

Cyngor Sir Gâr

Carmarthenshire County Council

Carmarthenshire County Council

Internal Audit Annual Report 2021-22

July 2022

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1. Introduction

Carmarthenshire County Council is subject to The Accounts and Audit (Wales) Regulations 2014 and therefore has a duty to make provision for Internal Audit in accordance with the Local Government Act 1972.

The Regulations state that the Responsible Finance Officer of the organisation shall maintain an adequate and effective internal audit of the accounts of that organisation. Internal Audit is 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, control and governance processes. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources.

The Internal Audit Team operates in accordance with the Public Sector Internal Audit Standards (PSIAS). The PSIAS state that the 'Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.' This must be based upon an objective assessment of the framework of governance, risk management and control. It must also include an evaluation of the adequacy and effectiveness of controls in responding to risks within the governance, operations and information systems.

This report provides an opinion by the Chief Audit Executive (Head of Revenues and Financial Compliance), on the provisions of the PSIAS, for the year April 2021 to March 2022, based on the work undertaken in the 2021/22 Internal Audit Plan, agreed by the Governance & Audit Committee.

The annual opinion by the Chief Audit Executive contributes to the completion of the Annual Governance Statement (AGS), which forms part of the Annual Statement of Accounts.

2. Overall Opinion

No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

In arriving at the overall opinion, the Chief Audit Executive has taken the following into account:

- The results of all work undertaken as part of the 2021/22 Internal Audit Programme;
- The results of follow-up action of Internal Audit Reviews from current and previous years;
- Assurance gleaned from attendance at and participation in various working groups within the Council;
- The acceptance of actions by Management (especially those deemed significant).

Based on the programme of audit work undertaken to assess the framework and application of governance, risk management and control, the annual opinion for 2021/22 is **ACCEPTABLE**.

There are clear governance arrangements with defined Management responsibilities and Committee Structures in place and the control framework is generally sound and operated reasonably consistently. The Authority has an established Constitution, has developed Policies and approved Financial Procedure Rules that provide advice and guidance to all staff and members. I am satisfied that sufficient work, on which assurance can be placed, has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Authority's framework of governance, risk management and control.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

3. Internal Audit

The Head of Revenues and Financial Compliance is responsible for ensuring the effective delivery of the Internal Audit function in accordance with the principles agreed with the Authority's Chief Financial Officer (Section 151 Officer) and in accordance with the Internal Audit Charter.

Where Internal Audit reviews are undertaken on functions headed by the Head of Revenues and Financial Compliance, resulting in a potential conflict of interest arising from reporting lines, an approved escalation protocol is followed to ensure conformance with the code of ethics, as required by the Public Sector Internal Audit Standards.

The Authority maintains an effective Internal Audit function. The Strategic and Annual Audit Plans are approved by the Governance & Audit Committee annually and regular reports are made to the Committee throughout the year on progress and any significant weaknesses identified.

4. Staffing

Internal Audit operates as a separate unit within the Revenues and Financial Compliance Division of the Corporate Services Department. The Head of Revenues and Financial Compliance is responsible for ensuring that the Internal Audit Service is delivered to a professional standard and in accordance with the Public Sector Internal Audit Standards.

The Principal Auditor is responsible for ensuring that the reviews set out in the Audit Plan are properly managed and that issues arising from individual reviews are properly reported on. The Principal Auditor is responsible for the day-to-day management of the

Internal Audit Staff and delivery of the Audit Plan as approved by the Governance & Audit Committee.

There were 9.8 Full Time Equivalent (FTE) staff on the establishment during 2021/22. This FTE figure includes the 1.0 FTE role undertaken by the Principal Auditor, whose role is to manage the function and thus not included in the Audit plan days.

Overall sickness accounted for a loss of 56 productive days, equating to approximately 3.2% of available productive days, compared to 1.8% the previous year, and 2.3% for 2018/19. During the year vacant posts accounted for the loss of 229 days.

5. Annual Audit Plan 2021/22

The 2021/22 Annual Plan was agreed at the Governance & Audit Committee on 26th March 2021. The Audit Plan was formulated considering the Authority's Corporate Risk Register and Departmental Risk Registers, in order to ensure appropriate coverage and consideration of the Authority's highest risks.

