



## Report of the Chief Auditor

Special Audit Committee – 26 May 2020

### Internal Audit Annual Report 2019/20

<b>Purpose:</b>	This report reviews the work of the Internal Audit Section during 2019/20 and includes the Chief Auditor's required opinion on the internal control environment for 2019/20 based on the audit testing completed in the year.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Legal, Finance and Access to Services
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#### 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) defines Internal Audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 This report reviews the work of the Internal Audit Section in 2019/20 and compares its performance against the Internal Audit Annual Plan for the year which was approved by the Audit Committee on 9<sup>th</sup> April 2019.
- 1.3 A series of Performance Indicators are used to measure the performance of the Internal Audit Section against agreed targets set at the start of the

year and also in comparison with other Welsh Authorities. A review of the Performance Indicators in 2019/20 is included in this report.

- 1.4 This report also contains the Chief Auditor's required opinion on the overall standards of the control environment in operation in the Council based on the testing performed during 2019/20.
- 1.5 This report and the annual opinion on internal control are key elements of assurance that are used in the Council's Annual Governance Statement.

## **2. Review of 2019/20**

- 2.1 A summary of time spent in 2019/20 on the different categories of Internal Audit work is shown in Appendix 1.
- 2.2 As shown in the summary table, there was an increase of 30 days (2%) in the actual productive audit days achieved against the planned number of productive days. The overall resources of the team have remained unchanged throughout the year and there continues to be 9.1 FTE staff in the section as was the case in 2018/19.
- 2.3 Appendix 1 provides an analysis of the actual time spent by the team as recorded on the Galileo Audit Management System compared with the original plan for 2019/20.
- 2.4 The original Internal Audit Annual Plan for 2019/20 contained 160 separate audit assignments, of which 134 (84%) were completed to at least draft report stage and a further 7 audits were in progress at year end. A total of 11 audits from the original plan were deferred to 2020/21 and 8 audits originally on the plan were deemed to no longer be required when the team commenced the reviews in year. Taking into account those audits that were in progress, and those that were no longer required, 93% of the audit assignments on the Annual Plan 2019/20 had been completed or were in progress as at 31/03/20.
- 2.5 An audit report was produced for each audit which was discussed and agreed with the client. The reports included recommendations to improve any weaknesses or areas of concern identified during the audit in relation to systems, procedures and controls. During the year 99% of recommendations made were accepted by clients.
- 2.6 A list of the audits finalised each quarter has been included in the quarterly monitoring reports presented to the Audit Committee during the year. A complete list of each audit finalised during 2019/20 along with the level of assurance and the number of recommendations made and accepted is shown in Appendix 2.
- 2.7 As well as the planned audit work, a number of other pieces of work were undertaken during the year which are summarised below:

i) The following grants were audited and certified in 2019/20:

<b>Grant</b>	<b>Amount £</b>
Live Kilometre Support Grant 2018/19	n/a (Claim process)
Communities for Work Plus Grant 2018/19	£983k
Legacy Fund Grant 2018/19	£537k
SPPG Regional Co-ordinator Grant 2018/19	£40k
SPPG Outcomes Grant 2018/19	n/a (No. of outcomes)
Regional Consortium School Improvement Grant 2018/19	£8,968,203 (£9,408,028 inc. Match Funding)
Pupil Deprivation Grant (PDG) 2018/19	£7,469,677
LEA Disadvantaged Learners Grant	£2,887,214
SPPG Main Grant 2018/19	£14,086,658 (£178,000 income from partners)
Regional Consortia School Improvement Grant 2019/20	£8,855,920
Pupil Development Grant 2019/20 (Q1-Q3)	£1,003,832
Suresprung – Transitional Employer Support Grant	n/a (compliance with the Shaw Trust requirements)

- ii) A total of 19 days was spent in 2019/20 undertaking nine unplanned follow up reviews for those audits receiving moderate assurance audit reports.
- iii) Continuation of the NFI 2018 work and investigations undertaken on match results.
- iv) The certification of two additional grants that we were not made aware of during the annual consultation exercise. The grants concerned were the Legacy Fund Grant and the Communities for Works Plus Grant.
- v) The team also assisted in undertaking a special investigation in relation to one of the Councils Social Services establishments, as well as completing a one off review of the systems in place for car park income collection.
- vi) Other pieces of work undertaken in year have been reported to the Committee as part of the quarterly monitoring reports.

