7 The service reports to the four Governance & Audit Committees and is overseen at a strategic level by the Board which consists of the Chief Finance Officers of the four Councils.

Annual Internal Audit Report 2021/22

Section 2 – Summary of Reviews Undertaken 2021/22

- 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:

Table 1 - Audit Assurance Category Code	
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Table 2 – Audit Opinion Given to Completed Audit Reviews 2021/22

Opinion	Follow Ups	Financial Systems	Other Audit Reviews	Grant Verification	Total	%
Substantial			2	2	4	15%
Reasonable	1	2	16	3	22	81%
Limited		1			1	4%
No Assurance					0	0%
Total	1	3	18	5	27	100%

- 2.3 Table 2 illustrates that a total of 27 reviews have been given an audit opinion. A detailed list of these is at **Annex 1**.

Annual Internal Audit Report 2021/22

- 2.4 Based on the testing of the effectiveness of the internal control environment an audit opinion of substantial assurance has been given to 4 reviews (15%) and an opinion of reasonable to 22 reviews (81%). The remaining 1 (4%), has been given an audit opinion of limited, that is only limited assurance can be placed on the current systems of internal control. This is detailed in Section 3 below.
- 2.5 The final position against the 2021/22 approved audit plan is attached at **Annex 2**. This details the status of each planned review, the audit opinion and the number of any high, medium or low 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, audit planning and recommendation monitoring. 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 many planned audit reviews have been undertaken during 2021/22 despite the continuing impact the pandemic has had on services as well as the adoption of 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 due to requests from services that were under intense pressure, these will be considered in the 2022/23 plan whilst two audits have started so have been carried forward to be completed during 2022/23.
- 2.7 Therefore 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 2 illustrates that one audit review identified control issues which meant that only limited assurance could be provided. This is detailed below:
- Creditor – Supplier Data**
- 3.2 The purpose of the audit was to provide assurance on the adequacy and effectiveness of the internal control, governance and risk management arrangements in respect of suppliers set up and changed within the creditors system. It was identified that some creditor details could be amended after authorisation. Despite data analysis and audit testing providing assurance that this is unlikely to have happened a significant risk was identified, and a high priority recommendation was made and accepted to improve controls. The audit also identified that improvements could be made in respect of verifying information and providing more guidance to staff. A follow up audit will be undertaken in due course.
- 3.3 Table 2 also identifies that a follow up audit has been concluded during the year. Follow up audits are 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 the Additional Learning Needs follow up audit demonstrated improvements and therefore a reasonable audit opinion was provided.

Annual Internal Audit Report 2021/22

Section 4 – Recommendations – 2021/22

- 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 a management action plan and following each audit report recipients are asked to complete the action 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, these ratings being High, Medium and Low.

Table 3 – Recommendation Categorisation

Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results. The criticality of each recommendation is as follows:

High Priority	Action that is considered imperative to ensure that the organisation is not exposed to high risks.
Medium Priority	Action that is considered necessary to avoid exposure to significant risks.
Low Priority	Action that is considered desirable and should result in enhanced control.

- 4.2 Management are asked to provide feedback on the status of each recommendation once the target date for implementation has expired. The implementation of these recommendations is monitored using MK Insight internal audit software to ensure improvements are being made.

Table 4 – Analysis of Recommendations Made During 2021/22

Recommendations	Follow Ups	Financial Systems	Other Audit Reviews	Grant Verification	Total	%
High	0	1	0	0	1	1%
Medium	2	6	45	5	58	49%
Low	1	13	44	2	60	50%
Total	3	20	89	7	119	100%

Annual Internal Audit Report 2021/22

- 4.3 Table 4 illustrates that a total of 119 recommendations have been made to improve the control environment of the areas reviewed during 2021/22. 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.

Section 5 – Counter Fraud Work

- 5.1 Three matters were referred to Internal Audit for review during 2021/22. One related to the validity of invoices received under the Learner Travel contract. A fact finding exercise was undertaken and although fraud was not proven, areas for improvement within the Council's processes were identified. As a result, an audit in this service area was also undertaken during the year to ensure improvements had been made. The audit of Learner Travel listed in annex 1 and annex 2 resulted in reasonable assurance as improvements to controls had been made.
- 5.2 The other 2 matters were in respect of a primary school. Concerns were raised in respect of payments of invoices and private funds. The work undertaken identified areas where improvements to processes and controls could be made and these recommendations will be monitored. In addition, the fact finding reports have been provided to an appointed Investigation Officer to form part of a wider piece of work being undertaken through the disciplinary process.
- 5.3 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.
- 5.4 A separate Annual Corporate Fraud Report will be presented to the Governance and Audit Committee which will outline the counter fraud work undertaken during 2021-22 which is being compiled by Bridgend's Senior Fraud Investigator. Internal Audit has an excellent working relationship with the Senior Fraud Investigator and significant liaison takes place in relation to policies, corporate fraud matters and related investigations.

