

# Cyngor Sir Gâr Carmarthenshire County Council

Carmarthenshire County Council

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## Internal Audit Annual Report 2023-24

June 2024

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## 1. Introduction

Carmarthenshire County Council is subject to The Accounts and Audit (Wales) Regulations 2014 and 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) for the year April 2023 to March 2024, based on the work undertaken in the 2023/24 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 2023/24 Internal Audit Programme.
- The results of work undertaken as part of the 2022/23 Internal Audit Programme, which have been concluded following the issue of last year's Annual Report.
- 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 2023/24 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. Such reviews are managed by the Principal Auditor with the Head of Financial Services, who is outside of the Internal Audit activity, having oversight of these reviews.

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 10.2 Full Time Equivalent (FTE) staff on the establishment during 2023/24. 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 109 productive days, equating to approximately 5.9% of available productive days, compared to 6.4% the previous year, and 3.2% for 2021/22. During the year vacant posts accounted for the loss of 268 days.

## **5. Annual Audit Plan 2023/24**

The 2023/24 Annual Plan was agreed at the Governance & Audit Committee on 17<sup>th</sup> March 2023. 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.

89% of those reviews originally programmed were completed by 31<sup>st</sup> March 2024, 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. This process includes certification audits that are undertaken on Grants and Trust Funds; whilst reports are not ordinarily issued for this work, where concerns are identified during this certification work, an Audit Report will be issued to management with an Action Plan agreed to address the weaknesses identified.

During the period April 2023 to March 2024 a total of 115 recommendations have been made, these include recommendations made in Draft Reports at the time of writing 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	2023/24 Number of Recommendations	2022/23 Number of Recommendations
<b>Priority 1 ***</b> Fundamental Control Issues to be addressed as a High Priority	<b>0</b>	5
<b>Priority 2 **</b> Control Issues required to strengthen existing procedures	<b>77</b>	78
<b>Priority 3 *</b> Minor issues	<b>38</b>	30

Of the 113 recommendations made in 2022/23, actions to address 97% were on target, complete or in progress by the year end. Full details of the recommendations that remained outstanding were reported to the Governance & Audit Committee at the 8<sup>th</sup> March 2024 meeting.

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

### Priority 1 \*\*\* Issues

Fundamental weaknesses are rated as Priority 1 (3\*) issues. All reports containing 3\* issues are provided to the Chief Executive, the Corporate Management Group, the Chair and Vice Chair of Governance & Audit Committee, the Cabinet Member for Resources, and the relevant portfolio Cabinet Member. Summaries of all Council reports containing 3\* issues are also presented to the Governance & Audit Committee.

The five 3\* issues identified during 2022/23 related to the following areas:

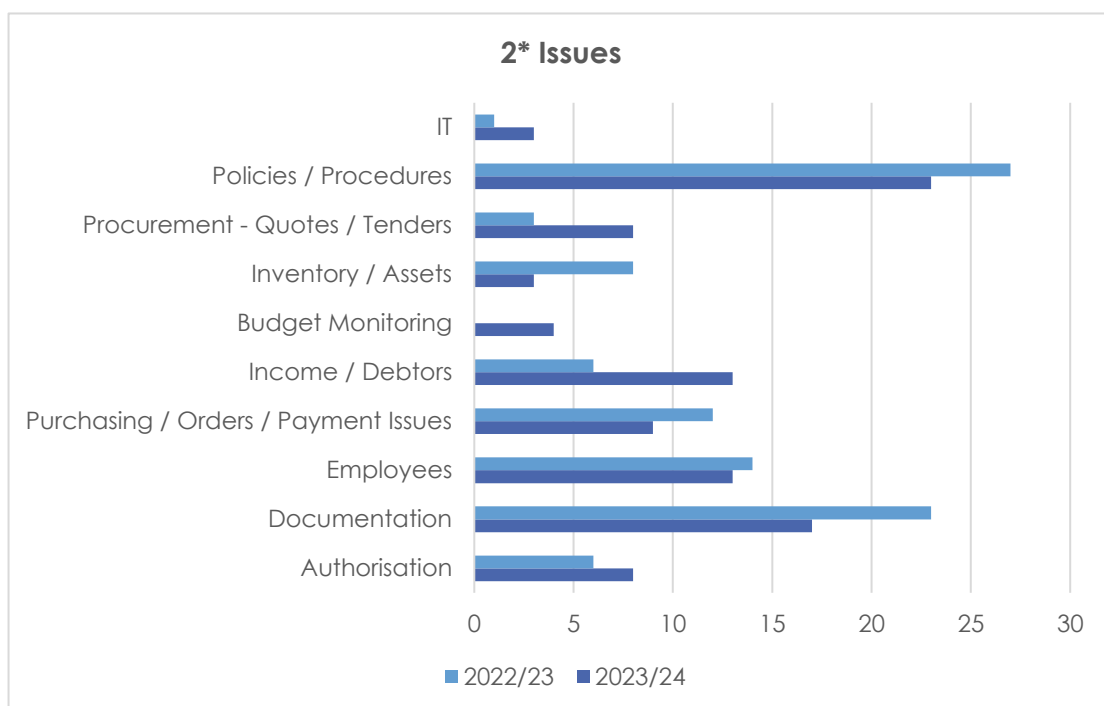
- Welfare Cards – the issues raised related to the lack of controls in place to provide assurance that welfare cards were being utilised appropriately. A comprehensive review of the use of welfare cards is due to be undertaken by management.
- Safeguarding – the issues raised were procedural weaknesses only; revised procedures were immediately implemented to address these weaknesses.
- School Visit – the issues raised related to the controls in place around the collection of income.