### **3. Follow Ups**

- 3.1 It is important that action is taken to ensure that management have implemented the recommendations agreed following each audit. The Internal Audit Section uses a risk based approach to follow up audits as shown below:
- Fundamental audits are subject to a Recommendations Tracker exercise mid-way through the year to confirm that the agreed recommendations have been implemented. The results of the Recommendation Tracker exercise are reported to the Audit Committee.
  - Non Fundamental audits which receive a 'moderate' or 'limited' level of assurance have historically received a follow up visit usually within 6 months to test whether the 'high' and 'medium' risks recommendations have been implemented. The results of any follow up visits for non-fundamental audits are included in the quarterly monitoring reports presented to the Audit Committee.
- 3.2 Any audits that receive a 'moderate' or 'limited' level of assurance are also reported to the relevant Directorate Performance and Financial Monitoring (PFM) meeting to allow senior management to monitor the implementation of the recommendations arising from the audit.
- 3.3 The Recommendations Tracker exercise carried out in 2019/20 was reported to the Audit Committee on 10/12/19 where the conclusion was positive, with 76% of agreed recommendations due for implementation being implemented by the end of September 2019. The report also noted that of the five recommendations that had been partly implemented, one was classed as high risk, two were medium risk, one was low risk and one was a good practice recommendation. The partly implemented High, Medium and Low Risk recommendations all related to the Accounts Receivable audit. This audit continues to be completed on an annual basis, and as a result the implementation of the outstanding recommendations has been followed up as part of the 2019/20 audit. The remaining 6 recommendations that had not been implemented were classed either low risk or good practice and were in relation to the Accounts Payable audit. This is also audited on an annual basis.
- 3.4 During 2019/20, nine moderate audit follow up reviews were completed and it was found that in the majority of cases, suitable action had been taken to address the issues that had been highlighted. The outcome of all follow up reviews has been reported to Audit Committee throughout the year via the Internal Audit Quarterly Monitoring Reports. In addition, a number of client department representatives have attended audit committee meetings to provide an update to the committee on the action that has been taken to address the issues highlighted in the audit reports.

#### **4. Performance Indicators**

- 4.1 A series of 11 Performance Indicators (PI's) are used to measure the work of the Internal Audit Section as agreed by the Welsh Chief Internal Auditors Group (WCIAG). The PI's measure output, quality and cost and are also measured by other local authority Internal Audit Sections across Wales to provide comparable statistics.
- 4.2 The PI's are presented in detail in Appendix 3 which shows that in 2019/20, the Internal Audit Section met or exceeded the target set at the start of the year for 10 out of the 11 PI's. This was in line with the performance in 2018/19.
- 4.3 The PI that was not achieved in 2018/19 was PI 9 – average cost per directly chargeable day.
- 4.4 As agreed by the WCIAG, average cost for this performance indicator is made up of actual salary, NI and pensions costs of the Internal Audit Team. These costs have seen an overall increase of 3% on 18/19 costs. In addition, the number of directly chargeable days has decreased from 1,553 in 2018/19 to 1,526 in 2019/20. As a result, average costs per directly chargeable day has increased overall in 2019/20 to £308, from £294 in 2018/19. (Note that the number of productive days in 2018/19 was higher than expected due to a period of hand-over prior to one of the auditors retiring, resulting in an additional member of staff within the team during the hand-over phase).
- 4.5 As in previous years, where available PI data has been compared to the average results of other Local Authorities in Wales, as shown in Appendix 3. However, at the time of writing this report the results from a number of suitable comparator authorities had not been received.
- 4.6 Unfortunately, the comparison with other Internal Audit Sections across Wales is becoming less meaningful over time as a number of Authorities no longer collect the data or are only able to provide results for some of the PI's. In addition, consideration should be given to the variances in size of both the Local Authorities and their internal audit departments when comparing the results of Swansea's PI's with the group averages.
- 4.7 It should also be noted that the WCIAG reviews the PI's that are in use on an annual basis, so these may be subject to further change.

