

Committee: **Governance and Audit Committee**  
Date of meeting: **11<sup>th</sup> July 2022**  
Report Subject: **Annual Report of the Audit & Risk Manager 2021/22**  
Portfolio Holder: **Leader of the Council / Executive Member – Corporate Overview & Performance**  
Report Submitted by: **Louise Rosser - Audit & Risk Manager**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Governance & Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
	23.06.22		11.07.22					

## 1. Purpose of the Report

- 1.1 This report provides the Audit Committee with the Audit & Risk Manager's (A&RM) objective review of the Authority's system of internal control operating during the financial year 2021/22 and the annual audit opinion of the A&RM.
- 1.2 As such in my opinion, Blaenau Gwent County Borough Council's system of internal control during the financial year 2021/22 operates to a level which gives Reasonable Assurance on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

## 2. Scope and Background

### 2.1 Background and Context

- 2.1.1 The report highlights the work undertaken by the Internal Audit Service and complies with the Public Sector Internal Audit Standards (PSIAS) and the Governance & Audit Committee Terms of Reference.
- 2.1.2 In line with the PSIAS, the A&RM is required to produce an annual report for the Governance & Audit Committee. The report must include:
- An annual audit opinion, including a summary of the work that supports that opinion;
  - A statement on conformance with the International Professional Practices Framework (IPPF), including the PSIAS; and
  - The results of the Quality Assurance and Improvement Programme.
- 2.1.3 The A&RM must demonstrate organisational independence and this is achieved through the Committee approving the Internal Audit Charter, agreeing the Audit Plan and receiving periodic progress reports on the work undertaken by the service. The A&RM is able to report directly to the Chief Executive and / or the Governance & Audit Committee if the need

arose. Progress reports have been received by the Committee during the year and the outturn position for 2021/22 is also included on this Committee's agenda.

- 2.1.4 The A&RM line manages the Insurance and Risk Management Service in addition to the Internal Audit Service. Independence is maintained through appropriate review and reporting processes being put in place for audit work relating to the Insurance and Risk Management Service. Audit output for this area will bypass the A&RM and be subject to sign off by the Chief Officer Resources to ensure independence is maintained.

## 2.2 Annual Opinion and Summary of Audit Activity for Financial Year 2021/22

- 2.2.1 The continuation of the Covid-19 pandemic throughout 2021/22 has had minimal impact on the work of Internal Audit with normal service resuming for the period. The service continued to be mindful of the impact on frontline services and endeavoured to work around any specific pressures faced by auditees.
- 2.2.2 The audit plan for the period incorporated a number of audit areas that tested and reported on the Authority's handling of Covid related funding, as well as any process changes as a result of the pandemic. Reports on these areas have been provided to the Committee during the year as part of the routine reporting cycle.
- 2.2.3 The full cycle of Governance & Audit Committee meetings resumed and were held throughout the year in hybrid format. The timings of some reports presented to the Governance & Audit Committee continued to be outside of the established reporting pattern, however there was no detriment from delayed reporting and the reporting programme is anticipated to fully return to its pre-pandemic timeframes for 2022/23. Emergency powers were not required during the year.
- 2.2.4 The annual opinion is formed having consideration to three aspects of the Authority's arrangements, namely: Governance, Risk Management and Internal Control.
- 2.2.5 Throughout the year the risk management and governance arrangements have continued to be evidenced by the operation of Gold CLT and the Emergency Response Team (ERT). The focus has been on both the response to and recovery from the pandemic with meetings varying in frequency and remit in line with the fluctuating Covid position.
- 2.2.6 CLT have received and reviewed the Corporate Risk Register throughout the year. The adopted Risk Management Strategy and Handbook were scheduled for review during 2021/22, however this has been delayed until 2022/23 as a result of staffing changes during the year and necessary workload reprioritisation.

