

Cyngor Sir Gâr

Carmarthenshire County Council

Carmarthenshire County Council

Internal Audit Annual Report 2019-20

July 2020

Contents	Page
1. Introduction	2
2. Overall Opinion	2
3. Internal Audit	3
4. Staffing	3
5. Annual Audit Plan 2019-20	4
6. Annual Governance Statement	12
7. Quality Assurance	12
8. Fraud	13
9. Service Risk Areas	13

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.

In line with the Public Sector Internal Audit Standards, the Head of Internal Audit should present a formal annual report to the Council which gives an opinion on the overall adequacy and effectiveness of the Council's internal control environment.

This report provides an opinion by the Head of Internal Audit of the adequacy and effectiveness of the Council's control environment for the year April 2019 to March 2020, based on the work undertaken in the 2019/20 Internal Audit Plan, agreed by the Audit Committee.

The annual opinion by the Head of Internal Audit 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 Head of Internal Audit has taken the following into account:

- The results of all work undertaken as part of the 2019/20 Internal Audit Programme;
- The results of follow-up action of Internal Audit Reviews from current and previous years; and
- the acceptance of actions by Management (especially those deemed significant).

It is my opinion that the Authority has an **ACCEPTABLE** control environment in operation.

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 assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the Authority's internal control environment.

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 2019-2021.

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 Audit Committee annually and regular reports are made to the Audit 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 principles established by the Director of Corporate Services.

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 Audit Committee.

There were 9.0 FTE staff on the establishment during 2019/20, with two Agency staff members utilised during the year increasing this figure to 10.0 FTE. 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 37 productive days, equating to approximately 2.3% of available productive days, compared to 1.9% the previous year, and 0.5% for 2017/18. During the year vacant posts accounted for the loss of 209 days.

Considering sickness and vacant posts, 26.3% productive days were lost during the year, compared to 9.2% the previous year, and 28% for 2017/18.

5. Annual Audit Plan 2019-20

The 2019/20 Annual Plan was agreed at the Audit Committee on 22nd March 2019. The agreed Audit Plan was based on 1240 audit days and provides a broad coverage of the Authority's services and systems.

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.

Following the outbreak of COVID-19, and the subsequent lockdown implemented on 23rd March 2020, work on the Audit Plan was significantly impacted; with Council services responding to the emergency, audit work was not able to be continued/completed as planned. As part of the Authority's response to the emergency, the Internal Audit team assisted, and continue to assist, by undertaking the following COVID-19 related work:

- Critical advice and guidance on necessary system and process changes as a result of the emergency situation;
- COVID-19 working groups; and
- COVID-19 redeployment.

Three Auditors were tasked with representing the Corporate Services Department on working groups related to the COVID-19 emergency response; details are as follows:

COVID-19 Silver Working Group (Finance, Legal and Democratic Subgroup):
Principal Auditor

COVID-19 HR Support Group:
Principal Auditor and Computer Auditor

COVID-19 Redeployment Group:
Senior Auditor

Two Auditors were redeployed to other areas of the Authority; details are as follows:

Debtors:	Assistant Computer Auditor
Grant Relief Scheme:	Assistant Technical Auditor

Where COVID-19 related work or redeployment was not required, the team continued to undertake work as follows:

- Completion of outstanding audit work (where appropriate);
- Grant work known to be required as part of the 2020/21 plan;
- Setting up audits in preparation for work to be undertaken as part of 2020/21 plan.

72% of those reviews originally programmed were completed by 31st March 2020 thereby falling 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 2019 to March 2020 a total of 189 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	Number of Recommendations
Priority 1 *** Fundamental Control Issues to be addressed as a High Priority	5
Priority 2 ** Control Issues required to strengthen existing procedures	115
Priority 3 * Minor issues	69

The Audit Committee is kept informed of the progress of Internal Audit reviews and significant issues brought to their attention as necessary. During the year, three reports containing identified fundamental weaknesses were brought to the attention of the Audit Committee; these reports related to Pool Cars, Property Management and Schools' Deficits & Surpluses.

