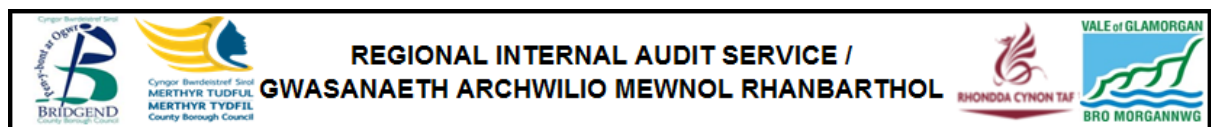




MERTHYR TYDFIL
County Borough Council
Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL

ANNUAL INTERNAL AUDIT REPORT 2019/2020

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July 2020



Annual Internal Audit Report – 2019/2020

Section 1 – Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires the Head of Audit to deliver an annual internal audit opinion and report which can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 1.2 The 2019/20 Internal Audit Plan outlined the assignments to be carried out to enable the Head of Audit to form an annual opinion of the Council's overall control environment including, governance, risk management and internal control.
- 1.3 The Internal Audit Service is delivered through the expanded shared service that came into existence on 1st April 2019. The service is hosted by the Vale of Glamorgan Council and provides internal audit services to the Vale, Bridgend, Merthyr Tydfil and Rhondda Cynon Taf Councils. The arrangement is underpinned by a detailed legal agreement between the four Councils which sets out a range of obligations (the core service is the same for each Council but there are differences in what is provided outside of the core service).
- 1.4 The service reports to the four Audit Committees and is overseen at a strategic level by the Board which consists of the Chief Finance Officers of the four Councils.

Section 2 – Summary of Reviews Undertaken 2019/20

2.1 On completion of the audit reviews an audit opinion is formed providing assurance for management and those charged with governance on how well the internal controls and governance arrangements of the system, establishment or area of review are operating.

2.2 Based upon the findings and recommendations made, an overall conclusion as to the level of assurance that can be provided is given as follows:

Very Good:

- There is a sound system of control designed to achieve the Authority's strategic aims.
- The controls are being consistently applied with no errors identified.

Good:

- There is a sound system of control designed to achieve the system/Authority or establishment's operational objective(s).
- The controls are being consistently applied with a small number of minor errors identified.

Satisfactory

- While there is a basically sound system of control, there are weaknesses, which put some of the system's/Authority's or establishment's objectives at risk.
- There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk/may leave the Authority or establishment open to risk.

Unsatisfactory

- Weaknesses in the system of controls are such as to put the system's/Authority's or establishment's objectives at risk.
- The level of non-compliance puts the system's objectives/Authority or establishment at risk.

Poor

- Control is generally weak leaving the system/Authority or establishment open to significant error or abuse.
- Significant non-compliance with basic controls leaves the system/Authority or establishment open to error or abuse.

Appendix 1

2.3 In summary, Table 1 below, details the control environment opinions for the reviews undertaken during 2019/2020.

Table 1: Audit Opinions 2019/2020						
Opinion	Major Financial Systems Follow Up Audit Opinions	Major Financial Systems	Other Audits	Special Investigations	Total	%
Very Good	0	0	0	0	0	0
Good	0	1	1	0	2	12.5
Satisfactory	1	1	7	1	10	62.5
Unsatisfactory	0	0	2	0	2	12.5
Poor	0	0	0	2*	2	12.5
Total	1	2	10	3	16	100
N/A	0	0	0	2	2	

*Note *2 reports awaiting final publication at the time this report was written.*

2.4 The information in Table 1 is further broken down in Appendix A.

2.5 Table 1 is not reflective of all audit work, which also includes National Fraud Initiative, Annual Governance Statement, consultancy advice given to staff on policies, development of procedures, and involvement in other corporate work.

2.6 To show how the opinions awarded in 2019/2020 compare with those awarded in 2018/2019 we have included 2018/2019 information in Table 2.