#### **5. Quality Assurance & Improvement Programme and Statement of Conformance with the PSIAS**

- 5.1 It is a requirement of the PSIAS that internal audit providers must maintain a Quality Assurance and Improvement Programme (QAIP) which covers all aspects of the internal audit activity and is intended to

assist in raising standards across the public sector and ensuring consistency in improvement.

- 5.2 The QAIP allows internal audit providers to be assessed, both internally and externally, to show that the provider is fully complying with the PSIAS. Internal assessments are both ongoing and periodic and an external assessment must be undertaken at least once every 5 years.
- 5.3 The preferred method adopted in Swansea was a self-assessment review subject to external validation using the peer review group established by the Welsh Chief Auditors Group.
- 5.4 The outcome of the peer review was presented to the Head of Financial Services & Service Centre, the Director of Resources and the Chief Executive on 28/03/18 and to Audit Committee on the 10/04/18. In summary, the peer review concluded that the City and County of Swansea's Internal Audit Section is broadly compliant with the PSIAS and CIPFA Application Note with no significant deviations from the Standards being noted. Some areas for improvement were highlighted as part of the review, all of which have been fully addressed. The updated PSIAS Compliance Report for the internal assessment for 2019/20 can be found in Appendix 4.
- 5.5 The results of the annual internal assessment of compliance with the PSIAS using CIPFA's detailed Local Government Application Note completed in February 2020 can be found in Appendix 4. In summary there are 336 best practice lines within the PSIAS. The self-assessment review of conformance against the PSIAS revealed that the Internal Audit Section is 99.1% compliant with the best practice of the PSIAS.
- 5.6 In addition to the self-assessment review, as part of the QAIP an action plan is compiled in order to set targets for improvement for the coming year in relation to those PI's that have not been achieved. A copy of the QAIP report and action plan for 2020/21 can be found in Appendix 5.
- 5.7 **The result of the external peer review and the updated internal assessment of conformance against CIPFA's detailed Local Government Application note confirm that the Internal Audit Section of the City and County of Swansea conforms with the International Standards for the Professional Practice of Internal Auditing and all engagements are undertaken in conformance with the Public Sector Internal Audit Standards.**

## **6. Statement of Organisational Independence**

6.1 The PSIAS also require the Chief Auditor to confirm the organisational independence of the internal audit activity. As outlined in the self-assessment review, the organisational independence of the Chief Auditor can be confirmed for the following reasons:

- The Chief Auditor reports to the Chief Finance Officer (Section 151 Officer), who is a permanent member of Corporate Management Team.
- The Chief Auditor reports functionally to the Audit Committee and has unrestricted access to the Committee.
- As a third tier officer, the Chief Auditor can influence the control environment, has sufficient status to pursue audit issues and provide credible, constructive challenge to management.
- The Internal Audit Charter is reviewed and approved by Audit Committee and the Corporate Management Team on an annual basis.
- The risk-based audit plan is reviewed and approved by Audit Committee on an annual basis.
- The performance of the Internal Audit Function is reported to Audit Committee on a quarterly basis via quarterly monitoring reports, annually as part of the Internal Audit Annual Report and also as part of the QAIP programme.
- The Chief Auditor has no other management responsibilities other than Internal Audit and the Corporate Fraud Function.
- The Chief Auditor also has unrestricted access to senior management and the Audit Committee and has the ability to report to all levels in his own name which allows the internal audit activity to fulfil its responsibilities.
- The Chief Auditor also has the right of direct access to the Chief Executive as agreed by the Section 151 Officer.

## **7. Internal Control Opinion**

7.1 The system of internal control is designed to help the Council manage and control the risks which could affect the achievement of the Council's objectives. However it is not possible to eliminate all risks completely.

7.2 This means that Internal Audit can only provide 'reasonable' assurance that the systems of internal control within the areas of the Council reviewed are operating adequately and effectively.

7.3 The Internal Audit Section give levels of assurance for all reviews undertaken. The basis used for each level of assurance is shown in Appendix 6.

