

Cyngor Sir Gâr Carmarthenshire County Council

Carmarthenshire County Council

Internal Audit Annual Report 2022-23

July 2023

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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 2022 to March 2023, based on the work undertaken in the 2022/23 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 2022/23 Internal Audit Programme.
- The results of work undertaken as part of the 2021/22 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 2022/23 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 2022/23. 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 118 productive days, equating to approximately 6.4% of available productive days, compared to 3.2% the previous year, and 1.8% for 2020/21. During the year vacant posts accounted for the loss of 246 days.

5. Annual Audit Plan 2022/23

The 2022/23 Annual Plan was agreed at the Governance & Audit Committee on 11th March 2022. 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 97 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.

83% of those reviews originally programmed were completed by 31st March 2023, 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 2022 to March 2023 a total of 113 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	2022/23 Number of Recommendations	2021/22 Number of Recommendations
Priority 1 *** Fundamental Control Issues to be addressed as a High Priority	5	3
Priority 2 ** Control Issues required to strengthen existing procedures	78	80
Priority 3 * Minor issues	30	36

Of the 119 recommendations made in 2021/22, actions to address 96% 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 17th March 2023 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 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 three 3* issues identified during 2021/22 related to the following areas:

- Travel & Subsistence
- School Meals Allergens
- School Visit

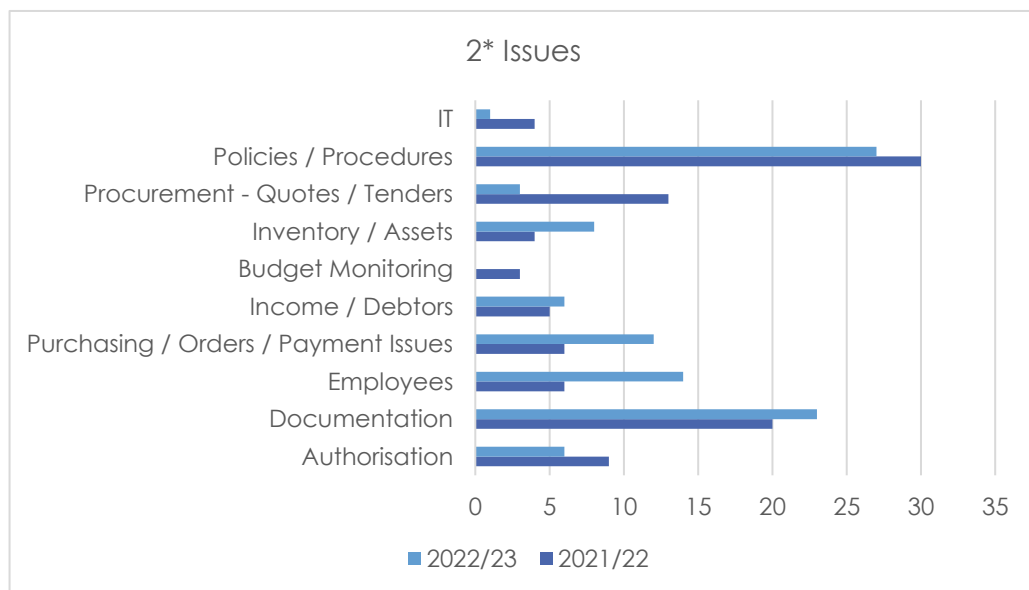
The reports relating to Travel & Subsistence and School Meals Allergens were presented to the Governance & Audit Committee during 2022/23, and the School Visit report was presented to the School's Governing Body.

Follow-up work has already been undertaken on the Travel & Subsistence report and the School Visit report, with satisfactory actions now having been put in place to address the issues identified. A follow-up review of School Meals Allergens is due to be undertaken as part of the 2023/24 Audit Plan.

All 3* issues identified during 2022/23 are currently contained within Draft Reports at the time of writing this report; these will be presented to the Governance & Audit Committee when the Final Reports are complete.

Priority 2 ** Issues

The majority of issues identified during 2022/23 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 2022/23 and compared to 2021/22.



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

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 3.

Table 3: Assurance

Level of Assurance	Number of 2022/23 Reports	Number of 2021/22 Reports
High	7	7
Acceptable	31	28
Low	5	3

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, 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.

6. Annual Governance Statement (AGS)

The Governance Statement for the year ended 31st March 2023 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 2022/23 has been signed by both the Leader and Chief Executive and is presented within the Statement of Accounts for 2022/23.

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
<p>Internal Assessment: Ongoing monitoring of the performance of the Internal Audit activity.</p>	<ul style="list-style-type: none"> ▪ 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) ▪ 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 & Audit Committee. ▪ 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. ▪ The performance of the Internal Audit function is evaluated throughout the year, with the measurement of a set of Performance Indicators. ▪ All recommendations and Reports are reviewed and approved by the Principal Auditor.
<p>Internal Assessment: Periodic review of the Internal Audit activity</p>	<ul style="list-style-type: none"> ▪ Activity and performance of the Internal Audit function is reported to the Governance & Audit Committee at each Committee meeting; meetings are held at least quarterly. ▪ All Final Internal Audit Reports are shared with the Chair and Vice Chair of the Governance & Audit Committee, as well as the Cabinet Member for Resources. ▪ 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.
<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</p>

	Report will be presented to the Governance & Audit Committee at the July 2023 meeting.
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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 2022/23 are in the table below:

Performance Indicator	2021/22 Year-End Result	Target	2022/23			
			Q1	Q2	Q3	Q4
Actual achievement against Annual Audit Plan	86%	90%	13%	33%	57%	83%
Percentage of Draft Internal Audit Reports issued within 10 working days of the fieldwork completion date	New Measure	80%	100%	100%	89%	87%
Percentage of management responses received within 15 working days of the Draft Internal Audit Report being issued	New Measure	80%	100%	50%	27%	38%
Percentage of Final Reports issued within 10 working days of management responses being received	New Measure	80%	100%	100%	100%	100%

During the year, a Stakeholder Feedback Survey was introduced, to gain the views of Audit Clients on the service they received from the Internal Audit team. Since its introduction, a return rate of 55% has been achieved, with feedback being requested from the Client following the issue of 11 Reports, and 6 Feedback Survey responses

having been received. Of the responses received, considering the answers to all questions, the service was categorised as follows:

Rating	Results (%)
Excellent	54%
Good	39%
Satisfactory	6%
Adequate	1%
Poor	0%

Where ratings of 'adequate' or 'poor' are 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.

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 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 for 2022/23 is currently being undertaken.

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 will be presented to the Corporate Management Team and to the Governance & Audit Committee.

10. **2023/24 Audit Plan**

The Internal Audit Plan for 2023/24 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
- Duplication Checks
- Counter Fraud
- Grants and Certification
- Departmental Reviews

The 2023/24 Audit Plan was approved by the Governance & Audit Committee at its meeting on 17th March 2023.

Helen L Pugh
Head of Revenues and Financial Compliance

6th July 2023