



## Report of the Chief Auditor

Governance & Audit Committee – 17 May 2023

### Internal Audit Annual Report 2022/23

<b>Purpose:</b>	This report summarises the work completed by Internal Audit in 2022/23 and includes the Chief Auditor's opinion for 2022/23 based on the work undertaken in the year.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Legal, Finance and Access to Services
<b>Recommendations:</b>	It is recommended that the Governance & Audit Committee: -  a) Review the work undertaken by the Internal Audit Team in 2022/23. b) Note the progress made against the Internal Audit Annual Plan. c) Consider the Chief Auditor's opinion.
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<b>Finance Officer:</b>	Ben Smith
<b>Legal Officer:</b>	Tracey Meredith
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#### 1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) define 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, internal control and governance processes.

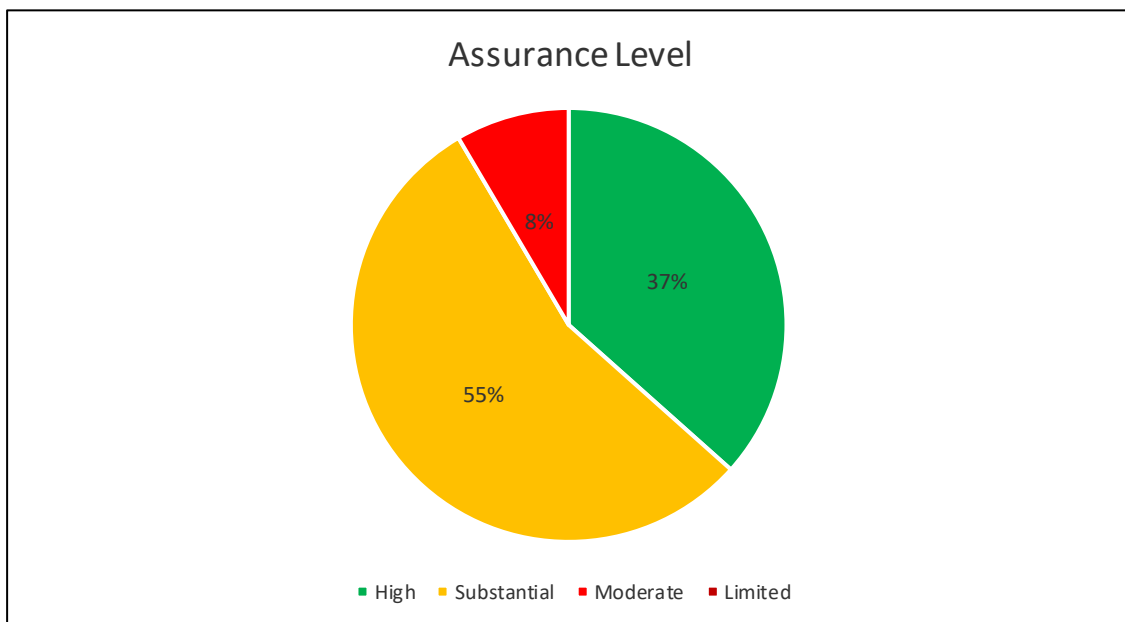
- 1.2 This report summarises the work of the Internal Audit Team in 2022/23 and compares its performance against the Internal Audit Annual Plan for the year which was approved by the Governance & Audit Committee on 12<sup>th</sup> April 2022.
- 1.3 A series of Performance Indicators are used to measure the performance of the Internal Audit Team 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 2022/23 is included in this report.
- 1.4 This report also contains the Chief Auditor's opinion on the overall standards of the control environment in operation in the Council based on the work undertaken by Internal Audit in 2022/23.
- 1.5 This report and the Chief Auditor's annual opinion are key elements of assurance that are referenced in the Council's Annual Governance Statement.