- 2.2.7 Audit Wales issued a letter to management highlighting their concerns over adherence to the procurement processes operated by the Authority. A number of procurement related audits have been undertaken during the year to ensure the findings of the Audit Wales review are not endemic in the Authority. Those audits completed are included in the outturn report presented to this Committee and no findings of particular concern were noted. Two contract audits are ongoing at year end and any adverse findings will be reported to this committee.
- 2.2.8 The Authority has been subject to an investigation by Audit Wales in relation to the governance arrangements for Silent Valley Waste Services. This matter concluded during the year with a public interest report being presented at full council that found 'deficiencies in the Council's governance and oversight arrangements in respect of Silent Valley Waste Services'. The Council agreed the recommendation to undertake a review to gain assurance that these issues are not present in respect of any other companies in which it has an interest. This review is progressing with the findings expected to be reported to the Governance & Audit Committee once concluded.
- 2.2.9 Prior year statements of accounts, which were held in abeyance whilst the matter was ongoing, were re-presented to the Governance and Audit Committee and signed off by all parties.
- 2.2.10 There have been a number of changes to the Corporate Leadership Team during the year. The interim appointment of the Chief Officer – Commercial position was made a permanent appointment in June 2021. The Managing Director left the Authority in March 2022, with the Director of Social Services accepting the role of Interim Chief Executive Officer in her place. The Director of Social Services role has been taken by the Head of Children Services, again on an interim basis.
- 2.2.11 As part of the budget setting process for the year, the Authority set a target of £755K for Bridging the Gap projects. Progress against these projects was reported to Joint Scrutiny in March 2022, with the savings achieved expected to exceed the target for the year at £1,038K.
- 2.2.12 The Internal Audit Service issued 45 audit reports during the year including 12 Full Assurance, 13 Reasonable Assurance, 6 Limited Assurance, and 1 'No' Assurance grading. 10 of these reports were in draft format at year end and therefore could be subject to change. There were a further 13 pieces of work that were not graded, including 7 follow-up audits. The number of audits undertaken and the proportions of grades for the period are more aligned to pre-pandemic trends.
- 2.2.13 In forming an audit opinion consideration is also given to the control environment over the past few years. An analysis of prior year outcomes of the audits of the major financial systems highlighted a long term trend of full / reasonable audit grades. In light of these consistent results a decision was made to re-categorise the audits from an automatic annual

audit to a 'risk assessed' approach. As a consequence, the number of major financial systems audits were reduced and other higher risk audit areas were prioritised. This change of approach has enabled improved coverage in other service areas. This approach is going to continue for the 2022/23 financial year.

- 2.2.14 Audits reports are written on an exception basis and reflect the adequacy of the specific system examined, and the controls within that system, and therefore need to be considered in context. For 2021/22 there were no patterns / trends to the audit outcomes that indicated particular areas of concern and no individual findings are of such significance to cause concern regarding the integrity of the Statement of Accounts.
- 2.2.15 Follow-up audits are routinely undertaken on any audit that receives a Limited Assurance or No Assurance grading. As indicated in 2.2.12 above, 7 follow up audits were conducted during the year, all of which showed satisfactory progress had been made to improve controls.
- 2.2.16 There has been one change to the staffing structure of Internal Audit during 2021/22, with a Senior Auditor leaving the Authority. A new Senior Auditor was appointed in June 2021. Whilst the turnaround for this position was quick, the need to train a new employee would have had a small impact on plan progress.
- 2.2.17 The section continues to recognise the lack of an IT auditor and this remains as a risk on the service's risk register. The Authority is a partner in the SRS who are currently audited by Torfaen CBC. The results of the audit work undertaken by Torfaen CBC are fed back to all board members with reliance being placed on this work as appropriate.

### 2.3 International Standards of Professional Practice

- 2.3.1 The service works within the parameters of the International Professional Practices Framework (IPPF). This consists of three mandatory elements namely: a Definition of Internal Audit; a Code of Ethics; and the Professional Standards (PSIAS).
- 2.3.2 The A&RM is required to make a statement, as part of this report, on whether the service conforms to the PSIAS, and in addition must report any instances of non-compliance with the Definition of Internal Auditing, the Code of Ethics and the Standards. Any significant instances of non-compliance should be included in the Annual Governance Statement.
- 2.3.3 I am able to confirm that the Internal Audit Service for Blaenau Gwent CBC conforms to the requirements of the PSIAS and the IPPF.
- 2.3.4 The service is now due it's second external assessment and as with the previous assessment this will be conducted by way of peer review. The Welsh Chief Auditors Group co-ordinate a reciprocal arrangement

between authorities whereby the Chief Audit Executives conduct the review for a nominated authority. Blaenau Gwent is currently undergoing an assessment by Carmarthenshire and the findings of the review will be reported to a future Governance & Audit Committee. In turn, the Audit and Risk Manager will conduct the review for another local authority at a later date.

## 2.4 Quality Assurance and Improvement Programme

2.4.1 The A&RM is required to implement a programme of quality assurance and improvement. This is done through a combination of the performance indicators referred to in 6.1 below, senior management review of outputs to assure consistency of approach, staff development and discussion with audit clients.

2.4.2 I am able to confirm that no areas of concern have been highlighted as part of the quality assurance and improvement programme.