Annual Internal Audit Report 2021/22

Section 6 – Key Performance Measures – Client Satisfaction Questionnaires

- 6.1 The Internal Audit Service uses MK Insight (Internal Audit software) 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 areas covered are below:

No	Question
Audit Planning	
1	Were you satisfied with the notice given prior to the commencement of the Audit?
2	Were you adequately consulted with in respect of the nature, scope and objectives of the Audit?
Audit Fieldwork	
3	Was the audit fieldwork undertaken in a timely manner, with minimum disruption to service delivery?
4	Was a summary of the audit findings adequately explained to you following completion of the audit fieldwork and prior to the issue of the draft report?
Audit Report	
5	Did you find the recommendations within the report fair and accurate?
6	Were you adequately consulted and given sufficient opportunity to comment on the Draft Report?
7	Do you feel the recommendations within your report will be of value to you as a Manager?
8	Were you happy that the format of the Report was clear, concise and easy to read?
9	How do you rate the timeliness of the issue of the Final Report?
Conduct of the Auditor	
10	Were the auditor(s) generally helpful throughout the audit and offer appropriate assistance and/or advice (if applicable)?
11	How do you assess the Auditor(s) in terms of professionalism, helpfulness and politeness?
Overall	
12	How would you rate the usefulness of the audit?

- 6.2 This was the first year that the internal audit software was used to issue client questionnaires. The return rate was lower than we would have liked, with 52% returned. This is an area where the Service will look to improve and will explore the MK Insight audit software to introduce a follow up process where surveys have not been returned, allowing potential development areas to be identified and service improvements made where necessary.
- 6.3 The returned surveys however have confirmed satisfaction with the audit approach, the service provided and the conduct of the Auditors. It is pleasing that the average rate of satisfaction is 95%. In addition to the above questions, the client also has an opportunity to make comments within the Client Satisfaction Questionnaire. Set out below are examples of comments received during the period.

Annual Internal Audit Report 2021/22

The Auditor was very polite throughout the audit.

The auditors were extremely helpful and first class

The report will be useful to pull upon and use as a measure for upcoming years.

The Auditor was incredibly helpful and patient and explained everything every step of the way.

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 Internal Auditors, Certified Internal Auditor qualification during the year and another member of staff is working towards this qualification.
- 7.3 In addition, the member of staff who completed the full professional qualification of the Chartered Institute of Public Finance & Accountancy (CIPFA) last year has, during this year, successfully gained full membership.
- 7.3 Staff are also encouraged complete on-line courses to develop their skills and networking opportunities. Listed below illustrate the range of training courses that staff have completed during 2021/22: -
- Data Protection
 - Diversity & Inclusion
 - ISACA Webinars – various IT /digital subjects
 - Fire Safety
 - Agile Working and Working from Home
 - Conflict Resolution
 - Decision Making
 - Introduction to Internal Auditing

Annual Internal Audit Report 2021/22

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 2020/21 are illustrated in Table 5, the information for 2021/22 is awaited.

Table 5 – Performance Data

Performance Indicator	RIAS Performance BCBC 2021/22	WCAG Average Performance 2021/22	RIAS Performance BCBC 2020/21	WCAG Average Performance 2020/21
% of Planned Audits Completed	69%		74%	67%
% of Audits Completed in Planned Time	76%		71%	75%
% of clients responses at least satisfied	100%		N/A	100%
% of recommendations accepted versus made	100%		100%	100%

- 8.2 It should be noted that 16 of the 22 Councils returned their performance figures for 2020/21 representing a return rate of 73%.
- 8.3 Overall for 2021/22, 69% of the audit plan was completed, a total of 39 assignments were planned during the year of which 27 were completed. 76% of audits were completed within planned time during 2021/22.
- 8.4 Although not all work planned for was undertaken during the year, Internal Audit management ensured that coverage was given to appropriate areas including requests to undertake specific additional work. Where risk profiles changed during the year, Internal Audit responded accordingly.
- 8.5 The PI's illustrate that the performance by Internal Audit staff within Bridgend Council is still comparable to the average performance despite the challenges of Covid and remote working.