Alongside audit assignments undertaken as part of the plan, the Internal Audit team has undertaken work on other areas during the year; these include:

- Providing advice and guidance to departments and teams within the Council;
- Attendance at and participation in various working groups within the Council;
- Acting as a 'critical friend' to Council teams in the implementation of new processes and process changes;
- Providing certification certificates where required for Grants and Trust Funds;
- Providing audit services to external Clients, amounting to 107 audit days;
- Undertaking ad-hoc investigatory work;
- Undertaking analytical work, using Internal Audit Software, to identify potential duplicate grant claims, thus preventing erroneous payments being made.

86% of those reviews originally programmed were completed by 31st March 2022, thereby falling slightly short of the 90% target.

Recommendations arising from Internal Audit work are graded according to the risk levels of the weaknesses identified, with recommended actions as follows:

Priority 1 - Fundamental Weaknesses

Control issues to be addressed as a high priority. These relate to issues that are fundamental and material to the system of internal control at a service level.

Priority 2 - Strengthen Existing Controls

Action required to avoid exposure to significant risks. These relate to issues that procedures do exist but require strengthening.

Priority 3 - Minor Issues

Action required which should result in enhanced control or better value for money. These are issues arising that would, if corrected, improve the internal control environment

in general but are not vital to the overall system of internal control.

At the completion of each audit review an overall opinion as to the level of assurance that can be provided is given. Following each audit, report recipients are asked to complete an action plan showing whether they agree with the recommendations made and how they plan to implement them.

During the period April 2021 to March 2022 a total of 119 recommendations have been made, these include recommendations made in Draft Reports at the time of this Report. All recommendations are discussed and agreed with the relevant service departments.

The Reports outcomes are summarised in Table 1 below.

Table 1: Analysis of Recommendations

Ratings	2021/22 Number of Recommendations	2020/21 Number of Recommendations
Priority 1 *** Fundamental Control Issues to be addressed as a High Priority	3	1
Priority 2 ** Control Issues required to strengthen existing procedures	80	85
Priority 3 * Minor issues	36	16

Of the 102 recommendations made in 2020/21, actions to address 95% were on target, complete or in progress by the year end. Actions to address five recommendations remained outstanding and were raised again during the 2021/22 audit reviews; details are as follows:

Report	Brief description of issue	Current Position
Payroll	Certification exercise not complete.	Whilst the agreed action of commencing the exercise in May 2021 was completed, the issue has been raised again during this year's review.
Payroll	Overtime – evidence not always available to demonstrate that Director approval had been received, as appropriate.	Whilst the agreed action of holding discussions in relation to the issue with key personnel was completed, the issue has

		been raised again during this year's review.
Payroll	Authorised Transactions – checks not always undertaken to ensure payroll requests had been received from authorised officers.	Whilst the agreed action of issuing a reminder to staff was completed, the issue has been raised again during this year's review.
Creditor Payments	Credit Balances – historic credit balances uncleared.	Now keeping up to date with new ones coming in, but historic balances are yet to be cleared.
Creditors Payments	Parked Invoices – historic parked invoices uncleared.	Now keeping up to date with new ones coming in, but historic invoices are yet to be cleared.

The Governance & Audit Committee is kept informed of the progress of Internal Audit reviews and significant issues brought to their attention as necessary.

Table 2 below summarises the Priority 1 Fundamental Issues previously brought to the Governance & Audit Committee's attention, where update information has been formally requested by the Committee.