Table 2: Audit Opinions 2018/2019						
Opinion	Major Financial Systems Follow Up Audit Opinions	Other Audits	Other Audit Follow Up Audit Opinions	Special Investigations	Total	%
Very Good	0	0	0	0	0	0
Good	0	0	0	1	1	2
Satisfactory	1	6	4	11	22	55
Unsatisfactory	5	5	0	1	11	28
Poor	0	0	0	6	6	15
Total	6	11	4	19	40	100
N/A	0	0	0	4	4	

- 2.7 To summarise the information in Table 1 there were 16 assignments completed within the financial year that resulted in a formulated audit opinion. The completed assignments are split between 13 assurance assignments and 3 'special investigations'.
- 2.8 The proportion of very good/good/satisfactory opinions has increased to 75% in 2019/2020 compared to 57% in 2018/2019.
- 2.9 Additionally for 2019/2020 it can be seen that 2 (12.5%) of the opinions reported were poor and another 2 (12.5%) unsatisfactory. Of these 4 opinions 2 relate to special investigations that were undertaken (2 poor).
- 2.10 Each financial year's annual plan is based upon a risk assessment. There are different areas, with the exception of audits of the 'major financial systems', of the Council's wide range of systems, services and establishments audited each year, as such any change in the trend of opinions awarded provides a useful overview of trend movement.
- 2.11 The areas assessed as poor and unsatisfactory are detailed in paragraph 2.13 and also in Annex A. Examples of the main reasons for reporting an unsatisfactory or poor opinion include inadequate internal controls, failure to comply with the Council's Financial Procedure Rules, failure to comply with/or a lack of financial procedures, poor administration, a lack of/or weak governance arrangements and failure to adhere to recognised best practice.
- 2.12 One planned follow up review of internal audit reports was completed during 2019/2020. Follow up reviews enable us to measure the extent to which management of those selected areas are implementing internal audit recommendations and the subsequent improvement of the internal control environment as a result of their implementation.
- 2.13 In summary for 2019/20 the following areas were assessed as poor and unsatisfactory:
- Poor:
- 2 Special Investigations.
- Unsatisfactory:
- Goetre Primary School.
 - Cyfarthfa High School.
- It should be noted that identified weaknesses and issues were reported to management and appropriate action plans have been put in place to address the issues that were identified in these reports.
- 2.14 The Covid19 outbreak has had little impact on the delivery of the internal audit plan for 2019/20 as relevant testing had been carried enabling reports to be issued and agreed however 2 reports have been issued but not yet agreed with management(schools).

Section 3 – Unsatisfactory and Poor Reports - Control Issues

3.1 Table 1 illustrates that 4 reports identified control issues, of these, 2 concluded that the internal control environment was unsatisfactory and the remaining 2 concluded that the control environment was poor. These are detailed below:

3.2 **Goetre Primary School – Unsatisfactory.**

The objective of the audit was to provide assurance that the school had effective and operational procedures and systems in place to ensure that policies were adhered to and the internal control environment and that governance arrangements were operating effectively.

Whilst it was found that in a number of areas assurance could be provided there were fundamental weaknesses found regarding aspects of the procurement of goods and services, leasing arrangements, administration of the school dinner meals income and the administration of the private fund. A number of recommendations were made to rectify this and the school accepted all recommendations and have taken action to implement them.

3.3 **Cyfarthfa High School – Unsatisfactory.**

The objective of the audit was to provide assurance that the school had effective and operational procedures and systems in place to ensure that policies were adhered to and the internal control environment and that governance arrangements were operating effectively.

Whilst it was found that in a number of areas assurance could be provided there were fundamental weaknesses found regarding aspects of the financial management at the school and also with regard to adherence to Council financial policies e.g. procurement, budgetary control and bank reconciliation. A number of recommendations were made to rectify this and the school accepted all recommendations and have taken action to implement them. The school is currently collating evidence to demonstrate how they have implemented the recommendations.

3.4 **Investigation – Primary School Private Fund (1) – Poor.**

A referral had been received from the Headteacher of the primary school to review the management of the private fund activities after it became evident that there was a shortfall in the expected funds. Our work identified a number of major failings in the management of the private fund in general and the organisation of a particular trip. A number of recommendations have been made, particularly around the organisation of trips, management of the private fund and adherence to existing policies and procedures for school private funds.