7.4 The table below provides a summary of the assurance levels across all audits in the audit universe as at the 31/03/20, compared to the assurance levels as at 31/03/19.

Level of Assurance	31/03/18		31/03/19		31/03/20		Variation	
	No.	%	No.	%	No.	%	No.	%
High	110	28	127	34	121	33	-6	-1
Substantial	244	63	224	61	220	61	-4	0
Moderate	31	8	17	5	22	6	+5	+1
Limited	2	1	0	0	0	0	0	0
<b>Total</b>	<b>387</b>	<b>100</b>	<b>368</b>	<b>100</b>	<b>363</b>	<b>100</b>	<b>-5</b>	<b>0</b>

- 7.5 Note that as a result of the consultation exercise, departmental restructures and other changes across the Council, the total number of audits in the audit universe will vary each year.
- 7.6 As can be seen in the table above, there has been a marginal increase in the number of audits receiving a moderate level of assurance since 2018/19. The Audit Committee has been made aware of the various moderate assurance reports that have been issued in 2019/20 as the summary details of these audits have been included in the quarterly monitoring reports. In addition, the committee has received updates from the relevant client department representatives for all of the moderate reports issued in year. A consistent theme running through the majority of the moderate audits issued in year has been in relation to reduced resources, resulting in a failure to adhere to standard control procedures. There has also been a marginal decrease in the number of audits with a high level of assurance. However, it should be noted that in both cases, the variance only represents 1% of the overall audit universe.
- 7.7 There are 14 audits which are classed as fundamental audits. The fundamental audits are the systems that are considered to be so significant to the achievement of the Council's objectives that they are audited either annually or bi-annually. Following the audits completed in 2019/20, 11 of the 14 fundamental audits have a high level of assurance. Two have a substantial level of assurance (Accounts Payable and NNDR/Business Rates) and one has a moderate level of assurance (Accounts Receivable).
- 7.8 Prior to the most recent audit, the NNDR/Business Rates audit had received consistent high assurance rating and had therefore been subject to an audit every two years. However, as a result of the findings of the most recent audit in 2019/20, a substantial level of assurance was awarded and as a result this audit will be completed on an annual basis going forward.
- 7.9 The Accounts Payable audit received a substantial assurance rating in 2019/20 as was also the case in 2018/19 and so this also continues to be audited on an annual basis.
- 7.10 The Accounts Receivable audit received a moderate assurance rating in both 2018/19 and 2019/20. The Audit Committee have had a number of updates from the client department in relation to the work that is ongoing



within the department to address the issues that have been identified. The Audit Committee will continue to receive updates on this during 2020/21. (Please note that due to the timing of the draft reports being issued and the onset of the Covid-19 crisis, the NNDR/Business Rates, Accounts Receivable and the Housing and Council Tax Benefits audit reports remain at draft stage at the time of compiling this report).

- 7.11 It is disappointing to note that one of the fundamental audits received a second moderate assurance rating in 2019/20. As detailed in updates provided to the Audit Committee from the client department, the reasons for the weaknesses identified in this area are in relation to reduced resources. As noted in previous annual reports, continuity and maintenance of core grip with changing, and more often diminishing, resources was a recognised clear challenge across the Authority and this continues to be the case.
- 7.12 Despite this, it should be noted that of the 14 fundamental system audits, 11 have a high assurance level and two have a substantial assurance level. In addition, the results of the work undertaken in 2019/20 shows that as at the 31/03/20, 94% of all of the audits listed in the audit universe have either a high or substantial assurance rating. This provides reasonable assurance that across the Authority the systems of internal control are operating effectively.
- 7.13 Throughout the year, a significant amount of effort has been directed at further strengthening the systems of risk management across the Authority. Audit Committee continue to receive regular update reports from the Strategic Delivery and Performance Manager outlining the status of key risks to further strengthen assurance in this area. The Corporate Management Team and Risk Owners have also reviewed the risk register entries regularly throughout the year to ensure the register is up to date and all mitigating controls have been captured and remain effective. A new Risk Management System has also been introduced in the year which should ensure monitoring and control of risk is greatly improved.
- 7.14 As per the Terms of Reference, the Audit Committee must be satisfied that they have sufficient information in order to gain assurance over the risk management controls across the Council. Prior to the introduction of the new Risk Management System, the Committee highlighted concerns over the amount of information that was available to Members to allow them to discharge this responsibility. These concerns were also echoed by the Council's External Auditors. It is envisaged that the introduction of the new Risk Management System will facilitate greater scrutiny of the risk management arrangements in place by the Committee. However, it should be noted that at present, the members of the Audit Committee do not have access to the new system.
- 7.15 In addition, further developments in the year have seen a member of the Audit Committee joining the Governance Group which is tasked with