## **2. Review of 2022/23**

- 2.1 The long-awaited transition out of the Covid-19 pandemic has seen a number of changes for the Internal Audit Team. The team now have access to a shared office space in the Guildhall, so that staff can return to the office environment on a flexible basis should they choose to do so. However, the team continues to embrace the post-pandemic agile way of working. It has also been pleasing to see most of the Council's operations return to business as usual and council sites reopen over the past year.
- 2.2 Despite the return to relative normality, the Audit Team has faced a number of challenges this year as outlined in the Quarterly Monitoring Reports presented to the Governance & Audit Committee. As detailed later in the report, a significant amount of time has been lost to long term sickness absence during the year. In addition, two members of staff left the team in the year resulting in further time lost due to unavoidable delays filling the vacant posts.
- 2.6 The original Internal Audit Annual Plan for 2022/23 contained 131 separate audit activities. As at 31 March 2023, 80 audit activities (61%) from the 2022/23 audit plan had been completed, with one additional activity (1%) substantially complete with the audit report issued as draft. As a result, 81 audit activities had been completed to at least draft report stage (62%). An additional 4 activities were in progress at year end (3%). As a result, approximately 65% of the audit activities included in the 2022/23 Audit Plan had either been completed or were in progress. The team also successfully completed all of the Fundamental audits (audits of the Council's key financial systems) by the year end. A copy of the plan showing the status of the activities as at the 31 March 2023 can be found in Appendix 1.

- 2.7 A list of the audits finalised (reports issued) in each quarter has been included in the quarterly monitoring reports presented to the Governance & Audit Committee throughout the year. A complete list of audits finalised during 2022/23 along with the assurance level awarded, and the number of recommendations made and accepted, is shown in Appendix 2.
- 2.8 It should also be noted that due to the challenges faced by the team in progressing and finalising some audits as a result of the pandemic in 2021/22, 14 audits from 2021/22 were also completed in 2022/23. These were not included in the 2022/23 Audit Plan and so are in addition to the 81 audit activities (62% of the 2022/23 plan) completed in year.
- 2.9 A total of 73 Audit Reports were issued in the year. An analysis of the assurance levels awarded to the audits finalised is shown in the following table and chart:

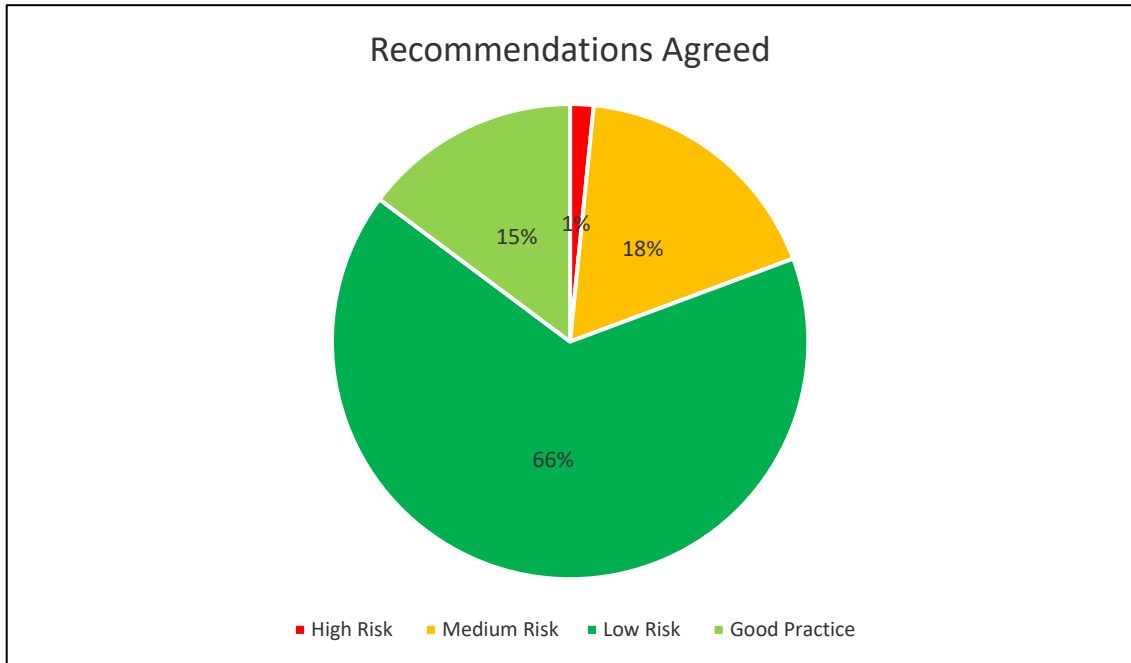
Assurance Level	High	Substantial	Moderate	Limited	Total
Number	27	40	6	0	73