3.5 Investigation – Primary School Private Fund (2) – Poor.

A referral had been received from the Chair of the Governing Body for the primary school to review the management of the private fund activities after it had come to his attention that there were potential issues with the use of a ‘Go Fund Me’ account for the purchase of a shed for school use to the value of approximately £630. Our work identified a number of failings in the management of the private fund in general and the re-imburement to the private fund for this particular purchase. A number of recommendations have been made, particularly around record management and approval for purchases, management of the private fund and adherence to existing policies and procedures for school private funds.

Section 4 – Recommendations – 2019/20

4.1 Recommendations are made at the conclusion of an audit review if it is felt that improvements should be made to mitigate risk. Recommendations are included in an implementation plan and following each audit report recipients are asked to complete an action / implementation plan showing whether they agree with the recommendations made and how they plan to implement them. The classification of each recommendation made assists management in focusing their attention on priority actions. The categorisation of Internal Audit recommendations is included in Table 3.

Table 3: Categorisation of Priorities		
Priority	Category	Definition
1	Mandatory - Urgent	Action is imperative to ensure that the objectives for the area under review are met.
2	Mandatory - Less Urgent	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
3	Best Practice	Action is advised to enhance control or improve efficiency.

Table 4: Break down of Internal Audit recommendations made		
Recommendations	Total	%
Priority 1 Mandatory - Urgent	31	24
Priority 2 Mandatory – Less Urgent	73	55
Priority 3 Best Practice	28	21
Total	132	100

- 4.2 For 2019/2020 Internal Audit made a total of 133 recommendations. At the time of writing this report management had agreed to implementing 113 (100%) of these with a further 19 recommendations contained within 2 reports still to be agreed as the reports are at discussion stage with management. Management agreement to recommendations at the conclusion of an audit clearly demonstrates the acceptance of the need to improve, and also the willingness to improve, the internal control environment/governance arrangements of the area reported upon.
- 4.3 All audits undertaken are subject to follow up audits to ensure that recommendations stated as implemented have actually been implemented. In addition to the follow up process, all audits undertaken look at previous report recommendations and comment on whether they have been actioned.
- 4.4 The implementation of Internal Audit recommendations continues to be monitored by Internal Audit, Management and other officers via the Audit/Inspection Action Plans (AAPs) system. The new AAP system was rolled out to all departments during 2019/20 and Audit Committee Members will be provided with access to strengthen the existing internal control environment and governance arrangements as well as enhancing the effectiveness of the Audit Committee.

Section 5 – Counter Fraud Work

- 5.1 Since the transfer of the Counter Fraud Service of Merthyr Tydfil County Borough Council to the Single Fraud Investigation Service in February 2016 the non-benefit fraud related work has been undertaken by Internal Audit staff, this includes undertaking ‘special investigations’ e.g. investigations into fraud, corruption, non-compliance with Council policies etc. and completing the data matching exercises for the National Fraud Initiative and time resource is included in the annual plan to account for these activities.
- 5.2 The National Fraud Initiative is also included in our audit plan. Internal Audit facilitates the upload of data, user account management and provides assistance and advice to officers reviewing the data matches and also review a number of matches ourselves. During 2019/20 a total of £29,711 of recoverable fraud/errors were identified through the initiative along with £5,431 of notional savings. Further work is being undertaken that is likely to increase these figures.
- 5.3 It is planned that a separate report will be presented to the Audit Committee in relation to Corporate Fraud including the detailed results of the National Fraud Initiative.
- 5.4 There were 8 referrals for ‘special investigation’ work in the 2019/2020 financial year, a decrease in the number of ‘special investigations’ compared to the previous financial years (11 in for 2017/2018 and 23 in 2018/2019), the 8 referrals resulted in 3 formal reports being produced. The time that had to be spent on this type of work had a direct impact upon the levels of assurance work that could be completed in year i.e. there was 81 audit days spent upon investigation work and this equates to approximately half of one full time audit post.
- 5.5 A number of fraud related policies and protocols were reviewed and revised during the year with assistance provided by a member of staff based in the Vale Team. These include:
- Anti-Fraud, Corruption and Bribery Policy;
 - Fraud Response Plan;
 - Fraud Action Plan; and
 - Investigation Protocol.
- 5.6 These will need to be formally agreed in due course.
- 5.7 The Wales Audit Office also undertook a review of counter fraud policies and procedures for Merthyr Tydfil which also highlighted the need to review and revise existing policies and procedure documents and acknowledged that work was being undertaken on this by Internal Audit.