Table 2 below summarises the Priority 1 Fundamental Issues previously brought to the 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

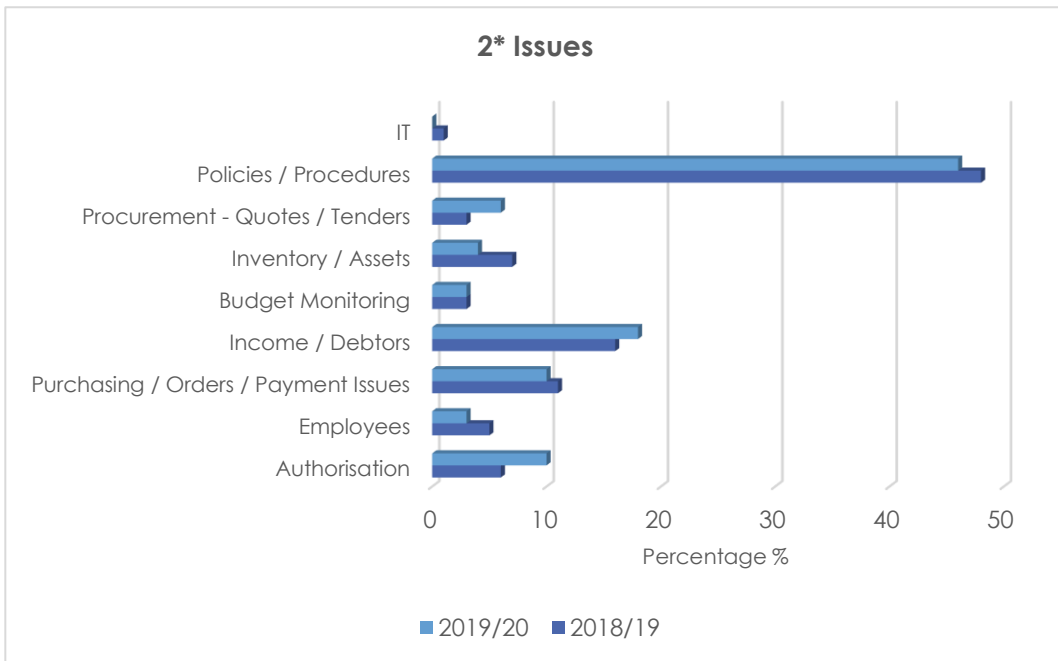
Review	Follow-up of previous 3* Issues requested by Audit Committee	Update
Supporting People	This review identified weaknesses in the management and administration of the Supporting People Grant. This was in the main due to the issues previously identified and reported during 2015/16 and 2016/17, which related to procurement issues and third-party monitoring.	First reported to Audit Committee in December 2015. Initially, the Supporting People Manager provided quarterly reports to the Audit Committee on the progress made in implementing the required changes to address the issues identified. Following the Audit Committee in December 2018, Members agreed to change the

		<p>reporting requirement to receive an update after the next Internal Audit review had been completed.</p> <p>Current position: At the January 2020 meeting, it was agreed that the Committee was satisfied with the progress made to address the issues identified and that further updates were not required.</p>
Museums	<p>Internal Audit identified concerns in the way that assets were being managed and administered. The main areas of concern were:</p> <ul style="list-style-type: none"> • a lack of a comprehensive up to date inventory of assets; • delay in the full implementation of the computerised system CALM; • a lack of adequate documentation available to support loan items; • a lack of adequate insurance arrangements. <p>A follow-up review was undertaken and whilst it was identified that many of the issues remained outstanding it was noted that a significant amount of work had been undertaken to put actions in place.</p>	<p>An Action Plan was presented to Audit Committee in March 2017 along with the Audit Report. The Action Plan provided a timetable of actions to be taken over the next year to address the issues identified. The Audit Committee requested an update in the September 2017 meeting and then on a 6-monthly basis.</p> <p>Current position: At the January 2020 Meeting, Members requested updates be provided to the Audit Committee on an annual basis.</p>
Llanelli Leisure Centre	<p>During the 2016/17 review, Internal Audit identified fundamental weaknesses in the management and administration of staffing,</p>	<p>First reported to Audit Committee December 2017. The Audit Committee requested 6 monthly updates on the progress of</p>