- 2.10 An audit report was produced for each audit which was discussed and agreed with the client. Our reports include recommendations to improve any weaknesses or areas of concern identified during audits in relation to systems, procedures and controls. In total, 444 recommendations were made, with 442 being accepted by clients. It is pleasing that almost 100% of the recommendations made in our reports were accepted, against a target of 95%. Any recommendations that are not accepted are highlighted to the Governance and Audit Committee via the quarterly monitoring reports. The two recommendations not accepted were both classified as low risk recommendations.

2.11 All recommendations made are classified as High Risk, Medium Risk, Low Risk or Good Practice. An analysis of the recommendations agreed during the year is shown in the following table and chart:

Risk Level	High Risk	Medium Risk	Low Risk	Good Practice	Total
Number	7	78	292	65	442



2.12 The implementation status for those audits that have been subject to a standard follow-up in the quarter is reported separately in the quarterly Recommendation Follow-up Report. This includes all routine follow-up reviews completed, except for the outcome of the follow-up reviews of the fundamental audits as these are reported to the Committee via the separate Fundamental Audit Recommendation Tracker Report.

2.13 We successfully completed two thematic audits across a sample of Primary Schools during the year. One review covered the procurement practices and controls, and the second was a review of the controls in place around the employment status of individuals paid by schools (IR35). It should also be noted that the team was able to successfully complete four individual Secondary School audits in the year.

2.14 As noted in the quarterly monitoring reports presented to the committee during the year, staff sickness in the Internal Audit Team has been significant during 2022/23, with a total of 234 days lost due to sickness absence. At the time of compiling this report, one member of staff continues to be absent due to long-term sickness and they are currently being supported by the Council's Human Resources section.

- 2.15 In addition to the sickness absence noted above, two Auditors left the team during the second quarter. Following a successful recruitment campaign, the vacant posts were filled by two new members of staff who joined the team in November 2022. However, it should be noted that a total of 272 days were lost in year due to the posts being vacant.
- 2.16 The possible use of agency staff to support the existing resources of the internal audit team was considered by the Chief Auditor and the Director of Finance throughout the year. However, given the ongoing budgetary concerns across the Council and Cabinet's decision to seek containment of in year spending by all Directors, the Director of Finance continues to advise against the use of agency staff.
- 2.17 In total, 506 days were lost in 2022/23 due to long term sickness and vacancies. The total resources available in 2022/23 as outlined in the Internal Audit Annual Plan consists of 9.1FTE staff, which represents a total of 2,366 days. The number of days lost in year is the equivalent of approximately 21% of the total resources available in the year.
- 2.18 As a result of the absence noted above, 46 audit activities totalling 501 days (35% of the activities on the 2022/23 Audit Plan) had to be deferred.
- 2.19 Despite the challenges faced by the team as noted above, it is pleasing to note that 62% of the 2022/23 plan has been completed. As Chief Auditor, I would like to thank the Team for their hard work and dedication throughout the year.
- 2.20 As noted in the Internal Audit Quarterly Monitoring Reports presented to the committee, the audit resource has been targeted throughout 2022/23 to provide maximum assurance over key areas and risks such as the Fundamental audits and cross-cutting reviews. In addition, thematic audits have been completed in areas such as schools, to ensure a broad level of assurance can be provided across the Council. With the agreement of the Director of Finance & Section 151 Officer, this targeted approach has been taken to limit the risk of any potential impairment to the annual opinion on the Council's internal control environment for 2022/23.
- 2.21 As well as the planned internal audit activities, several additional pieces of work were undertaken by the Team during the year as summarised below:
- i) The following grants were audited and certified in 2022/23:

Grant	Amount
Enable – Support for Independent Living Grant 2021/22	£379,500
Housing Support Grant 2021/22	£18,489,233
Regional Consortia School Improvement Grant (EIG Element) 2021/22 End of Year	£8,874,439
Housing Support Grant – Regional Development Coordinator	£44,497

- ii) The Principal Auditor also compiled the Schools Annual Report 2021/22 which was presented to the Audit Committee in July 2022.
- iii) The Fundamental Audit Recommendation Tracker exercise for the Fundamental audits completed in 2021/22 was also completed and this was reported to the Committee in December 2022.
- iv) Other pieces of work undertaken in year have been reported to the Committee as part of the quarterly monitoring reports throughout the year.

### 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 Team 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 Governance & Audit Committee.
- Routine audits which are awarded 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' risk recommendations have been implemented. The results of any follow-up visits for routine audits are included in the quarterly monitoring reports presented to the Governance & Audit Committee.

3.2 Any audits that are awarded 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 findings of the Fundamental Audit Recommendations Tracker exercise carried out in 2022/23 were reported to the Governance and Audit Committee on 9 November 2022 where the conclusion was positive, with 67% of agreed recommendations being confirmed as

implemented by the end of September 2022. The report also noted that the majority of the recommendations that had either been partly implemented or had not been implemented related to the Accounts Receivable and Accounts Payable audits. These audits continue to be completed on an annual basis. It was noted that the remaining outstanding recommendations relating to the Employee Services, Business Rates and Housing Rents audits were all classed as either 'Low Risk' or 'Good Practice' recommendations. These will be followed up when the audits are next completed.

- 3.4 One unplanned follow-up review was undertaken in 2022/23. The audit of Freedom of Information (FOI), Subject Access Requests (SAR) and Environmental Information Regulations (EIR) was undertaken in January 2022 with the final report being issued in March 2022 with a Moderate assurance rating. The follow-up was completed in November 2022 which confirmed that 9 of the 13 recommendations made had been fully implemented. However, 3 Medium Risk recommendations and 1 Low Risk recommendation had not been addressed. As a result, a further follow-up review has been scheduled to take place in quarter 1 of 2023/24. Three additional follow-up reviews are also due to take place in quarter 1 of 2023/23 namely Western Bay Adoption Service & Adoption Allowances, Rechargeable Works and Destination Lettings.

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

- 4.1 A series of Performance Indicators (PI's) are used to measure the work of the Internal Audit Team as agreed by the Welsh Chief Internal Auditors Group (WCIAG). The PI's measure output, quality and cost and are also measured by some 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 2022/23, the Internal Audit Section met or exceeded the target set at the start of the year for six out of the eight PI's.
- 4.3 The significant increase in unplanned sickness absence and the additional staffing issues experienced by the team in year has meant that the team was unable to achieve the targets set for the two of the PI's.
- 4.4 In previous years, PI data has been compared to the average results of other Local Authorities in Wales, with the results being 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.
- 4.5 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 teams when attempting to compare the results.

4.6 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 going forward.

## **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. Following discussions at the last Wales Chief Auditors Group meeting, it has been proposed that this approach would be repeated for the next round of external reviews.

5.4 The outcome of the last peer review was presented to the Director of Finance & Section 151 Officer (then Head of Financial Services & Service Centre), the Director of Resources and the Chief Executive on 28 March 2018 and to the Governance and Audit Committee on the 10 April 2018. In summary, the peer review concluded that the City and County of Swansea's Internal Audit Section was 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 as has been previously reported to the Governance and Audit Committee.

5.5 The results of the annual internal assessment of compliance with the PSIAS using CIPFA's detailed Local Government Application Note completed in March 2023 can be found in Appendix 4. The self-assessment review of conformance against the PSIAS revealed that the Internal Audit Section is fully compliant with the best practice of the PSIAS.

5.6 As noted in Appendix 4, the second external review is underway at the time of compiling this report. The results of the review will be provided to the Director of Finance & Section 151 Officer, the Corporate Management Team and the Governance & Audit Committee as soon as the review is concluded.