Table 2: Priority 1 - Fundamental Issues previously reported to Audit Committee

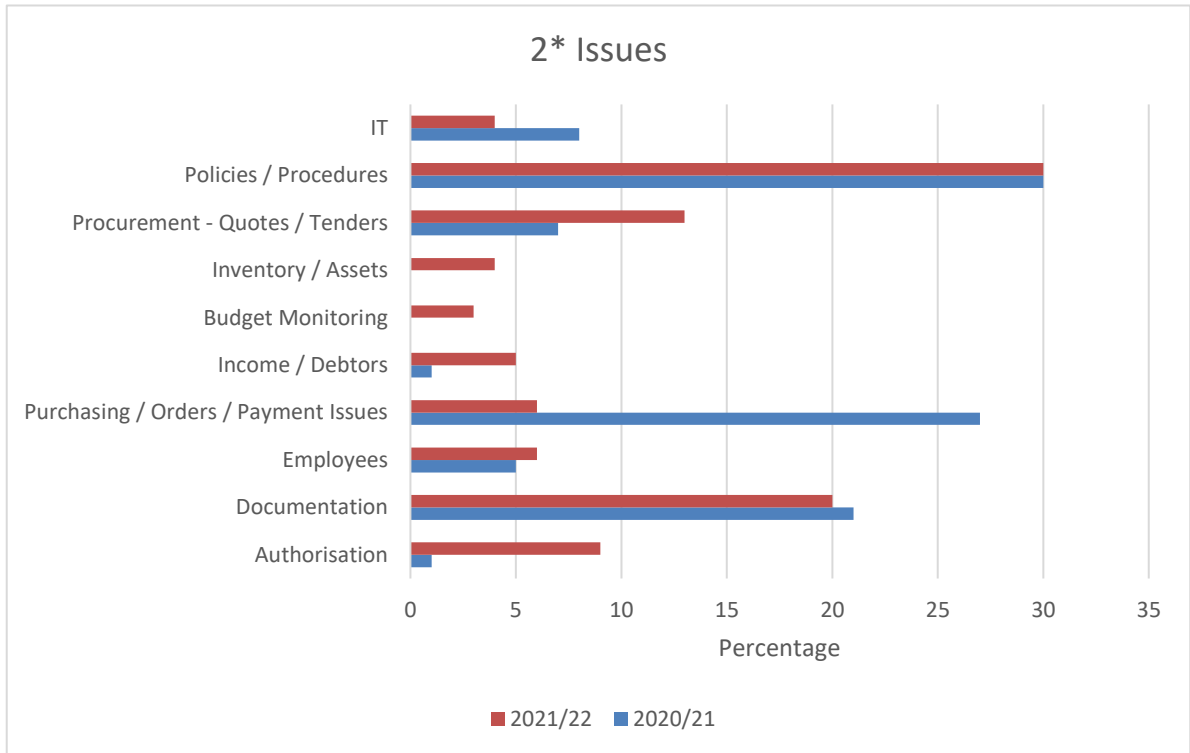
Review	Follow-up of previous 3* Issues requested by Audit Committee	Update
Business Support – Pool Cars	The recharge rate for the use of pool cars fluctuates each month, with the pence per mile calculation being dependent on the number of miles driven in the pool cars for that month, together with any ancillary costs incurred, such as ad hoc repairs or breakdown assistance, for example. All users are charged the same monthly pence per mile	Reported to Audit Committee June 2019 At the June 2019 meeting, the Audit Committee requested that an update be brought to the Committee following conclusion of the TIC review on Pool Cars which was underway.

	rate, regardless of whether the electric or fuel cars have been used.	<p>Current position:</p> <p>Due to the Covid-19 pandemic, the TIC review on Pool Cars was put on hold. The use of Pool Cars is now being considered as part of the Better Ways of Working Project.</p>
Schools' Deficits & Surpluses	<p>Internal Audit identified concerns in relation to the lack of developed policy and procedure documents for the monitoring, review and controlling of school budgets; with no standardised approach and little consistency in the decision-making process for the approval of deficit licences and spending plans.</p> <p>Unapproved deficits were found to have been running for some years in a number of schools in the sample reviewed.</p>	<p>Reported to Audit Committee January 2020.</p> <p>At the January 2020 meeting, the Audit Committee, requested that an update be brought in 6 months' time.</p> <p>Due to Covid-19, the update to the Committee was delayed.</p> <p>At the July 2021 meeting, the Governance & Audit Committee requested that an update be brought in 12 months' time</p> <p>Current position:</p> <p>Update to be presented to the Governance & Audit Committee at the July 2022 meeting.</p>
Arboriculture Works and Arboriculture Consultancy Framework	<p>Internal Audit identified significant procedural weaknesses in the operation of the framework:</p> <ul style="list-style-type: none"> - Orders were not always raised as appropriate; where orders were raised, there was insufficient detail recorded. Verbal orders were also being placed. - There was no evidence of checks being undertaken on the 	<p>Reported to Governance & Audit Committee July 2021. Governance & Audit Committee requested that the Framework be audited again, with the results reported back to the Committee.</p> <p>Current position:</p> <p>Internal Audit review of the Arboriculture Works and Arboriculture Consultancy Framework currently underway.</p>