The reports relating to Welfare Cards and Safeguarding were presented to the Governance & Audit Committee during 2023/24, and the School Visit report was discussed with the Chair and Vice-Chair of the Governing Body.

Follow-up work is planned to be undertaken on Welfare Cards and Safeguarding during 2024/25, as requested by the Governance & Audit Committee.

### Priority 2 \*\* Issues

The majority of issues identified during 2023/24 have been categorised as 2\* issues. To provide information on the types of issues that are being identified in this category, the graph on the following page shows the categorisation of the 2\* issues raised in 2023/24 and compared to 2022/23.



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.
- 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 detailed in table 2 below:

**Table 2: Description for Assurance Levels**

<b>Assurance Level</b>	<b>Description for Assurance Level</b>
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 concluded are summarised in Table 3.

**Table 3: Assurance**

<b>Level of Assurance</b>	<b>Number of 2023/24 Reports</b>	<b>Number of 2022/23 Reports</b>
High	10	7
Acceptable	32	31
Low	2	5



The two Low assurance ratings concluded during the year related to the reviews of Petty Cash and Leisure Centres. Whilst no fundamental weaknesses were identified in either review, there were a number of Priority 2 (\*\*) issues identified in each, which resulted in the Low assurance ratings. Actions to address the issues have been agreed by Management and will be monitored through the Authority's performance management system (PIMS).

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. All Internal Audit reports containing identified fundamental weaknesses are also provided to the Authority's Chief Executive and the Corporate Management Team, as well as to the Governance & Audit Committee, or the Governing Body in the case of schools.

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.

As part of continuous improvement efforts, Internal Audit periodically reviews the methodologies used in assessing and reporting Internal Audit findings; with this in mind, the existing Internal Audit assurance ratings have been reviewed and revised for the 2024/2025 financial year onwards.

As discussed earlier in this report, the existing Internal Audit assurance ratings framework comprises a set of definitions used to evaluate the level of assurance provided by audit engagements, with three ratings designations of High, Acceptable and Low. The revision to the ratings will provide four ratings designations of High, Reasonable, Limited and Low; this extended range will allow better differentiation between varying levels of assurance. The revised assurance ratings are detailed below:

<b>New Definitions</b>	
<b>High Assurance</b>	A sound system of internal control exists, operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	There is generally a sound system of internal control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited Assurance</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of internal control in place to effectively manage risks to the achievement of objectives in the area audited.
<b>Low Assurance</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of internal control in place is inadequate to effectively manage risks to the achievement of objectives in the area audited.

## 6. Annual Governance Statement (AGS)

The Governance Statement for the year ended 31<sup>st</sup> March 2024 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 2023/24 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2023/24.

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

Internal Audit is committed to working to the highest professional standards, and to delivering quality services that add value to the Authority. The Principal Auditor maintains a Quality Assurance and Improvement Programme (QAIP), which is designed to achieve high professional performance operating in accordance with PSIAS and the Code of Ethics.

The QAIP, as defined by the PSIAS, is '*designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*'

The QAIP must include both internal and external assessments; the requirements, and the process of review and conformance, are documented in the table below:

Requirements	Process of review and conformance
Internal Assessment: Ongoing monitoring of the performance of the Internal Audit activity.	<ul style="list-style-type: none"><li>Internal Audit engagements are supervised and monitored by the Principal Auditor, who is a qualified accountant (FCCA - fellow of the Association of Chartered Certified Accountants)</li><li>Peer reviews are undertaken annually on the working files relating to a sample of Audit Assignments. Results of peer reviews are discussed with the Internal Audit team in order to ensure improvements are implemented where any issues are identified. Any non-conformance would be reported to the Governance &amp; Audit Committee.</li></ul>

