



MERTHYR TYDFIL
County Borough Council
Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL

ANNUAL INTERNAL AUDIT REPORT 2020/2021

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Annual Internal Audit Report – 2020/21

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 2020/21 has seen the Covid-19 pandemic have a major impact on how the Council has had to operate and the governance arrangements and processes that were put in place to ensure it could continue to support residents and businesses during this difficult and challenging year.
- 1.3 Covid-19 also changed how audit work was carried out in 2020/21 and all staff have worked from home for the year. Audits have been conducted remotely using various digital solutions, holding remote meetings, sharing of screens and sending of data and evidence electronically.
- 1.4 Whilst there was a steep learning curve both for audit staff and auditees all have adjusted well to the new ways of working. Audits have taken longer in some instances due to responses to draft reports taking longer than usual where services have been under more pressure. It is likely that the service will continue to be delivered remotely for the foreseeable future with an element of office based/face to face working introduced over time when restrictions allow.
- 1.5 The 2020/21 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. Factors that were taken into account due to the impact of COVID-19 included risks arising from the pandemic and an emphasis being placed on looking at changed or new processes and governance arrangements introduced as part of every audit.
- 1.6 Other factors taken into account included potential availability of audit and service staff and challenges arising from the remote ways of working. The plan was also more flexible than usual to be able to respond to changing circumstances and events that may have

occurred such as a second wave/outbreaks, pressures on services, the ability to access staff and evidence or requests to respond to new issues that may emerge.

- 1.7 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).
- 1.8 The service reports to the four Governance and 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 2020/21

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 2020/2021.

Table 1: Audit Opinions 2020/2021						
Opinion	Major Financial Systems	Other Audits	Follow Up Audit Opinions	Special Investigations	Total	%
Very Good						0
Good	1	1	1		3	21%
Satisfactory	3	7			10	72%
Unsatisfactory			1		1	7%
Poor						0
Total	4	7	2		14	100
No opinion		3		1	4	0
Reports Issued in 2020/21 but related to 2019/20	2	4			6	
Overall Total	6	15	2	1	24	

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

2.5 Table 1 is not reflective of all audit work, which also includes, 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 2020/2021 compare with those awarded in 2019/2020 we have included 2019/2020 information in Table 2.

Table 2: 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
<i>No opinion</i>	0	0	0	2	2	
Overall Total	1	2	10	5	18	

- 2.7 To summarise the information in Table 1 there were 24 assignments completed within the financial year with 14 that resulted in an audit opinion. Included within the 24 assignments was the NFI data matching exercise and 1 'special investigation'. The special investigation is ongoing. 6 reports related to work undertaken in 2019/20 but final reports issued in 2020/21.
- 2.8 The proportion of very good/good/satisfactory opinions has increased to 93%(13 reports) in 2020/2021 compared to 75% in 2019/2020.
- 2.9 Additionally for 2020/2021 it can be seen that 7% (1 report) of the opinions reported were unsatisfactory. There were no reports issued with a poor opinion.
- 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 Any areas assessed as poor and unsatisfactory are detailed in Section 3 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 Two planned follow up review of internal audit reports was completed during 2020/2021. 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 **Annex B** illustrates the number of planned audit reviews that have been undertaken during 2020/21 despite the pandemic and the impact that has had to demands on services as well as the impact of adopting to remote working. Where planned work has not been undertaken, assurance has been gained where possible from other sources such as previous work and coverage in other audits. Some planned reviews were not undertaken during the year, some due to requests from services that were under intense pressure, these will be considered in the 2021/22 plan. In addition, 7 audits have started and will be completed during 2021/22.
- 2.14 Although the pandemic did have some impact on the delivery of the internal audit plan for 2020/2021 the level of Internal Audit coverage was sufficient for the Head of Audit to be able to give an opinion.