	<p>quality of work completed.</p> <ul style="list-style-type: none"> - Invoices were not checked prior to being signed for approval. For 14 of a sample of 15 invoices tested, the price charged exceeded the estimated price. The total price exceeded for the 14 invoices was £23,025. 	
Domestic Boiler Servicing & Remedial Framework	<p><u>Report was not publicised.</u> The Committee considered a report detailing the findings of an Internal Audit review of the Domestic Boiler Servicing & Remedial Framework; the overall objective of which was to provide an opinion on the appropriateness of the allocation of work relating to the Domestic Boiler Servicing & Remedial Framework.</p>	<p>Reported to Governance & Audit Committee December 2021. The Committee did not request a further update.</p> <p>Current position: No further update to the Governance & Audit Committee. Internal investigation complete.</p>
Garreg Lwyd Residential Unit	<p><u>Report was not publicised.</u> The Committee considered a report detailing the outcome of an Internal Audit review of Garreg Lwyd Residential Unit which had been undertaken to assess the controls and procedures in place in relation to Financial Management.</p>	<p>Reported to Governance & Audit Committee December 2021. Governance & Audit Committee requested an update be provided at the March 2022 meeting.</p> <p>Current position: Internal Audit review of the Authority's Children's Residential Units currently underway.</p>

2* Issues

The graph below shows the categorisation of the 2* issues raised in 2021/22 and compared to 2020/21.



As can be seen, the majority of 2* issues raised during the year relate to Policies/Procedures and Documentation. The concerns raised were mainly in relation to:

- Non-compliance with current policies and procedures;
- Policies not being applied consistently; and
- Documentation not being available to evidence decisions made.

During the course of audit reviews, the Internal Audit team considers not only the issues identified, but also the root cause of the issues, enabling better understanding of why the matters arise and, therefore, a better understanding of how they should be dealt with in order to prevent them occurring in the future.

Further to the analysis above, each report notes what assurance we conclude for each review. The definitions are as follows:

Table 3: Description for Assurance Levels

Assurance Level	Description for Assurance Level
High	Good controls consistently applied Low risk of not meeting objectives Low risk of fraud, negligence, loss, damage to reputation
Acceptable	Moderate Controls, some areas of non-compliance with agreed controls Medium / low risk of not meeting objectives Medium / low risk of fraud, negligence, loss, damage to reputation
Low	Inadequate controls High Risk of not meeting objectives High risk of fraud, negligence, loss, damage to reputation

Considering Final and Draft Reports issued to date, the assurance levels gained are summarised in Table 4.

Table 4: Assurance

Level of Assurance	Number of 2021/22 Reports	Number of 2020/21 Reports
High	7	5
Acceptable	28	29
Low	3	1

The Final Internal Audit Reports once agreed with Heads of Service / Managers / Head Teachers are given to the appropriate Directors, Cabinet Members, Chair and Vice Chair of the Governance & Audit Committee and Chair of School Governing Bodies for them to fully understand the key findings of each review and to be made aware of all recommendations. Furthermore, all Internal Audit reports containing identified fundamental weaknesses are also provided to the Authority's Chief Executive, as well as to the Governance & Audit Committee.

All recommendations, agreed actions and responsible officers are recorded on the Carmarthenshire's PIMS electronic database system. This provides a place where all responsible officers and their Senior Managers can access and review their recommendations, as well as providing Internal Audit with a tool to monitor and review actions.

6. Annual Governance Statement (AGS)

The Governance Statement for the year ended 31st March 2022 forms part of the Statement of Accounts. The Annual Governance Statement explains how the Authority has complied with the various elements of the Governance Framework.

The Annual Governance Statement 2021/22 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2021/22.

A Corporate Governance Group comprising two Cabinet Members and key officers has been established to inform and monitor progress on issues affecting Governance. The Chair of the Governance & Audit Committee also attends as an observer.

The Group has met throughout the year and the Minutes have been referred to Governance & Audit Committee.

7. Quality Assurance

The Public Sector Internal Audit Standard (PSIAS) became effective from 1st April 2013 and introduced a requirement for an external quality assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside of the organisation.

An external quality assessment of the Internal Audit service is currently being undertaken; the results of which will be reported to the Governance & Audit Committee upon conclusion of the assessment. The previous external quality assessment, which was completed in March 2018, concluded that the Internal Audit Service is generally conforming. A total of six recommendations were made as part of the external assessment; actions to address each of these recommendations has been completed.

Internal Audit continues to undertake quality assurance reviews as required by the Public Sector Internal Audit Standards (PSIAS) 2013 and has in place a Quality Assurance and Improvement Programme (QAIP). A QAIP is an ongoing programme intended to increase the quality and value of Internal Audit services. Elements detailed within the QAIP include our approach to reviews, the supervision of assignments, peer reviews and the policies and procedures followed to ensure an efficient and effective internal audit service.