- 5.7 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 2022/23 can be found in Appendix 5.

5.8

#### **Statement of Conformance with the PSIAS**

**The results 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 Team of Swansea Council conforms to 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:
- i) The Chief Auditor reports to the Director of Finance & Section 151 Officer who is a permanent member of Corporate Management Team.
  - ii) The Chief Auditor reports functionally to the Governance and Audit Committee and has unrestricted access to the Committee.
  - iii) 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.
  - iv) The Internal Audit Charter is reviewed and approved by the Governance and Audit Committee and the Corporate Management Team on an annual basis.
  - v) The risk-based audit plan is reviewed and approved by the Corporate Management Team and the Governance and Audit Committee on an annual basis.
  - vi) The performance of the Internal Audit Function is reported to the Governance and 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.
  - vii) The Chief Auditor has no other management responsibilities other than Internal Audit and the Corporate Fraud Function.
  - viii) The Chief Auditor also has unrestricted access to senior management and the Governance and 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.

- ix) The Chief Auditor also has the right of direct access to the Chief Executive as agreed by the Director of Finance & Section 151 Officer.

## 7. Chief Auditors Opinion

- 7.1 System of internal control are 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 As a result, 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 awards an assurance level for all audits 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 awarded to the audits completed in 2022/23:

<b>Audit Assurance Results 2022/23</b>		
Total Number of Audits Finalised	73	
<b>Assurance Level</b>	<b>Number</b>	<b>%</b>
High Assurance	27	37
Substantial Assurance	40	55
Moderate Assurance	6	8

- 7.5 As can be seen in the table above, the outcome of 67 of the 73 audits completed (92%) was positive with the audits being awarded either a High or Substantial assurance level.
- 7.6 Six audits received a Moderate level of assurance in the year. A summary of the key issues that result in Moderate assurance ratings being awarded are presented to the Governance & Audit Committee as part of the Chief Auditor's Quarterly Monitoring Reports, together with the outcome of the follow-up reviews undertaken to assure the Committee that action has been taken by management to address the issues identified.
- 7.7 In total there are 14 audits which are classed as Fundamental audits. The Fundamental audits are the core financial 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 2022/23, 10 of the 14 Fundamental audits were awarded a High level of assurance and 3 were awarded a Substantial level of assurance (Accounts Payable, Business Rates and Employee Services).

- 7.8 The Fundamental Accounts Receivable audit was awarded a Moderate assurance level in 2022/23, as has also been the case in the previous four financial years. The Governance & Audit Committee has received several updates from the relevant managers within the service in relation to the work that is ongoing to address the issues that have been identified. The Committee will continue to receive updates on this during 2023/24 as required.
- 7.9 It is disappointing that the Accounts Receivable audit received a Moderate assurance rating once again in 2022/23. As detailed in updates provided to the Governance & Audit Committee from the service management, the reasons for the weaknesses identified in this area are primarily in relation to reduced staff 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 Council, and this continued to be the case in 2022/23 and going into 2023/24.
- 7.10 Despite this, as stated previously it should be noted that of the 14 fundamental system audits, 10 have a High assurance level and 3 have a Substantial assurance level. In addition, the results of the work undertaken in 2022/23 shows that 92% of all audits completed in year were awarded either a High or Substantial assurance level. This provides reasonable assurance that the systems of internal control are operating effectively across the Council.
- 7.11 The Internal Audit Team has continued to operate in a very challenging environment throughout 2022/23. Approximately 500 days were lost to sickness absence and vacancies. As a result, approximately 35% of the original 2022/23 Audit Plan had to be deferred. However, I wish to express my gratitude the Internal Audit Team who have worked tirelessly throughout the year to complete as much audit work as possible.
- 7.12 The Audit Plan for 2022/23 contained 131 separate audit activities. As at 31 March 2023, 80 activities (61%) had been completed, with one additional activity (1%) substantially complete with a draft report issued. As a result, 81 activities had been completed to at least draft report stage (62%). An additional 4 activities were in progress at year end (3%). As a result, approximately 65% of the audit activities included in the 2022/23 Audit Plan had either completed or were in progress at year end. The team also successfully completed all of the Fundamental audits. This is a positive result given the resources available in the Team during the year. It is also pleasing to note the overall positive outcomes of the work that has been completed in year as highlighted above.
- 7.13 Throughout the year, a significant amount of effort has continued to be directed at further strengthening the systems of risk management across the Council. The Governance and Audit Committee has received regular update reports from the Strategic Delivery and Performance Manager outlining the status of key risks from the Corporate Risk Register. 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. The new Risk Management System has also been further embedded in the year which has continued to improve the monitoring and control of risks. The introduction of the new Risk Management System has facilitated greater scrutiny of the risk management arrangements in place by the Governance and Audit Committee, and detailed reports from the new system have been presented to the Committee throughout the year.