Section 6 – Key Performance Measures – Client Satisfaction Questionnaires

- 6.1 The Internal Audit Service has for several years operated a system to enable clients to feedback with comments on the work undertaken by internal auditors. The client satisfaction questionnaires provide managers with the opportunity to feedback on the performance, professionalism and conduct of the auditor as well as the audit process in general.
- 6.2 The questions covered are below:

No.	Question
1	Appropriateness of scope and objectives of audit
2	Timing of audit
3	Usefulness of initial discussions with Auditor(s)
4	Duration of audit
5	General helpfulness of the auditor(s)
6	Consultation on findings - during audit draft report
7	Report received promptly
8	Fair and accurate presentation of findings
9	Usefulness of recommendations
10	Consultation on recommendations
11	How would you rate the usefulness of the audit
12	Is there any aspect of the Internal Audit Service you receive that could be improved
13	Are there any other areas of work that you think Internal Audit could assist you with
14	Was there any aspect of the Audit or the way it was conducted that impressed you

- 6.3 The returned surveys have confirmed satisfaction with the audit approach. In addition to the above, the client also has an opportunity to make their own comments on the Client Satisfaction Survey.
- 6.4 The number of returned questionnaires has reduced in recent years and a mechanism to automate the chase up of responses will be explored through the new Internal Audit Software that is being introduced.

Section 7 – Key Performance Measures – Staff Training

- 7.1 Investment in the development of staff continues as it is recognised that with the increasing challenges and complexity facing local government and other public sector services, the need for well trained, motivated and versatile audit staff has never been higher.
- 7.2 In terms of professional training, one member of staff is currently studying for the Association of Accounting Technicians qualification, which is known as a 'gateway' qualification towards the Chartered Institute of Public Finance and Accountancy qualification, and is undertaking the final stage examination of the qualification.
- 7.3 Staff are also encouraged to attend courses or seminars or complete on-line courses to develop their skills and networking opportunities. Listed below are examples of the training courses that staff have completed during 2019-20:-
- Armed Forces Covenant
 - Assertive Communication
 - Bullying and Harassment in the Workplace
 - Continuing Professional Development
 - Data Protection Essentials
 - Data Protection for all staff
 - Safe Guarding Children and Adults – Raising Awareness
 - Stress Awareness
 - Violence against Women, Domestic Abuse and Sexual Violence
 - Home Working
 - A number of ICT/Information Security Courses

Section 8 – Key Performance Measures – Benchmarking

8.1 The Internal Audit Service participates annually in the Welsh Chief Auditors Group (WCAG) benchmarking exercise. The results for 2018/19 have been received and are as shown in Table 5 below:

Performance Indicator 2018/2019	Performance MTCBC 2019/20	Performance MTCBC 2018/19	WCAG Average Performance 2018/19	Performance MTCBC 2017/18	WCAG Average Performance 2017/18
Percentage of Planned Audits Completed	73%	85%	85%	82%	86%
Percentage of Audits Completed in Planned Time	Not Available	74%	74%	Not Available	73%
Percentage of clients at least satisfied with the service received	100%	100%	99%	100%	98%
Percentage of recommendations accepted versus made	100%*	100%	99%	100%	99%

* Excludes 2 reports awaiting agreement.

8.2 It should be noted that 18 of the 22 Councils returned their performance figures for 2018/19 representing a return rate of 82%. It is clear from the figures provided that the Service's performance remained fairly static when compared with that of 2017/18.

8.3 Overall for 2019/2020 73% of the revised audit plan was completed, a total of 22 assignments were planned during the year of which 16 were completed. Non-assurance work that also required completion during the year included the Annual Governance Statement (AGS), National Fraud Initiative data matching work, the development and roll-out of the new Audit, Inspection Action Plans monitoring system (AAP's) and monitoring of the implementation of external regulator report recommendations.

8.4 In total 65 pieces of planned and unplanned work were completed (including 8 special investigations) that resulted in 16 reports.