	including incorrect payments being made.	<p>actions to address the identified issues. At the December 2018 Audit Committee meeting, it was requested that an update be provided upon conclusion of the next Internal Audit review (2018/19)</p> <p>Current position: The Audit Committee, at the July 2019 meeting, requested an update be brought following the conclusion of the next Internal Audit review.</p>
Property Management	<p>Two fundamental weaknesses were identified in the 2017/18 review of Property Management. In summary, significant concerns were identified in relation to the management and administration of the Authority's leased properties, and the lack of adequate monitoring of properties, particularly in relation to the financial element.</p>	<p>First reported to Audit Committee July 2018. At this meeting, it was requested that, upon conclusion of the next Audit Report (2018/19), an update be presented to the Committee.</p> <p>Current position: At the January 2020 meeting, the Audit Committee, requested that an update be brought in 6 months' time.</p>
Business Support – Pool Cars	<p>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 rate, regardless of whether</p>	<p>Reported to Audit Committee June 2019</p> <p>Current position: 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.</p>

	the electric or fuel cars have been used.	
Schools' Deficits & Surpluses	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. Unapproved deficits were found to have been running for some years in a number of schools in the sample reviewed.	Reported to Audit Committee January 2020. Current position: At the January 2020 meeting, the Audit Committee, requested that an update be brought in 6 months' time.

The graph below shows the categorisation of the 2* issues raised in 2019/20 and compared to 2018/19.



As can be seen the majority of issues relate to Policies and Procedures. The concerns raised were mainly in relation to:

- non-compliance with current policies and procedures; and
- policies not being applied consistently.

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 2019/20 Reports	Number of 2018/19 Reports
High	11	17
Acceptable	38	47
Low	11	8

The reduced report output figure is down from last year due to the outbreak of COVID-19 and the reduction in work able to be completed, however, the complete status of Internal Audit work is illustrated in the following table:

Audit Status	Number
Commenced/In Progress	11
Fieldwork Complete	13
Draft Report	25
Complete/Final Report	35
Grant Certificate Issued	11
WAO Return Completed	3
Trust Fund Certificate Issued	4
Consultancy Work Completed	3
School Self-Assessment Questionnaires Analysed	57
NFI Exercise	1

The Final Internal Audit Reports once agreed with Heads of Service / Managers / Head Teachers are given to the appropriate Directors, Executive Board Members, Chair and Vice Chair of 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 the Audit Committee.

The way in which Internal Audit is sharing reports with Audit Committee members is currently under review. The aspiration is that the new IT technology in use within the Authority, in the form of Microsoft software, may be used to appropriately share reports with Members in a controlled and efficient manner. This change is planned for implementation during the 2020/21 financial year.

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 2020 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 2019/20 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2019/20.

A Corporate Governance Group comprising two Executive Board Members and key officers has been established to inform and monitor progress on issues affecting Governance. The Chair of Audit Committee also attends as an observer. The Group has met throughout the year and the Minutes have been referred to 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.

The 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 four of these recommendations have been completed, one is in progress which is in relation to the revised Fraud Strategy and the final recommendation related to the consideration of using an alternative assessment template when the next external assessment is undertaken; this recommendation will be addressed at the time of that assessment.

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 Audit Committee on 20th September 2012. The Strategy has been reviewed, but due to the outbreak of COVID-19, the approval process for this document has been delayed. It is anticipated that the document will come before the Audit Committee for approval in the Autumn of this year.

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 during 2019/20.

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. Results are shared with the appropriate manager. There were no significant issues identified during the 2019/20 review.

Undoubtedly one of the most effective methods of preventing or minimising fraud is through ensuring robust systems are in operation, which reduces the opportunity for individuals to defraud the Authority.