	<ul style="list-style-type: none"> <li>▪ Standard working papers, Terms of Reference templates and Report templates are used for each audit assignment. These documents are reviewed on an annual basis to ensure they remain current and appropriate for use.</li> <li>▪ The performance of the Internal Audit function is evaluated throughout the year, with the measurement of a set of Performance Indicators.</li> <li>▪ All recommendations and Reports are reviewed and approved by the Principal Auditor.</li> </ul>
<p>Internal Assessment: Periodic review of the Internal Audit activity</p>	<ul style="list-style-type: none"> <li>▪ Activity and performance of the Internal Audit function is reported to the Governance &amp; Audit Committee at each Committee meeting; meetings are held at least quarterly.</li> <li>▪ All Final Internal Audit Reports are shared with the Chair and Vice Chair of the Governance &amp; Audit Committee, as well as the Cabinet Member for Resources.</li> <li>▪ Risk Assessments are undertaken for the purposes of Internal Audit planning, to ensure the efficiency and effectiveness of Internal Audit in meeting the needs of its stakeholders.</li> </ul>
<p>External Assessment: External Assessments to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.</p>	<p>Through the Welsh Chief Internal Auditors Group, an arrangement has been made for the Chief Internal Auditor, Audit Manager or equivalent, from each of the Welsh Local Authorities to undertake a peer assessment of another Authority.</p> <p>The Audit Manager at Wrexham County Council undertook the assessment on Carmarthenshire's Internal Audit service during 2022/23; the conclusion of the assessment was that the Internal Audit Service is generally conforming with the PSIAS. The Final Report was presented to the Governance &amp; Audit Committee on 14<sup>th</sup> July 2023.</p>

## 8. Performance

An Audit monitoring database is maintained to effectively monitor work undertaken in comparison with that planned. The database is used to allocate engagements, record work completed and to provide key information for management. Auditors are required to complete timesheets to record work undertaken, enabling productivity and progress against the Audit Plan to be continually assessed.

The performance of the function is reported on the Authority's Performance and Improvement Monitoring System (PIMS) and presented to the Policy & Resources Scrutiny Committee on a quarterly basis, with the progress against the plan, as well as details of audits undertaken, presented to the Governance & Audit Committee at each meeting.

The quarterly results for 2023/24 are in the table below:

Performance Indicator	2022/23 Year-End Result	Target	2023/24			
			Q1	Q2	Q3	Q4
Actual achievement against Annual Audit Plan	83%	90%	13%	36%	60%	<b>89%</b>
Percentage of Draft Internal Audit Reports issued within 10 working days of the fieldwork completion date	87%	80%	100%	88%	89%	<b>88%</b>
Percentage of management responses received within 15 working days of the Draft Internal Audit Report being issued	38%	80%	100%	93%	83%	<b>68%</b>
Percentage of Final Reports issued within 10 working days of management responses being received	100%	80%	100%	100%	100%	<b>100%</b>

A Stakeholder Feedback Survey is issued to Audit Clients at the conclusion of most audit reviews, to gain their opinions on the service received from the Internal Audit team. Stakeholder Feedback Surveys are not currently issued where thematic reviews are undertaken, or where the review crosses over the responsibility of a number of officers, due to there not being one distinct lead Audit Client to complete the survey. During 2023/24, a total of 10 responses were received, which is a return rate of only 37%. Of the responses received, considering the answers to all questions, the service was categorised as follows:

Rating	Results (%)
Excellent	66%
Good	31%
Satisfactory	3%
Adequate	0%
Poor	0%

Should ratings of 'adequate' or 'poor' be received, the survey requests that the Client provide information on the reasons for this categorisation. This information is considered and used as a learning tool, to assist us in improving the service we provide to Clients.

The return rate of Stakeholder Feedback Surveys, at 37% for 2023/24, is disappointing. For 2024/25, requests to complete Feedback Surveys will be issued directly by the Principal Auditor, with further follow-up requests for completion made where required.

As can be seen from the performance data on page 11, management responses have only been received within 15 working days of the Draft Internal Audit Report being issued in 68% of cases, falling significantly short of the 80% target. Internal Audit will continue to liaise with Management and Heads of Service to encourage responses to be received in a timely manner, thus ensuring the information and required actions detailed within reports are relevant and add value to the Authority.

## 9. **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 16<sup>th</sup> 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 2022/23, with the next exercise due to commence in 2024/25.

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 2022/23 report was presented to the Governance & Audit Committee on the 29 September 2023, with the 2023/24 report due to be presented to the Corporate Management Team and to the Governance & Audit Committee in September 2024.

## 10. **2024/25 Audit Plan**

The Internal Audit Plan for 2024/25 has been compiled considering the Authority's Corporate Risk Register and Service Risk Registers, thus ensuring appropriate coverage and consideration of the Authority's highest risks. In addition, Internal Audit liaised with the Corporate Management Team and Heads of Service in devising the plan and also taken account of any changes in services.

The Internal Audit Plan includes coverage of:

- Fundamental Audits
- Corporate Review Work
- Corporate Governance Assurance
- Counter Fraud
- Grants and Certification
- Departmental Reviews

The 2024/25 Audit Plan was approved by the Governance & Audit Committee at its meeting on 8<sup>th</sup> March 2023.

With the Authority facing a time of reduced budgets, through completion of the 2024/25 plan, Internal Audit is essential in ensuring that internal controls remain robust and effective despite the reduced budgets and, consequently reduced staffing. By doing so, Internal Audit will assist the Council to maintain a strong control environment, safeguard assets, and continue to achieve its objectives effectively.

**Helen L Pugh**  
**Head of Revenues and Financial Compliance**

*12<sup>th</sup> June 2024*