8.5 Although not all work planned for was undertaken during the year, Internal Audit management ensured that coverage was given to appropriate areas. Where risk profiles change during the year, Internal Audit responded accordingly.

Section 9 – Public Sector Internal Audit Standards

- 9.1 The Public Sector Internal Audit Standards encompass the following mandatory elements:
- Definition of Internal Auditing;
 - Code of Ethics
 - International Standards for the Professional Practice of Internal Auditing.
- 9.2 The Standards aim to promote further improvement in the professionalism, quality and effectiveness of Internal Audit Services across the public sector. The Standards require that each public sector Internal Audit Service has in place robust arrangements for quality assurance and requires that Internal Audit be the subject of an external assessment at least once every 5 years.
- 9.3 The Internal Audit Service received an external assessment in accordance with the Standards in 2018 and another will be due in 2022. No areas of non-compliance that would affect the overall scope or operation of the Internal Audit activity were identified and the assessment noted that there were no significant deviations from the Standards.
- 9.4 No significant changes have occurred in respect of the working practices since the Regional Internal Audit Service was set up in April 2019. As a result, the Service continues to conform to the Standards during 2019/20.

Section 10 – Regional Internal Audit Service Progress

10.1 As stated above in Section 1 the expanded shared service came into existence on 1st April 2019. The service is hosted by the Vale of Glamorgan Council and provides internal audit services to the Vale, Bridgend, Merthyr Tydfil and Rhondda Cynon Taf Councils.

10.2 A vision for the service has been produced alongside a number of objectives.

Vision

To be the provider of Internal Audit Services of choice to the public sector in South Wales and be a centre of excellence for public sector internal auditing.

To be a service that is regarded as:

- Professional
- Approachable
- Flexible
- Independent but internal to the organisation – a critical friend

10.3 The immediate priorities for the service were identified as follows:

- Ensure a seamless transition from previous arrangements
- Ensure Internal Audit plans for each Council have been developed, consulted on and are deliverable within the likely resources available
- Production of Annual Internal Audit Reports for each Council
- Continue to support all four Audit Committees
- Continue to deliver the planned Audits for each Council

These were all delivered.

10.4 The priorities identified for the first 12 months for the Service were:

- Develop a structure taking into account TUPE requirements and SWOT analysis
- Confirm ICT solution & arrangements
- Identify & evaluate different approaches/ methodologies of each Internal Audit team and identify most appropriate to adopt

10.5 A new staffing structure has been developed and agreed and it is planned to commence recruitment when the restrictions around the Pandemic allow. New ICT equipment was purchased for staff to ensure consistency and compatibility. A new software solution for the service has been agreed and procured. This will be rolled out to staff during 2020/21.

- 10.6 Work has commenced on evaluating different approaches/ methodologies of each internal audit team to identify and develop the most appropriate to adopt. This will continue linked with the roll out of the new software however Covid will impact on how the service is delivered for the foreseeable future and remote auditing will have to be developed.
- 10.7 The longer-term success of the service includes plans to develop a commercial approach and analysing the potential public sector market. Limited progress has been made on this aspect as the foundations referred to above need to be embedded before progressing this.
- 10.8 Collaborative working arrangements throughout the year benefitted the level of service provided to the Council. Staff based in RCT, Bridgend and the Vale were utilised to assist on a number of investigations and fraud related work. Additionally external support via the South West Audit Partnership (SWAP) was bought in to augment available resource. This support along with the work of the team based at Merthyr Tydfil enabled sufficient coverage to be provided to enable the audit opinion to be formed.

Section 11 - Opinion Statement 2019/20

This statement of opinion is underpinned by:

Internal Control Framework

The control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During the year, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. Non-Domestic Rates, Council Tax, follow up review of Debtors) or generally in the reviews undertaken in respect of directorate systems. Due to the resourcing issues during the year within the Internal Audit Shared Service, audit work was also commissioned from SWAP Internal Audit Services.

In providing my annual audit opinion, it should be noted that assurance can never be absolute. The most that internal audit can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work in the financial year 2019/20 and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at my opinion, the following matters have been taken into account:

- The results of all internal audits undertaken during the year ended 31st March 2020;
- The results of follow-up reviews of action taken to address audit recommendations;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the Council's objectives and activities;
- Other sources of assurance.