Section 3 – Unsatisfactory - Control Issues

3.1 Table 1 illustrates that 1 report identified control issues, of these, 1 concluded that the internal control environment was still unsatisfactory This is detailed below:

3.2 **Cyfarthfa High School (Follow Up) – Unsatisfactory**

- The objective of the audit was to establish the progress made in implementing the recommendations agreed by management in the Internal Audit report of 2019/20 and to provide independent assurance that progress had been achieved as stated. The original report gave an unsatisfactory opinion and made 41 recommendations.
- Recognition has given to the School for the work undertaken and the progress made towards implementing the recommendations especially given the difficulties faced as a result of the Covid pandemic. It is also accepted that issues caused by Covid meant that it was not possible to demonstrate that some recommendations had been implemented because the school was closed for a substantial part of the year.
- 17 recommendations could not be evidenced as having being implemented including, 3 priority one, 13 priority two and 2 priority three recommendations. Our overall conclusion was that the assurance grade opinion assigned is still **unsatisfactory**. Whilst positive progress has been made we are not yet in a position to be able to give a better opinion.
- 1 new recommendation was made as a result of this follow up review. In order to give assurance to the Governors and the Council, further follow up audit work will be undertaken in 2021/22 to determine progress made in implementing the outstanding recommendations.

Section 4 – Recommendations – 2020/21

- 4.1 Recommendations are made at the conclusion of an audit review if it is felt that improvements should be made to mitigate risk, improve governance or internal control. 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.

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.

Recommendations	Total	%
Priority 1 Mandatory - Urgent	17	18
Priority 2 Mandatory – Less Urgent	56	61
Priority 3 Best Practice	19	21
Total	92	100

- 4.2 For 2020/21 Internal Audit made a total of 92 recommendations. At the time of writing this report management had agreed to implementing all the recommendations. 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 with an unsatisfactory/poor opinion 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 is 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. Due to pressures on services as a result of Covid, limited work was done on this in 2020/21. This will be followed up during 2021/22.

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 2018/19 and 2019/20 a total of £28,308.63 of recoverable fraud/errors were identified through the initiative.
- 5.3 A new NFI exercise was commenced in 2020/21 with new data matches starting to be received. They will be issued to appropriate officers for further investigation during 2021/22. Further data needs to be provided by the Council in relation to COVID grant payments to ensure that this is fed into the NFI process to help identify any potential fraudulent claims.
- 5.4 The Authority also participated in an exercise run by CIFAS (Credit Industry Fraud Avoidance System), whereby Covid 19 grant data was extracted from the Authority’s systems and presented to CIFAS to be checked against the National Fraud Database. The results were then provided to the Authority for investigating. During 2020/21 the Authority uploaded approximately 900 records to CIFAS for checking against the National Fraud Database, however no potential fraudulent cases were identified.
- 5.5 There was only 1 referral for ‘special investigation’ work in the 2020/21 financial year, a decrease in the number of ‘special investigations’ compared to the previous financial year (8 in for 2019/20). The referral resulted in evidence being collated and a report to management being produced which has initiated a disciplinary investigation which is ongoing.

