

Committee: **Audit Committee**

Date of meeting: **27th April 2021**

Report Subject: **Annual Report of the Audit & Risk Manager 2020/21**

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

Report Submitted by: **Louise Rosser Audit & Risk Manager**

Report Written 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)
N/A	15.04.21		27.04.21					

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 2020/21 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 2020/21 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 based on the reduced level of coverage that has been achieved during the year.

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 A&RM 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 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. Progress reports have been received by the Committee during the year and the outturn position for 2020/21 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.
- 2.1.5 Audit Wales will produce its own report on the effectiveness of Internal Audit and the adequacy of the Council's control environment.
- 2.2 Annual Opinion and Summary of Audit Activity for Financial Year 2020/21
- 2.2.1 The outbreak of the Covid-19 pandemic and the emergency status imposed throughout the country in March 2020 has had a significant impact on the work of the Authority as a whole, including the Internal Audit Service.
- 2.2.2 On a regional basis, the Strategic Co-ordinating group was convened, bringing together leaders from the Greater Gwent authorities to plan and instigate the response to the pandemic.
- 2.2.3 During the early stages of the pandemic, the Council enabled the Executive functions of the Authority to continue to be undertaken through the provision of temporarily delegating powers and responsibility to the Managing Director, or in her absence to other members of CLT acting as her Deputy.
- 2.2.4 At the commencement of the Council's response to the pandemic, services were prioritised to ensure that the highest priority services were able to continue to be delivered. Internal Audit did not fall into this category and for the first three months of the financial year, all members of the Internal Audit Service were redeployed to other service areas / undertook tasks to assist with the pandemic response.
- 2.2.5 This is similar to the experiences of other Internal Audit Services across Wales, but as a consequence has had a significant impact on both the volume of work the section has been able to undertake, and also, the ability of some service areas to accommodate an audit during the year.
- 2.2.6 Formal meetings of the Council, including Audit Committee, were cancelled in the initial stages of the pandemic, with the first Audit Committee of the financial year being held in September 2020. As a

consequence, the timing of reports being presented to the Committee has not been in line with the normal work programme.

- 2.2.7 The annual opinion is formed having consideration to three aspects of the Authority's arrangements, namely: Governance, Risk Management and Internal Control. Each of these areas has been impacted by the pandemic, however protocols put in place under the emergency arrangements have ensured these have continued to be robust albeit in a different format to business as usual.
- 2.2.8 Both the Governance arrangements and Risk Management arrangements have been evidenced during the year through the operation of Gold CLT, who have met frequently to manage the impact of and actions arising from the pandemic. Alongside this an Emergency Response Team was established to co-ordinate efforts across all departments in addressing issues as they arose.
- 2.2.9 Risk Management arrangements have continued and in some respects heightened due to the pandemic with frequent risk assessments having to be undertaken due to the ever changing circumstances. CLT have continued to receive and review the Corporate Risk Register throughout the year. The adopted Risk Management Strategy and Handbook were intended for review during 2020/21, but changing priorities have deferred this review until 2021/22.
- 2.2.10 The Authority has continued to receive a number of reports from regulators during 2020/21 and recommendations for improvement have been made, however regulators have found themselves in the same position as the Authority, and plans for the year were scaled back by all.
- 2.2.11 Prior years Statement of Accounts for 2016/17, 2017/18 and 2018/19 had not been signed off by Audit Wales whilst they concluded an investigation. The issue of reports has been delayed due to the pandemic, however Audit Wales were able to sign off these three sets of accounts in November 2020. The Statement of accounts for 2019/20 were also signed off following the March 2021 meeting.
- 2.2.12 There have been two changes to the CLT during the financial year. A permanent appointment was made to the position of Director of Education during November 2020 with the successful candidate having previously acted as Interim Director. The Chief Officer Commercial left the Authority in January 2021 and an interim appointment has been made to cover that post.
- 2.2.13 The Bridging the Gap projects were developed as part of the budget setting process with a target of £1.465m set for 2020/21. Progress against each project was reported to WCLT, Executive and Joint Scrutiny on a quarterly basis. £1.218m (83%) of the agreed savings proposals were forecast to be achieved at Quarter 3. The final outturn position is not yet available.

- 2.2.14 There were no uncontrolled emerging risks as a result of the pandemic and no proposed weakening of controls due to the new ways of working. The only exception to this was the decision to relax one IT control relating to the changing of passwords to expedite the large scale move to homeworking when lock down commenced. The benefits of this change were considered to outweigh the risks, and there are compensating controls to mitigate this further.
- 2.2.15 The Internal Audit Service issued 33 audit reports during the year including 1 Limited Assurance grading. No 'No' Assurance gradings were issued and there was also an increase in the proportion of Full Assurance gradings. Audit coverage was reduced due to capacity both within the Internal Audit Service and the service areas subject to audits. In addition to the reduced capacity due to the pandemic, there was a long term sickness absence of the A&RM due to a bereavement, and the appointment of a new Audit Apprentice following the resignation of the previous post holder.
- 2.2.16 In forming an audit opinion consideration is also being given to the control environment over the past few years. The level of coverage of the major financial systems and support services has been good, and assurance is taken from these results. Audit coverage in the three service directorates, Environment, Education and Social Services, has been reduced due to the pandemic and the opinion will reflect this. However, the A&RM is not aware of any specific issues in these directorates that would give rise to a qualified opinion.
- 2.2.17 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 taken in context. 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.
- 2.2.18 Follow-up audits are routinely undertaken on any audits receiving a Limited Assurance or No Assurance grading. Three follow up audits were conducted during the year, two of which showed satisfactory progress had been made to improve controls and one highlighted that further work was required by the department.
- 2.2.19 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 subject to the temporary changes in section 6.1 below.

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 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. As highlighted throughout the report the Covid-19 pandemic has impacted on the output of the Internal Audit service and the audit opinion is given in the context of the exceptional circumstances the Authority finds itself in.

3.3 Based on the findings of the audit work undertaken during 2020/21, in my opinion, Blaenau Gwent County Borough Council's system of internal control during the financial year 2020/21 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, based on the reduced level of coverage that has been achieved during the year.

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 an Efficient Council.

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 6.67 days per person against 6 days per person. This was due to the long term sickness absence of the A&RM. 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

A full set of performance information is not available for the financial year as a decision was made at the outset to not collect the necessary data whilst the service was impacted by the pandemic. An Audit Plan was not produced for the first quarter of 20/21 and therefore the percentage of plan completed has not been maintained, with the Audit Committee approving a 9-month operational plan in February 2021. Of the 7 indicators that were maintained, the section has achieved 6 of them, with the remaining sickness indicator not being achieved as described in 5.4 above.

- 6.1.1 Performance information for the service for the period 1st April 2020 to 31st March 2021 is presented to this Audit Committee as part of the Audit Plan Outturn Report.

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 EqlA

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*
- *Annual Governance Statement*