

Committee: **Governance and Audit Committee**
 Date of meeting: **21 June 2023**
 Report Subject: **Annual Report of the Audit and Risk Manager 2022/23**
 Portfolio Holder: **Steve Thomas – Leader / Cabinet Member for Corporate Overview and Performance**
 Report Submitted by: **Louise Rosser – Audit and Risk Manager**

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Governance Audit Committee	Democratic Services Committee	Scrutiny Committee	Cabinet	Council	Other (please state)
	01.06.23	07.06.23	21.06.23					

1. **Purpose of the Report**
 - 1.1 This report provides the Governance and 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 2022/23 and the annual audit opinion of the A&RM.
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 Terms of Reference for the Governance and Audit Committee.
 - 2.1.2 In line with the PSIAS, the A&RM is required to produce an annual report for the Governance and Audit Committee. The report must include the following three items:
 - An annual opinion, including a summary of the audit 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 a series of measures to include: the Committee approving the Internal Audit Charter; the Committee agreeing the Internal Audit Plan; and the Committee receiving periodic reports on the work undertaken by the Internal Audit Service.
 - 2.1.4 In addition to this, the A&RM is able to report directly to the Chief Executive and / or the Governance and Audit Committee if the need arises.
 - 2.1.5 The Committee has received progress reports throughout 2022/23 and was provided with the outturn position for 2022/23 at its April meeting.

- 2.1.6 The A&RM line manages the Insurance and Risk Management Service in addition to the Internal Audit Service. Appropriate reviewing and reporting processes have been put in place for conducting audit work in this service area. Audit output in respect of the Insurance and Risk Management Service bypasses the A&RM and is subject to sign off by the Chief Officer Resources to ensure independence is maintained.
- 2.1.7 The appropriateness of this arrangement was challenged as part of the External Quality Assessment referred to in section 2.3 below, but both the Corporate Leadership Team (CLT) and this Committee agreed that the arrangement was satisfactory and that any risk associated with this was minimal and would be tolerated.

2.2 Annual Summary of Audit Activity for the Financial Year 2022/23

- 2.2.1 The annual opinion is formed having consideration to three aspects of the Authority's arrangements, namely: Governance, Risk Management and Internal Control.
- 2.2.2 The Governance and Audit Committee have met throughout the year with meetings held via Teams. The Committee currently has a lay member vacancy, and a recruitment exercise is ongoing to fill this position.
- 2.2.3 CLT have received and reviewed the Corporate Risk Register periodically throughout the year. Members of the Governance and Audit Committee undertook a training session on risk management and have been provided with the current Risk Management Handbook and Strategy. Work is underway to review and update these documents, with the revised versions to be brought to this Committee during 2022/23. A further training session for Members is also being arranged.
- 2.2.4 The audit of the Statement of Accounts for 2021/22 have not been concluded. Audit Wales have identified an issue relating to the Council's Asset Valuations (and asset lives) which has the potential to have a material impact on the net book value of assets. Given the uncertainty around the potential impact, Audit Wales have indicated their intention to issue a modified opinion on the accounts. The Council has identified the actions required to resolve this issue for 2022/23 and has commenced implementation.
- 2.2.5 As a consequence of this issue, Audit Wales have indicated their intention to issue a modified opinion on the accounts.
- 2.2.6 During the year the Authority have worked towards bringing the services delivered by Silent Valley Waste Services Ltd back in-house. The transfer was successfully completed 1 May 2023. For internal audit purposes, the services transferred will form part of the normal audit process going forward and will be included in audit samples.