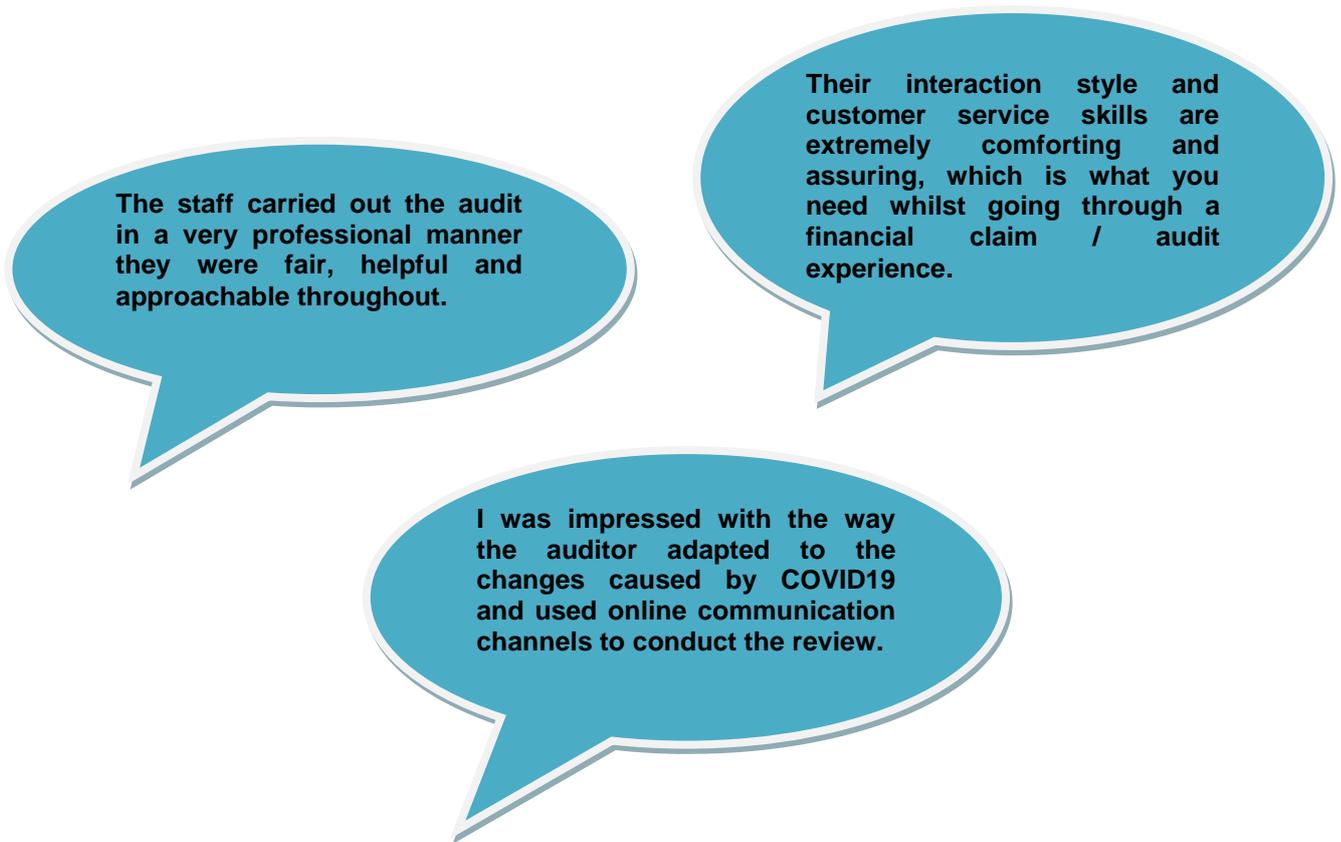
- 5.6 A number of fraud related policies and protocols were reviewed and revised during the year with assistance provided by a member of staff based in the Vale Team. These included:
- Anti-Fraud, Corruption and Bribery Policy;
 - Fraud Response Plan;
 - Fraud Action Plan; and
 - Draft Fraud Risk Register
- 5.7 Further best practice information has been included in these documents which will need to be formally agreed in due course. The draft documents have been shared with Audit Wales.
- 5.8 Consideration is being given with the Chief Finance Officer to the best way of resourcing Counter Fraud activity as there is no dedicated Counter Fraud Resource at the Council unlike other Councils in the footprint of the shared service and this needs strengthening.

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 A total of 16 out of 18 (89%) questionnaires had been returned during 2020/21. All the returned surveys have confirmed satisfaction with the audit approach, the service provided and the conduct of the Auditors. In addition to the above, the client also has an opportunity to make their own comments on the Client Satisfaction Survey. Set out below are three examples that have been received during the period.