As referred to above the Head of Internal Audit needs to take into account other forms of assurance in arriving at the opinion in relation to Risk, Governance and Internal Controls.

From a broad governance perspective there have been a number of matters that have arisen during the year. In brief, they are set out below:

Early in the financial year 2019/20, following a number of concerns raised by the Wales Audit Office with the Leader of the Council he wrote to the Minister for Housing and Local Government asking for support to assist the Council in addressing the challenges it was facing.

The Minister responded positively to this and agreed to use her powers to commission an initial phase of support involving an external advisor undertaking a scoping review to provide the Welsh Government and the Leader with a rigorous and independent assessment of the council's key challenges and advise about the immediate actions required and further support needed.

This resulted in a report by John Gilbert, External Adviser, who was appointed by Welsh Government, being published in September 2019 – “Key Challenges, Leadership Capacity and Capability, Governance and Strategy”. The report highlighted the challenges the Council was facing and made a number of recommendations including for the Council to have an enhanced package of support from Welsh Government.

Following this, the Minister agreed with the Leader to establish an Improvement and Assurance Board (the Board), with independent external members, including the Chair, appointed by the Minister. The overall purpose and remit of the Board was to assist the Leader in driving forward the required change and improvement in Council.

The Board would be made up of the Leader, Deputy Leader and representatives of the opposition as well as independent external members. Further focused package of support was also to be provided around a number of aspects.

The Core Team of the Improvement and Assurance Board (the independent appointed members) published their report in December 2019 – “Rapid Assessment for Welsh Government”. This raised a number of concerns around broader aspects of governance, financial pressures, officer capacity generally and in specific areas within the Council and the consequent concerns over the resilience of services. The report also identified a number of actions to be taken forward.

The Council has addressed a number of the actions identified in the report and progress is being made against a number of the other actions. A detailed Recovery, Transformation and Improvement Plan has been developed by the Council to address the challenges it faces and also incorporates the actions identified in the report. This has been presented to and scrutinised by the Board and has now been shared with the Minister.

One of the key actions identified by the Council and agreed by the Board was for the Council to conduct a capacity review. It is understood that whilst progress has been made on this it has not been fully completed due to the severe flooding that took place in February 2020 and the COVID 19 pandemic in March onwards. However, positive steps have been taken to address some of the capacity issues such as filling/advertising a number of posts including Environmental Health staff, an Engineer, a Cabinet Policy Officer, a temporary Senior Change Management Officer for Social Services, a Housing Officer and some apprentices.

From a financial point of view, a provisional budget surplus of £2.891 million is reported for 2019/20 which allows for a contribution of £1.113 million to the Budget Reserve which can be set aside to support investment supporting sustainable organisational change.

For the financial year 2020/21 the Council set a balanced budget of £127.533 million following an unexpected significant increase in Welsh Government funding of +4.85%. General Reserves at 1st April 2020 total £5 million, that is 3.9% of net revenue budget, thus complying with the Corporate Reserves Policy objective, whereby General Reserves are required to lie between 3.5% and 4% of net revenue budget. Earmarked Reserves at 31st March 2020 are 51% (£3.521 million) greater than budgeted.

The Medium Term Financial Plan (MTFP) 2020/21 to 2023/24 indicates that Merthyr Tydfil CBC is faced with a challenging financial position over the medium term. For 2021/22 the Council is faced with identifying a projected £3.582 million of budget savings to set a balanced budget with a further £4.263 million required to be identified for 2022/23 and a further £2.068 million for 2023/24. These projections are based on an increase in Welsh Government funding of +2% per annum.

Due to the Covid-19 pandemic and the UK Government lockdown the Council is faced with significant financial challenges resulting from additional costs, loss of income and supporting the local economy and the council tax payers, and like all other Welsh Local Authorities is reliant on Welsh Government support in the short to medium term to assist with its financial sustainability.

The Welsh Government is providing a degree of financial support for the first quarter but thereafter the situation is more uncertain. It is inevitable however that despite lockdown restrictions easing incrementally over the remainder of the financial year Local Authorities will continue to face significant financial challenges from both additional costs and loss of income. Without continued Welsh Government financial support Merthyr Tydfil will be faced with significant budget deficits requiring in-year service reductions and/or utilisation of reserves.