overarching responsibility for ensuring existing corporate governance arrangements are effective. However, it should be noted that there have been very few meetings of the Governance Group throughout 2019/20, and as a result there has been little focus on the Annual Governance Statement throughout the year.

- 7.16 Each of the Corporate Directors have also attended Audit Committee meetings throughout the year to outline governance, risk and control arrangements in place within each directorate. These improvements have further strengthened the overall assurance provided to the Audit Committee. A diagram illustrating the sources of the key areas of corporate governance assurance and how they interrelate can be found in Appendix 7.
- 7.17 At the time of writing this opinion, it is unclear as to the scale of additional spending, loss of income and funding arrangements for reimbursement in part, or in full, that the authority faces in responding both locally, with partners, and supporting the national strategic response to the Covid-19 pandemic. We are also aware that the Council's emergency response has necessitated some rapid changes to working practices, controls and authorisation channels for approval and decision making by Senior Officers and Councillors. However, it should be noted that the Statutory Governance Chief Officers are resolving to maintain appropriate corporate grip to ensure that sufficient recording and reporting mechanisms are maintained throughout this unprecedented crisis.
- 7.18 The impact of the pandemic was not directly financially or operationally material on the 2019/20 internal audit plan. As a result, the impact of the crisis is not yet reflected in the audit universe as the crisis commenced at the latter end of the financial year. However, it should be noted that the national lock down arrangements and the prioritisation of the response to Covid-19 may have impaired the Council's ability to fully comply with normal operating procedures at all times during March and beyond.
- 7.19 The impact of the crisis will be financially and operationally material for the whole of 2020/21. It will affect council spending, income, controls and even directly affect our ability to meaningfully deliver the audit plan, particularly during the lock down phase. Throughout this period, the audit team is refocusing its efforts to support the Council to deliver its immediate, urgent response to the crisis. It is hoped that once the current restrictions are eased, the audit team can slowly begin prioritising audit work in the subsequent expected recovery phase.
- 7.20 The Audit Committee and the Council's External Auditors have raised a number of concerns throughout the year in relation to risk management arrangements and also in relation to the lack of pace with which Directorates have been able to deliver agreed savings targets. These concerns are echoed by Internal Audit and the Chief Finance Officer and the programme of planned audits for 2020/21 will seek to provide the Committee with some clarity on these issues.

7.21 **Overall, based on the work undertaken in 2019/20, I am satisfied that Internal Audit can provide reasonable assurance that the systems of risk management, internal control and governance established by the Council are operating effectively and that no significant weaknesses were identified in 2019/20 which would have a material impact on the Council's financial affairs or the achievement of its objectives.**

## **8. Equality and Engagement Implications**

8.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

8.2 There are no equality and engagement implications associated with this report.

## **9. Financial Implications**

9.1 There are no financial implications associated with this report.

## **10 Legal Implications**

10.1 There are no legal implications associated with this report

**Background Papers:** Internal Audit Plan 2019/20

**Appendices:** Appendix 1 Internal Audit – Plan 2019/20 Summary  
Appendix 2 Internal Audit – Audits Finalised 2019/20  
Appendix 3 Internal Audit – Performance Indicators 2019/20  
Appendix 4 Internal Audit – PSIAS Compliance Report  
Appendix 5 Internal Audit – QAIP Report & Action Plan 2019/20  
Appendix 6 Internal Audit – Audit Levels of Assurance  
Appendix 7 Internal Audit – Governance & Assurance Map