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 completed during 2020/21:-
- Armed Forces Covenant
 - Assertive Communication
 - Bullying and Harassment in the Workplace
 - Continuing Professional Development
 - Data Protection Essentials
 - Data Protection for all staff
 - Safeguarding Children and Adults – Raising Awareness
 - Stress Awareness
 - Violence against Women, Domestic Abuse and Sexual Violence
 - Managing Home and Agile Workers
 - MK Insight Training
 - RIPA Training
 - AAP (Audit Action Plan) Training

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 2020/21 have been received and are as shown in Table 5 below:

Performance Indicator 2019/2020	RIAS Performance MTCBC 2020/21	WCAG Average Performance 2020/21	RIAS Performance MTCBC 2019/20	WCAG Average Performance 2019/20
Percentage of Planned Audits Completed	66%	67%	73%	74%
Percentage of Audits Completed in Planned Time	70%	75%	71%	69%
Percentage of clients at least satisfied with the service received	100%	100%	100%	99%
Percentage of recommendations accepted versus made	100%	100%	100%	100%

8.2 It should be noted that 16 of the 22 Councils returned their performance figures for 2020/21 representing a return rate of 73%.

8.3 Overall for 2020/21 66% of the revised audit plan was completed, a total of 38 assignments were planned during the year of which 25 for were completed. Non-assurance work that also required completion during the year included the Annual Governance Statement (AGS), National Fraud Initiative data matching work.

8.4 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 2020/21.

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 agreed. Consultation with the Trade Unions and staff has taken place and staff are expected to be appointed in the early Autumn.

- 10.6 Covid has had a major impact on how audit work has been carried out in 2020/21 and all staff have worked remotely for the year. Audits have been conducted remotely using various digital solutions, remote meetings, sharing of screens and sending of data electronically.
- 10.7 Whilst there was a steep learning curve both for audit staff and auditees all have adjusted well to the new ways of working. Audits have taken longer in some instances due to responses to draft reports taking longer than usual where services have been under more pressure. It is likely that the service will continue to be delivered remotely for the foreseeable future with an element of office based/face to face working introduced over time when restrictions allow.
- 10.8 A new Audit Software solution was procured in 2020. Intensive work has taken place to set up the system, train the staff and to determine and agree consistent working practices and methodologies across the Service including new report format and consistent terminology. The new approach has been rolled out from April 2021.
- 10.9 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.
- 10.10 Collaborative working arrangements throughout the year benefitted the level of service provided to the Council. Staff based in Bridgend and the Vale were utilised to assist on NFI 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 2020/21

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, Creditors, Payroll etc.) 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 for the financial year 2020/21 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 for the year ended 31st March 2021;
- 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 Regional Internal Audit Service 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 last 2 years. 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 then 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.

Audit Wales published a report in March 2021- “Merthyr Tydfil County Borough Council – Assessment of Progress to Address Key Concerns” which was presented to and agreed by Full Council in April 2021. The Councils formal response to and acceptance of the recommendations in the report was agreed by Full Council in the Annual General Meeting in May 2021.

The Audit Wales Progress Report sets out their assessment of the Council’s progress in addressing the concerns identified in their letter issued to the Council in May 2019, and those identified in the September 2019 John Gilbert report, and the December 2019 Improvement and Assurance Board’s Rapid Assessment report. The report also sets out remaining areas of concern and makes a series of recommendations under the Public Audit Wales Act.

The report summary states:

“The Council has shown resilience in its response to recent challenges and has made progress in developing an improvement plan, but it urgently needs to address its lack of capacity to drive the transformation needed, and use its available resources to strengthen its resilience over the medium to long term.

- 7 *The Council has shown resilience in its response to recent challenges and its improved immediate financial position gives it a window of opportunity to improve its performance and transform. But this is not an indefinite window of opportunity; the Council cannot continue to rely on there being positive financial settlements in the future and needs to use its resources to strengthen its resilience over the medium to long term and to sustain improvement. It is our view that the Council will need some form of continued support as it lacks the capacity to address the medium to long-term issues at the same time as operating from day-to-day in the short term. The Council also urgently needs to address its lack of transformation capacity and expertise to enable the Council to sustain the change and improvement needed.*
- 8 *The Council also needs to ensure its key governance mechanisms are fully focused on the priority business of the Council and act in a complementary way to ensure robust decision making and accountability. All members need to fully understand and fulfil their respective roles in the governance of the Council. This is pivotal to transforming the Council and improving outcomes for the people of Merthyr Tydfil.*
- 9 *Whilst we recognise the progress the Council has made to address the concerns raised, particularly during such challenging circumstances, the Council still has some way to go to fully address them. As such, we feel it is important for the Council to maintain its focus on these ongoing challenges and we have made a series of recommendations under the Public Audit (Wales) Act 2004, which the Council is required to consider and respond to.....”*