Therefore, despite the initial better than expected financial position, the Council continues to face significant financial pressures and risks. This, combined with the capacity problems and the significant events that have happened in 2020 (flooding and COVID 19) that would have severely tested any organisation, have added to the challenges faced by the Council. It is even more important that internal controls, governance and risk management arrangements are maintained and improved in these circumstances.

Head of Internal Audit Opinion

Risk Management

Effective Risk Management forms a key aspect of assurance and governance. The Corporate Risk Management Policy is aligned with the Council's performance management framework.

Key risks are distilled in the Corporate Risk Register. This sets out how the Council is addressing these risks and the mitigating actions it will put in place to reduce them. It is reviewed and challenged by both senior management and the Audit Committee.

It is not possible to eliminate all risk of failure to meet the targets in the Council's policies, aims and objectives and cannot therefore provide absolute assurance of effectiveness, however an opinion of **satisfactory** is given.

Governance Arrangements

Good governance facilitates effective management that can deliver long term success and performance of an organisation.

In terms of Senior Management, interim arrangements have been in place during the year in relation to the Chief Executive and Deputy Chief Executive.

As part of compiling the Annual Governance Statement a report was produced which has identified improvements that need to be made. Governance arrangements are also considered as part of other audits.

A number of external reports have been produced which have expressed concerns over aspects of governance and capacity. In addition, a Board has been set up to support the Council to address the challenges it faces.

An opinion of **unsatisfactory** is given but it is acknowledged that the Council has already addressed a number of the actions identified by the Board and has developed a detailed plan, that if fully implemented will help improve governance significantly.

Internal Control

I have based my opinion on internal control using the work undertaken by internal audit during the year.

A total of 16 reviews culminating in an overall opinion have been completed, 12 (75%) of which have been closed with either a good or satisfactory assurance opinion level. 4 reviews (25%) have identified weaknesses in the overall control environment, and these have been summarised in Section 3 above.

Therefore, an opinion of **satisfactory** has been given on internal control.

Head of Internal Audit Opinion Statement 2019/20

Taking into account the results of internal audit work completed for the financial year 2019/20, **internal controls** and **risk management** were found to be **satisfactory**. Given the concerns expressed over aspects of governance and capacity in external reports, in particular the work of the Wales Audit Office and the report of the core team of the Improvement and Assurance Board published in December 2019 – “Rapid Assessment for Welsh Government”, the Head of Internal Audit’s opinion on **governance** is **unsatisfactory**.

Due to the concerns expressed over aspects of governance and capacity, the support already provided by Welsh Government at the Council’s request, and the additional support that is to be provided, the Head of Internal Audit’s annual opinion on the **overall** adequacy and effectiveness of the Council’s framework of governance, risk management and control for 2019-20 is **unsatisfactory**. However, it is acknowledged that the Council has already addressed a number of the actions identified by the Board and has developed a detailed Recovery, Transformation and Improvement Plan. If fully implemented, this will help improve governance significantly and will assist the Council to address the challenges it faces.

SUMMARY OF INTERNAL AUDIT REPORTS 2019/20

Audits Undertaken	Opinion	Recommendations	
		Made	Accepted
Heolgerrig Primary School	B	13	13
MFS Council Tax System Key Control Audit	B	2	2
MFS Non-Domestic Rates System Key Control Audit	C	2	2
Welsh Language Policy	C	3	3
MFS Debtors System Follow up review on previous recommendations implementation	C	0	0
Certification of Grant Claim – Education Improvement Grant (EIG)	C	0	0
Certification of Grant Claim – Pupil Deprivation Grant (PDG)	C	0	0
Certification of Grant Claim – SunSe European Funding Grant	C	0	0
Engineering - Bridge Maintenance	C	5	5
Direct Payments systems and procedures	C	5	5
Governance Arrangements	C	11	11
Goetre Primary School	D	26	26
Cyfarthfa High School	D	41	41
Investigation 1*	E	5	TBC
Investigation 2*	E	14	TBC
Investigation 3	C	5	5
OVERALL OPINION AND RECOMMENDATIONS	C	132	113

*Denotes reports awaiting responses from management.