- 7.14 At the time of writing this opinion, it is unclear as to the scale of additional spending the Council faces, from persistent relatively high inflation across both revenue and capital and demands on our services post pandemic whilst also in the midst of a cost of living crisis. The Director of Finance & Section 151 Officer has advised that his view is that there is adequate assurance of sufficient budget cover for 2023/24, but the future budget outlook remains extremely challenging in real terms. In March 2023, the Leader of the Council set out the Council's intention to continue with utilising the residual part of the locally funded Covid-19 Economic Recovery Fund during 2023/24. This will in part may mitigate the known certainty of the expected significantly reduced real terms Government funding increases in future years. This may also assist with dealing with some, but not all, of the immediate inflationary effects, which means future real terms reductions seem inevitable. However, this is pending formal certification of the final outturn and statement of accounts by the Section 151 Officer and Council.
- 7.15 The work undertaken by the Internal Audit Team in the year did not uncover any significant concerns in relation to governance and overall management control across the areas of the council that were subject to internal audit review. Despite the ongoing period of upheaval and change, officers have continued to adapt speedily and effectively to the move out of the pandemic.
- 7.16 Given the completion rate of the 2022/23 Audit Plan noted previously, and the fact that the Internal Audit Team has completed all of the planned Fundamental audits in year, the Chief Auditor feels that no impairment to the Chief Auditor's opinion is required. Assurance can be provided across a range of Council services as a result of the audits completed and other assurance work undertaken in the year.
- 7.17 In addition, for the reasons set out previously, the Chief Auditor is of the opinion that governance arrangements across the Council have proved to be robust and resilient throughout the continuing period of challenge and change that the Council has faced over the past year in the transition out of the pandemic.

7.18

### Chief Auditors Opinion for 2022/23

***Based on the programme of audit work undertaken in 2022/23, the Chief Auditor's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control is effective with no significant weaknesses identified in 2022/23 which would have a material impact on the Council's financial affairs or the achievement of its objectives.***

## 8 Integrated Assessment 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.
- Deliver better outcomes for those people who experience socio-economic disadvantage

The Well-being of Future Generations (Wales) Act 2005 mandates that public bodies in Wales must carry out sustainable development. Sustainable development means the process of improving the economic, social, environmental and cultural well-being of Wales by taking action, in accordance with the sustainable development principle, aimed at achieving the 'well-being goals'.

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

8.2 The completion of the Integrated Impact Assessment Screening revealed that:

- The Internal Audit Annual Report 2022/23 has a potentially low positive impact across a number of identified groups.
- It has been subject to consultation with the Director of Finance & S151 Officer, Legal and Access to Services.
- All WFG considerations are positive and any risks identified are low.
- The overall impact of the Internal Audit Annual Report 2022/23 is positive as it will support the Authority in its requirement to protect public funds.

## **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 2022/23.

**Appendices:** Appendix 1 – Audit Plan 2022/23 Status as at 31/03/23.

Appendix 2 – Audits Finalised 2022/23.

Appendix 3 – Performance Indicators 2022/23.

Appendix 4 – PSIAS Compliance Report.

Appendix 5 – QAIP Report & Action Plan 2022/23.

Appendix 6 – Audit Levels of Assurance.

Appendix 7 – Integrated Impact Assessment.