Annual Internal Audit Report 2021/22

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 carried out 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 Whilst improvements have been made to working practices and more sophisticated audit software is now in use and remote working is common place, 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 2021/22.

Section 10 – Regional Internal Audit Service Progress

- 10.1 The expanded shared service came into existence on 1st April 2019, it 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 The vision for the service is 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 and 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

Annual Internal Audit Report 2021/22

- 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 During 2021/22 staff were matched to posts within the new agreed staffing structure. Recruitment to the remaining vacant posts then commenced and this resulted in several internal promotions as well as some external appointments. The recruitment process will continue during 2022/23 until all posts are filled including recruiting Graduate Auditors who will be supported to become professionally qualified.

10.6 A tender exercise was undertaken during 2021/22 to establish a framework agreement for the provision of an Internal Audit service to be used when required to supplement the existing in-house provision when required. This was a successful exercise and a framework agreement is now in place for the next 3 years.

10.7 Audit work has been carried out remotely with staff predominantly working from home. Audits have been conducted using various digital solutions and whilst there was a steep learning curve both for audit staff and auditees all have adjusted well to this way of working. It is likely that the audit service will largely continue to be delivered remotely with an element of office based/face to face working as required.

10.8 The new audit software solution was successfully implemented and used by all staff for the 2021/22 audit plan. This has ensured consistency in approach and style of reporting across the Regional Internal Audit Service. Ongoing development will continue to ensure maximum use of the improved functionality and reporting tools.

10.9 The longer-term success of the Regional Internal Audit 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. A draft roadmap has been produced during 2021/22 which will be firmed up once all the vacancies have been filled.

Annual Internal Audit Report 2021/22

Section 11 - Opinion Statement 2021/22

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. Revenues and Benefits and Creditors) 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 2021/22 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 31st March 2022
- 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 2021/22

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 which is regularly reviewed and challenged by senior management. Detailed reports are also provided quarterly to the Governance & Audit Committee. A Good Governance and Risk Management audit was undertaken during 2021/22 and a reasonable opinion provided. Risk management is also considered as part of every audit.

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. To assist with this the Chief Officer Finance, Performance & Change post has been permanently filled during the year.

A Good Governance and Risk Management audit was undertaken during 2021/22 and a reasonable opinion provided and governance arrangements are considered as part of every audit where applicable.

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 27 reviews culminating in an overall opinion have been completed, 26 (96%) of which have been closed with either a substantial or reasonable assurance opinion level. One review (4%) has 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 2021/22

Head of Internal Audit Opinion Statement 2021/22

From the work undertaken during the financial year 2021/22 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 2021-22 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 2021-22 was still 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 remote working to ensure adequate controls and governance arrangements remained in place.

The pandemic, remote working and vacant posts did have some impact on the delivery of the internal audit plan for 2021-22 however, 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 2021/22

Annex 1 – Audits Completed with an Opinion & Recommendations 2021/22

Audit	Opinion			Recommendations		
	Substantial	Reasonable	Limited	High	Medium	Low
Project & Contract Management		√			1	4
Good Governance & Risk Management		√			1	
Bus Service Support Grant 2020/21		√			2	
Education Improvement Grant 2020/21		√			2	1
Housing Support Grant 2020/21		√			1	1
Revenues & Benefits - Complaints, Appeals & Performance		√			1	5
Creditors - Supplier Data			√	1	2	7
Payroll & Expenses		√			3	1
Disclosure & Barring Service		√			1	4
i-Trent system review		√			4	
Citizens Digital Access System		√				3
Cyber Security		√			7	1
Early Retirement / Redundancy		√			2	1
Deputyships & Appointeeships	√					1
Registrars		√			3	2
Coychurch Crematorium	√					
Porthcawl Harbour	√					
Pothole Repairs		√			4	3
Building Control		√			4	3
Planning Applications & Appeals		√			3	9
Additional Learning Needs Follow Up		√			2	1
School Purchasing Cards		√			3	2
School Inventories	√				2	1
School Private Funds		√			1	1

Annual Internal Audit Report 2021/22

Audit
School CRSA
Learner Travel
Direct Payments
OVERALL TOTALS

Opinion		
Substantial	Reasonable	Limited
	√	
	√	
	√	
4	22	1

Recommendations		
High	Medium	Low
		1
	6	2
	3	6
1	58	60

DRAFT