The report makes 10 recommendations relating to:

- Addressing lack of capacity and expertise relating to transformation
- Providing permanency to its senior management structure
- Completing the capacity review
- Refine and fully cost the Recovery, Transformation and Improvement (RTI) Plan 2020-25
- Strengthen communication and engagement with staff
- Build on its current financial position to strengthen financial resilience
- Corporately focussing improving education outcomes
- Strengthening performance management arrangements
- Strengthening Scrutiny arrangements
- Build on recent partnership working to ensure value for money is being achieved.

The report also states that:

The Council has shown a great deal of resilience in how it has risen to the challenges of the pandemic. The Council has efficiently delivered business grants, provided continuity of free school meals, and delivered the mass testing programme, amongst a host of other emergency responses.

It goes on to identify a number of positives both from the perspective of responding to the pandemic and in addressing a number of the areas of concern and states that the Council has worked constructively with the Improvement and Assurance Board and the other external support provided by the Welsh Government. The Council is more aware of the challenges it is facing, and the areas of improvement needed.

The report also recognises the Councils short-term financial position has improved, assisted by positive revenue settlements and by projected underspends in certain areas such as Social Services, it states that there is a short window of opportunity for the Council to plan for the medium to long term and consider how it can best use its resources to become more financially resilient and deliver its RTI Plan and that the Council also needs to consider what savings may be realistically achieved through its transformation plan, as well as identifying any investment required to deliver on it.

The Council has responded positively to the Recommendations made.

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 but needs to be updated.

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.

A Risk Management audit was undertaken during 2020/21 and a reasonable opinion provided and 7 recommendations made.

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.

Following a number of external reports which expressed concerns over aspects of governance and capacity, the Audit Wales recent progress report has identified that the Council has shown a great deal of resilience in how it has risen to the challenges of the pandemic. The Council has also made progress in developing an improvement plan, but it urgently needs to address its lack of capacity to drive the transformation needed, and use its available resources to strengthen its resilience over the medium to long term.

Interim arrangements have been in place during the year in relation to the Chief Executive and Deputy Chief Executive. A recruitment process is underway to address this.

Recognising the progress made an opinion of **satisfactory** has been given for this year.

However, there are still underlying concerns, particularly around the lack of capacity and medium to long term financial resilience that if not addressed could result in a negative opinion in the future. The Council must continue to address the issues identified in the RTI Plan and the recommendations made in the Audit Wales Progress Report to ensure that this can be sustained.

Internal Control

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

A total of 24 reviews were completed in the year with 14 reports culminating in an opinion for 2020/21, 13 (93%) of which have been closed with either a good or satisfactory assurance opinion level. 1 review (7%) had an unsatisfactory opinion summarised in Section 3 above.

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

Head of Internal Audit Opinion Statement 2020/21

Taking into account the results of internal audit work completed for the financial year 2020/21, **internal controls and risk management** were found to be **satisfactory**.

Given the progress made in addressing concerns around governance and the significant resilience shown in dealing with the pandemic over the last year the Head of Internal Audit's opinion on **governance** is also **satisfactory**.

Therefore **the Head of Internal Audit's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control for 2020-21 is:**

Satisfactory

However, there are still significant underlying concerns identified in the Audit Wales Progress Report of March 2021, particularly around the lack of capacity and medium to long term financial resilience that if not addressed could lead to a negative opinion in the future. The Council must continue to address the issues identified in the RTI Plan and the recommendations made in the Audit Wales Progress Report to ensure that this can be sustained.

