

**Committee: Audit Committee**

Date of meeting: 2<sup>nd</sup> February 2021

Report Subject: Annual Report of the Audit & Risk Manager 2019/20

Portfolio Holder: Cllr. Nigel Daniels, Leader / Executive Member  
 Corporate Services

Report Submitted by: Louise Rosser, Audit & Risk Manager

Reporting Pathway								
Directorate Management Team	Corporate Leadership Team	Portfolio Holder / Chair	Audit Committee	Democratic Services Committee	Scrutiny Committee	Executive Committee	Council	Other (please state)
15/01/2020	21/01/2021		2/2/2021					

**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 during the financial year 2019/20 and the annual audit opinion of the Audit & Risk Manager.

1.2 As such in my opinion, Blaenau Gwent County Borough Council's system of internal control during the financial year 2019/20 operated 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 Audit Committee Terms of Reference.

2.1.2 In line with the PSIAS, the Audit & Risk Manager is required to produce an annual report for the 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 Audit & Risk Manager 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. Progress reports have been received by the Committee throughout the year, supplementing this report and informing them of the performance of the Internal Audit Service and the results of the work undertaken. In addition, the Committee received the outturn position for 2019/20 at its September meeting.

- 2.1.4 The Audit & Risk Manager 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 to place for audit work relating to the Insurance and Risk Management Service. Audit output for this area will bypass the Audit & Risk Manager and be subject to sign off by the Chief Officer Resources to ensure independence is maintained.
- 2.1.5 Audit Wales will produce its own report on the effectiveness of Internal Audit and the adequacy of the Council's control environment.
- 2.1.6 This report, in respect of the financial year 2019/20, would usually be presented to Members as soon as practically possible following the year end. However, the impact of Covid 19 has resulted in a delay in presenting this report for consideration by Committee.

## 2.2 Annual Opinion and Summary of Audit Activity for Financial Year 2019/20

- 2.2.1 The Authority has received a number of reports from regulators during 2019/20 and recommendations for improvement have been made. In general, the reports support the view that the Authority's governance framework continues to improve as reflected in the Annual Governance Statement.
- 2.2.2 Audit Wales received some correspondence towards the end of their 2016/17 audit resulting in them making enquiries regarding the issues raised and subsequently passing the matter to Gwent Police for further investigation. The Police have closed their investigation concluding there is no criminal case to answer and Audit Wales continue to examine a number of matters relating to the Council's historic relationship with SVWS that will be reported on in due course.

However, Audit Wales do not consider that any of the ongoing matters to be material to the Auditor General's opinion on the Council's financial statements and as a result in November 2020 the Auditor General for Audit issued an audit opinion on the Councils 2016/17, 2017/18 & 2018/19 accounts.

As a result of the ongoing work the Council has not received a certificate of audit completion for 2016/17, 2017/18 and 2018/19.

- 2.2.3 The Managing Director concluded a Senior Management Review that redesigned the Corporate Leadership Team (CLT). All appointments were concluded during 2019. The Director of Education retired in April 2020

with the post being covered on an interim basis until a permanent appointment was made in November 2020.

2.2.4 The Risk Management Strategy and Handbook have been adopted and a consistent approach to risk evaluation and reporting has embedded across the Council. Quarterly updates on the position of the Corporate Risk Register are provided to the Executive and Corporate Overview Scrutiny Committee. It was intended to provide this information to the Audit Committee during 2019/20 to further support their assurance role. This has not yet happened due to capacity in the service area, but is scheduled for future meetings.

2.2.5 A range of Financial Efficiency Projects were developed as part of the budget setting process with a target of £3.35m set for 2019/20. Progress against each project was reported to WCLT, Executive and Joint Scrutiny on a quarterly basis. £3.28m (98%) of the agreed savings proposals were achieved.

2.2.6 The Internal Audit Service issued 52 audit opinions during the year. These included seven Limited Assurance gradings and one No Assurance grading. The No Assurance grading related to an investigation regarding the decommissioning of a Council property. A follow up exercise will be conducted on all Limited Assurance and No Assurance audits during 2020/21 to ensure actions have been taken as agreed.

2.2.7 A combination of a long term staff absence, the retirement of the Principal Auditor and the appointment and training of an Audit Apprentice have all impacted on the service's capacity to complete the audit plan. Consequently, audits have focused on the spread of coverage ensuring a good range of audit assignments were undertaken across all departments instead of undertaking fewer more complex audits. Audits reports produced reflect the adequacy of the specific system examined, and the controls within that system, and therefore need to be taken in context. There were no patterns / trends to the audit outcomes that indicated particular areas of concern.

2.2.8 A follow-up process is routinely undertaken on any audits receiving a Limited Assurance or No Assurance grading. Six follow up audits were conducted all of which showed satisfactory progress had been made to improve controls.

2.2.9 Audit gradings issued are comparable with the previous year with the majority of audits indicating Full or Reasonable Assurance. A number of the financial systems audits were undertaken using the Control Risk Self-Assessment methodology, which continues to be well received by audit clients. A new thematic review approach is being piloted for 20/21, with details of this to be reported to a future Audit Committee.

2.2.10 In forming an opinion on the control environment, the combined effect of audit findings, referrals to the section and the results of follow up work are

taken into account and in general positive movement has been evident. No individual findings are of such significance to cause concern regarding the integrity of the Statement of Accounts.

2.2.11 Audit assignments have included a range of audit disciplines including systems audits, establishment audits, contract audits, regulatory audits and follow-up audits.

2.2.12 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.

2.2.13 At the close of the financial year, the Authority instigated emergency planning arrangements as a result of the Covid-19 pandemic. As a consequence of this only critical services operated for a period during lockdown and audit staff were redeployed to assist in these areas. This had an impact on the audit plan as this time of year is normally used to conclude a number of audits.

### International Standards of Professional Practice

2.3

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 fully conforms to the requirements of the PSIAS and the IPPF.

### Quality Assurance and Improvement Programme

2.4

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 and internal review processes 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 Audit Committee receive the annual audit opinion of the A&RM 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 2019/20 and the continued improvement of the Authority's governance framework and the internal control environment, in my opinion, Blaenau Gwent County Borough Council's system of internal control during the financial year 2019/20 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 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 above the corporate and directorate tolerance levels for sickness absence losing 7.33 days per person against the directorate target of 6 days per person. This was due to the long term sickness absence of the Audit & Risk Manager. 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 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 was presented to this Audit Committee in September 2020 as part of the Audit Plan Outturn Report. The section completed 65.31% of the audit plan against a target of 75%. This is a downturn from the previous year and is attributed to a number of factors including, a long term absence due to bereavement, the retirement of the principal auditor and the appointment and subsequent training of the audit apprentice. In addition, the Covid-19 pandemic at the end of the financial year also had a minor impact on the plan percentage achieved.

6.1.1 The section maintains eight performance indicators two of which were not met during the period namely the plan percentage achieved and the sickness absence target as described above and in 5.4.2. The remaining six performance indicators were achieved during the year.

6.1.2 The five-year Internal Audit Plan is routinely presented to Audit Committee for approval. For 2020/21, proposals to change the format of the plan, to include a pilot of thematic reviews, was agreed by CLT with a view to then reporting these proposals to the Audit Committee. This decision was made just prior to the outbreak of Covid-19 which resulted in redeployments within the audit service and delays to the reporting process.

6.1.3 It is intended to bring to a future Audit Committee, the rationale for the risk based approach adopted to develop a future plan, including the basis for undertaking thematic reviews, and narrative on the adequacy of the audit resource to continue to provide an annual opinion to this Committee.

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