Internal Auditors complete an "*Ethical Standards Declaration*" for each review they undertake. This declares that there are no issues that may affect their independence,

objectivity and delivery of the review and that they have not conflicted with the principles detailed within the corporate “*Employee Declaration*” document.

8. Fraud

Internal Audit's direct responsibility for providing an ongoing fraud detection and prevention service is restricted to non-benefit fraud. There is a Specialist Unit within the Revenues team of the Revenues and Financial Compliance Division, which deals with all Benefit Fraud.

The Anti-Fraud and Anti-Corruption Strategy was approved by the Governance & Audit Committee on 16th October 2020.

Internal Audit aims to provide a pro-active approach to fraud and staff are mindful of the potential for fraud in relation to all systems under review. All Internal Audit staff have received fraud awareness training.

The Authority participates in the National Fraud Initiative (NFI) exercise, where data on Payroll, Creditors, Housing Benefit, Pensions, Insurance Claims, Blue Badges and VAT issues are matched nationally every 2 years to identify potential individual frauds. The exercise reviewing data nationally across Local Authorities and other Public Sector Organisations was undertaken in 2021/22.

Internal Audit undertakes a pro-active analysis of financial transactions linked to Payroll and Creditors to identify any potential anomalies for further investigation. The results of the analysis are reviewed and used to identify possible system weaknesses.

An annual Anti-Fraud and Anti-Corruption Report is produced, providing a summary of the activities of the Council's Anti-Fraud functions. The 2021/22 report will be presented to the Corporate Management Team and to the Governance & Audit Committee.

9. Service Risk Areas

The following Service Risk Areas are considered areas for attention during 2022/23:

9.1 Procurement

Carmarthenshire County Council spends more than £238 million annually with external organisations and has a duty to make sure that this spending represents value for money for the residents of the County through efficient and effective procurement policies and practices.

Internal Audit has a positive working relationship with the Corporate Procurement Unit and will continue to provide advice on risk, controls and systems in order to ensure efficient and effective procurement policies and practices are maintained.

9.2 Tackling Poverty

The Council has a set of well-being objectives, which correlate with the 7 national well-being goals in the Well-being of Future Generations Act (Wales) 2015. The Council's well-being objective number 4 is: *Tackle poverty by doing all we can to prevent it, help people into work & improve the lives of those living in poverty.*

Poverty and deprivation have serious detrimental effects across all aspects of well-being. It limits the opportunities and prospects for children and young people, damages the quality of life for families and communities.

Poverty can be a barrier to full participation in society and is too often an intergenerational experience which poses a significant threat to experiencing positive well-being both now and in the future.

It is reported that 33.8% (27,691) of households in Carmarthenshire can be defined as living in poverty.

The Council is striving to better understand the challenges facing the county and develop a focused plan to respond accordingly; looking at this across the spectrum of Council and partner services with a focus on key geographical areas and population groups who face particular disadvantages.

Internal Audit will consider the fulfilment of the well-being objectives in its work.

9.3 Climate Change

Carmarthenshire County Council expresses a commitment to tackling climate change and acknowledges that the Council has a significant role to play in both further reducing its own greenhouse gas emissions and providing the leadership to encourage residents, businesses and other organisations to take action to cut their own carbon footprint.

In February 2019, the Council declared a climate emergency, and made a commitment to becoming a net zero carbon Local Authority by 2030. Carmarthenshire County Council has since been the first Local Authority in Wales to publish a net zero carbon action plan, which was endorsed by full Council in February 2020.

Internal Audit will consider functions relating to climate change as part of this year's Internal Audit plan.

9.4 Cyber Risk

The Digital Technology Strategy (2022-2025) documents that securing the Council's infrastructure and systems has always been important, however since the pandemic and the move to remote working, there has been a 935% increase in double-extortion ransomware attacks and a 600% increase in cyber-crime in general. It is therefore key that the Council is pro-active and equipped to deal with emerging threats, in terms of underlying infrastructure required to secure systems and also staff awareness and training, cyber incident exercises and procedures.

Internal Audit will consider Cyber Security as part of this year's Internal Audit plan.

9.5 Financial Pressures

Local Authorities play a central role in governing Wales as they provide the local leadership and services necessary for their communities.

Continued austerity and sustained budget cuts are placing council services under huge financial pressure. With less money and higher costs, the risk assessment process and appropriate prioritisation of tasks will be of paramount importance to eliminate or reduce potential implications on service delivery.

Helen L Pugh
Head of Revenues and Financial Compliance

8th July 2021