SUMMARY OF INTERNAL AUDIT REPORTS FOR 2020/21

Audits Undertaken	Opinion	Recommendations	
		Made	Accepted
Annual Governance Statement/Governance Arrangements	N/A	11	11
Corporate Risks/Risk Management Systems and Procedures	C	7	7
Ffos y Fran	N/A	1	1
ICT Audit Information Security ISO27001	B	1	1
MFS – Cash Income	C	12	12
MFS – Creditors	C	17	17
MFS – Treasury Management	B	2	2
MFS – Payroll	C	10	10
NFI	N/A	N/A	N/A
NFI Creditors	C	3	3
COVID-Remote Working Questionnaire	C	4	4
Fleet Management (Follow Up)	B	0	0
Cyfarthfa High School Follow up	D	18	18
Certification of Grant Claim – RCSIG (Regional Consortia School Improvement Grant)	C	1	1
Certification of Grant Claim – SunSe European Funding Grant	C	1	1
Certification of Grant Claim – Trailgazers	C	0	0

Audits Undertaken	Opinion	Recommendations	
		Made	Accepted
Safeguarding	C	3	3
Investigation 1	N/A	1	1
OVERALL OPINION AND RECOMMENDATIONS 2020/21	C	92	92

REPORTS ISSUED IN RESPECT OF 2019/20 DURING 2020/21

Audits Undertaken	Opinion	Recommendations	
		Made	Accepted
MFS – Council Tax 2019/20	B	2	2
MFS – NDR 2019/20	C	2	2
Welsh Language Policy 2019/20	C	5	5
Goetre Primary School 2019/20	D	26	26
Cyfarthfa High School 2019/20	D	41	41
Heolgerrig Primary School 2019/20	B	13	13
		89	89

PROGRESS AGAINST THE 2020/21 AUDIT PLAN

Audit	Status	Opinion				Recommendations
		Good	Satisfactory	Unsatisfactory	Poor	
Annual Governance Statement 2020/21	completed					11
Anti-Fraud and Corruption Policies	In progress					
Corporate Risks	completed		√			7
Risk Management Systems and Procedures	completed					
COVID - Remote Working	completed		√			4
Ffos Y Fran - Contract and Royalty Payment Audit (Follow up)	completed					1
ICT Audit Information Security ISO 27001	completed	√				1
Major Financial System - Cash Income	completed		√			12
Major Financial System - Creditors	completed		√			17
Major Financial System - Treasury Management	completed	√				2
Major Financial System - Housing Benefit	allocated					
Major Financial System - Payroll	completed		√			10
National Fraud Initiative (NFI)	completed					
NFI Creditors	completed		√			3
Purchasing Cards	allocated					
Capital Contract Monitoring and Payment of Accounts and Valuations	In progress					
Final Accounts - Contracts	allocated					
Fleet Management (follow up)	completed	√				0
Property Maintenance Inspection Plans & Regimes	In progress					
Vehicles Fuel System	In progress					
Cyfarthfa High School follow up	completed			√		18
School Private Funds-monitoring arrangements	In progress					

Annex B

Audit	Status	Opinion				Recommendations
		Good	Satisfactory	Unsatisfactory	Poor	
Schools Meals Income System	In progress					
Schools Negative Balances	In progress					
School Improvement Grant	completed		√			1
Sunse	completed		√			1
Trailgazers	completed		√			0
In House Fostering Services	allocated					
Looked After Children Placements - Independent Fostering Services (IFAs)/Fostering and Provision for Foster Parents	allocated					
Looked After Children Respite and Emergency Services	allocated					
Safeguarding Adults & Children	completed		√			3
Investigation	completed					1
Overall Totals	32	3	10	1	0	92

Audit	Status	Opinion				Recommendations
		Good	Satisfactory	Unsatisfactory	Poor	
Major Financial System - Council Tax 2019/20	completed	√				2
Major Financial System - NDR 2019/20	completed		√			2
Welsh Language Policy - 2019/20	completed		√			5
Goetre Primary School - 2019/20	completed			√		26
Cyfarthfa High School - 2019/20	completed			√		41
Heolgerrig Primary School – 2019/20	completed		√			13
Overall Totals	6	1	3	2	0	89