## 3. **Options for Recommendation**

3.1 The Governance & Audit Committee receive the annual audit opinion of the Audit & Risk Manager as detailed in paragraphs 1.1 and 3.3.

3.2 The audit assignments conducted cover a range of activities and provide a reasonable indicator of the level of assurance for the Authority, however, they cannot provide complete coverage and it is acknowledged that assurance procedures alone do not guarantee that all significant risks are detected.

3.3 Based on the findings of the audit work undertaken during 2021/22, in my opinion, Blaenau Gwent County Borough Council's system of internal control during the financial year 2021/22 operates to a level which gives Reasonable Assurance on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

## 4. **Evidence of how does this topic supports the achievement of the Corporate Plan / Statutory Responsibilities / Blaenau Gwent Well-being Plan**

4.1 The provision of assurance on the internal control environment supports the Corporate Plan objective of being an ambitious and innovative council delivering the quality services we know matter to our communities.

4.2 The Local Government Act (1972) and the Accounts and Audit Regulations (Wales) 2014 require the Council to maintain an effective Internal Audit Service in accordance with proper internal audit practices. The Authority's Internal Audit Service has adopted the Public Sector Internal Audit Standards (PSIAS) for this purpose.

## **5. Implications Against Each Option**

### **5.1 Impact on Budget**

There are no direct financial implications resulting from this report. Poor financial controls could lead to fraud and misappropriation of council assets.

### **5.2 Risk including Mitigating Actions**

Failure of the A&RM to provide an annual opinion would indicate that an adequate internal audit service has not been provided. In not complying with statutory legislation, the section 151 officer would not be able to discharge her statutory duties. This would be reflected in the opinion provided by the external auditor and could result in additional regulation and costs to the Authority.

- 5.2.1 The Governance & Audit Committee would not be informed as to the level of assurance provided by the systems of internal control preventing them from fulfilling their role as a Committee as required by the Local Government (Wales) Measure. This is mitigated through the Committee receiving the annual opinion of the A&RM and periodic reports of audit activity relating to the adequacy of the control environment.

### **5.3 Legal**

Provision of an adequate audit service, demonstrated in part through the provision of an annual audit opinion, contributes to the Section 151 officer being able to fulfil her statutory duties under the Local Government Act (1972).

### **5.4 Human Resources**

The section was below the corporate and directorate tolerance levels for sickness absence losing 0.83 days per person against the directorate target of 6 days per person. The Committee are kept abreast of staffing issues throughout the year as part of the periodic progress reports.

## **6. Supporting Evidence**

### **6.1 Performance Information and Data**

Performance information for the service for the period 1st April 2021 to 31st March 2022 is presented to this Committee as part of the Audit Plan Outturn Report.

- 6.1.1 The section maintains a suite of eight performance indicators and has achieved seven of them for 2021/22. The indicator not achieved was the average number of days taken to issue a final report. This indicator was 5.17 days against a target of 5 days and is due to delayed reviews of the final report by the Audit and Risk Manager.
- 6.1.2 The plan percentage indicator was achieved with 70.74% of the plan completed against a target of 70%. A review of the performance indicators / measures used by the section is planned to be undertaken in

conjunction with the Welsh Chief Auditors Group with the aim of standardising to improve comparative data across all Welsh local authority Internal Audit Services.

- 6.2 Expected outcome for the public  
An effective audit service will assist with the stewardship of public money providing assurance to communities of Blaenau Gwent on the robustness of the Authority's internal controls.
- 6.3 Involvement (consultation, engagement, participation)  
There are no direct implications under involvement.
- 6.4 Thinking for the Long term (forward planning)  
The work of Internal Audit is intended to provide advice and guidance on system improvements resulting in an improved control environment for the future of the Authority.
- 6.5 Preventative focus  
A robust control environment reduces the risk of fraud and misappropriation and safeguards the assets of the Authority.
- 6.6 Collaboration / partnership working  
Reliance is placed on the work of other regulators, partners and local authorities when forming an audit opinion on the control environment of the Council.
- 6.7 Integration (across service areas)  
In providing an annual opinion, the A&RM has considered the Authority's whole control environment across all directorates.
- 6.8 EgIA (screening and identifying if full impact assessment is needed)  
The provision of the A&RM Annual Report and opinion has a neutral impact against people or groups from the nine protected characteristics.
7. **Monitoring Arrangements**
- 7.1 Both CLT and the Governance & Audit Committee receive periodic updates throughout the year on progress made against the audit plan, and any other issues arising through the work of Internal Audit Services.

#### **Background Documents /Electronic Links**

- *Audit Plan Outturn Report*
- *Annual Governance Statement*
- *Internal Audit Plan*