9. Service Risk Areas

The following Service Risk Areas are considered areas for attention during 2020/21:

9.1 Partnering / Collaboration

The Council works closely with partners on the Public Service Board which is spearheading greater partnering and collaboration locally.

Close working with Health and Local Authority Regional Groups is continuing, which is bringing together services in imaginative ways leading to greater alignment and co-ordination of budgets.

Under the 2014 Social Services and Well-Being (Wales) Act, Councils and Health Boards have a statutory obligation to establish and maintain pooled fund arrangements in relation to:

- The exercise of their care home accommodation functions

- The exercise of their family support functions
- Specified functions exercised jointly in response to Population Assessments, where such arrangements are considered appropriate

Internal Audit continues to provide advice on risk, controls and systems to ensure the Authority is properly safeguarded.

9.2 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.

9.3 Efficiency Agenda

The Efficiency Agenda places pressure on the Authority in terms of delivering services, achieving efficiencies and re-prioritising to meet demands. There are also pressures to reconfigure back-office support services whilst maintaining control and addressing risks from fraud. Internal Audit has a positive working relationship with the Transformation, Innovation and Change (TIC) Unit and are actively involved in TIC Working Groups.

9.4 Pentre Awel

Pentre Awel, the Wellness and Life Science Village in Llanelli, is one of the 11 projects that make up the £1.3 billion Swansea Bay City Deal. Sound and robust controls and arrangements will need to be in place to ensure the project is completed in an appropriate, efficient and effective manner. Internal Audit has a role to play in reviewing and providing assurance, or otherwise, on these arrangements.

9.5 Local Authority Trading Companies

Most Councils no longer rely solely on in-house operations to deliver either public services or their own internal functions. Services that are not delivered 'in-house' involve some form of alternative delivery models, such as Local Authority Trading Companies (commonly referred to as LATCs).

Carmarthenshire County Council wholly owns three companies:

- *Cartrefi Croeso* - Established by Carmarthenshire County Council to develop new homes for sale and to rent.
- *CWM Environmental* - A limited company dealing with waste, materials recycling, and recovery industry.
- *Llesiant Delta Wellbeing* – Set up in June 2018 and involved the transfer of the Council's Careline service, which had been in operation for over 30 years, into the Company. The Company is a centre of excellence for Technology Enabled Care.

Appropriate governance structures are vitally important to ensure sound and robust supervision of the companies, thereby protecting the Council's financial and reputational investment. Internal Audit has a role to play in ensuring the Council's financial and reputational investment in the companies is safeguarded.

9.6 School Budgets

Since 2018/19, the year-end position for Schools has resulted in considerable overspend, which saw a significant change from the historical situation of holding healthy school reserves within the balance sheet.

Unchecked, school budgets have the potential to put at risk the financial stability of the Council. Appropriate budget control and monitoring is imperative to ensure Schools deliver their services within their allocated budget.

A recent Internal Audit review identified a number of weaknesses in the process of monitoring School budgets. At the January 2020 Audit Committee meeting, the Head of Education & Inclusion Services and the Group Accountant for Education addressed the concerns raised and discussed the measures being put in place to rectify the weaknesses. The Officers are due to provide an update on the position at the September 2020 Audit Committee meeting and Internal Audit intends to undertake a follow-up review of the function during the 2021/22 financial year.

9.7 COVID-19

Following the outbreak of COVID-19, the Authority, its environment and its way of working is evolving rapidly, in an unprecedented way. COVID-19 has numerous implications for the Authority, including financial implications and an increased risk of fraud, as well as health, social, economic and operational impacts.

Internal Audit is well placed to play a key role in the response to the crisis, with good organisational knowledge and relevant set of skills, enabling the service to provide critical evaluation of changing controls, advice to Management on the changing control landscape and later review of practices to enable lessons to be learned, where improvements could be made.

Helen L Pugh
Head of Revenues and Financial Compliance

20th July 2020