- 2.2.7 During 2022/23 the Corporate Leadership Team has undergone a number of changes with the appointments of a new Corporate Director of Regeneration and Community and a new Head of Governance and Partnerships. It has continued to operate with an interim Chief Executive and interim Corporate Director of Social Services throughout the year, and latterly (2023/24) an interim Corporate Director of Education has also been in place to cover periods of absence by the substantive post holder.
- 2.2.8 The Authority is faced with significant financial challenges in meeting the funding gap of £23m over the next 5 years and will need to develop proposals to deliver budget cuts to address this funding gap. The pressures on the budget will impact on services going forward and Internal Audit work will need to factor in the impact this has on capacity within the services and any consequential impact on the internal control environment. The risks associated with these budget pressures and consequences have been included in the corporate risk register.
- 2.2.9 The Internal Audit Service has experienced a number of staffing changes during the year that have impacted on the plan percentage achieved. A new Audit Apprentice was appointed along with a new Senior Auditor, who was then called upon to support the budget setting process in Accountancy whilst the post they had vacated was being recruited to.
- 2.2.10 Follow-up audits during the year were deprioritised due to a combination of needing to train new staff, and the samples to audit not being available in departments for some of the Follow-Up audits that were due. For 2023/24 it is expected that the follow-up cycle will operate as normal.
- 2.2.11 In addition, there have been three large investigations commenced during the year and these remain ongoing into 2023/24. The Committee will receive reports on these matters as appropriate once they have concluded.
- 2.2.12 The Internal Audit Service issued 30 audit reports during the year including 9 Full Assurance, 14 Reasonable Assurance, 6 Limited Assurance and 1 No assurance. Whilst the total number of audits is reduced from previous years, the trend of the audit gradings is comparable and audits have been spread across directorates to ensure coverage enables an audit opinion on the whole control environment.
- 2.2.13 No Assurance and Limited Assurance gradings were spread across departments with no trends / patterns to the outcomes that caused particular concern. In addition, there were no individual findings of such significance to cause concern regarding the integrity of the financial statements.
- 2.2.14 As in previous years, the section does not have an IT auditor and continues to recognise this as a risk. 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. Going forward, the outcomes of SRS audits will be reported to the Governance and Audit Committee.

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 i.e. PSIAS.
- 2.3.2 As part of this report, the A&RM is required to make a statement on whether or not the service conforms to the PSIAS, and in addition must report on 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 The service underwent its second external assessment last year, with the report and action plan presented to this Committee in January 2023. The assessment found the service to conform with the standards in all significant areas and to operate independently and objectively.
- 2.3.4 I am able to confirm that the Internal Audit Service for Blaenau Gwent CBC conforms to the requirements of the PSIAS and the IPPF.

2.4 Quality Assurance and Improvement Programme

- 2.4.1 The A&RM is required to implement a programme of quality assurance and improvement. A report was presented to this Committee in September 2022 setting out what this programme consists of for Blaenau Gwent.
- 2.4.2 The committee receive performance information for the service throughout the year as part of the internal audit progress reports. The performance indicators for the year are referred to in section 6 below.
- 2.4.3 I am able to confirm that no areas of concern have been highlighted as part of the quality assurance and improvement programme.

3. **Annual Opinion of the Audit and Risk Manager**

- 3.1 The Governance and Audit Committee receive the annual audit opinion of the Audit and Risk Manager as detailed in paragraph 3.3 below.
- 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 2022/23, in my opinion, Blaenau Gwent County Borough Council's system of internal control during the financial year 2022/23 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 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 at the right time and at the right place.

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 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 and 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 Committee are kept abreast of staffing issues throughout the year as part of the audit plan progress reports. The internal audit service had no sickness absences during the year.

6. **Supporting Evidence**

6.1 ***Performance Information and Data***

The Committee received performance information for the period 1st April 2022 – 31st March 2023 as part of the audit Plan Outturn report presented in April 2023.

6.1.1 The section maintains eight performance indicators of which seven achieved the target during the year. The indicator that was not achieved was the Audit Plan Completion Percentage, with 69.45% of the plan being completed against a target of 73%. The Committee is kept abreast of progress against these indicators throughout the year.

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***

There are no direct implications under involvement.

6.4 ***Thinking for the Long term***

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***

In providing an annual opinion, the A&RM has considered the Authority's whole control environment across all directorates.

6.8 ***Decarbonisation and Reducing Carbon Emissions***

There are no direct implications under decarbonisation and reducing carbon emissions.

6.9 ***Integrated Impact Assessment (IAA)***

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 and 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

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