



Cyngor Bwrdeistref Sirol
MERTHYR TUDFUL
MERTHYR TYDFIL
County Borough Council

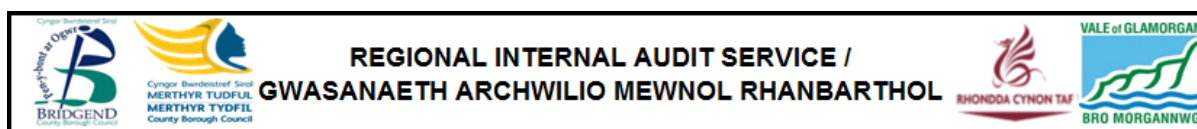
ANNUAL INTERNAL AUDIT REPORT

2023/2024

Andrew Wathan, CPFA

**Head of Regional Internal Audit Service
May 2024**

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**Section 1 – Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) requires the Head of Internal 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 2023/24 Internal Audit Plan outlined the assignments to be carried out to enable the Head of Internal Audit to form an annual opinion of the Council's overall control environment including, governance, risk management and internal control.
- 1.3 The plan was flexible to respond to changing circumstances and events that may have occurred during the year such as pressures on services, the ability to access staff and evidence or requests to respond to new issues that may emerge.
- 1.4 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 & Rhondda Cynon Taf Councils.
- 1.5 The service reported to the four Governance & Audit Committees and is overseen at a strategic level by the Board which consists of the Chief Finance Officers of the four Councils.
- 1.6 During the year Auditors have had the flexibility to work from home or the office and have undertaken site visits as appropriate for each audit.
- 1.7 The initial partnership agreement was signed for three years and extended for two years. 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). At the five-year anniversary, April 2024, the original partners needed to sign a new partnership agreement. Positive feedback was received in relation to audit service delivery from all four partner S151 Officers and senior management teams however, Rhondda Cynon Taf (RCT) have given notice that they do not wish to continue with the shared service partnership arrangement with effect from April 2024. Therefore a 3 Partner Model will be adopted during 2024/25.

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Section 2 – Summary of Reviews Undertaken 2023/24

- 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:

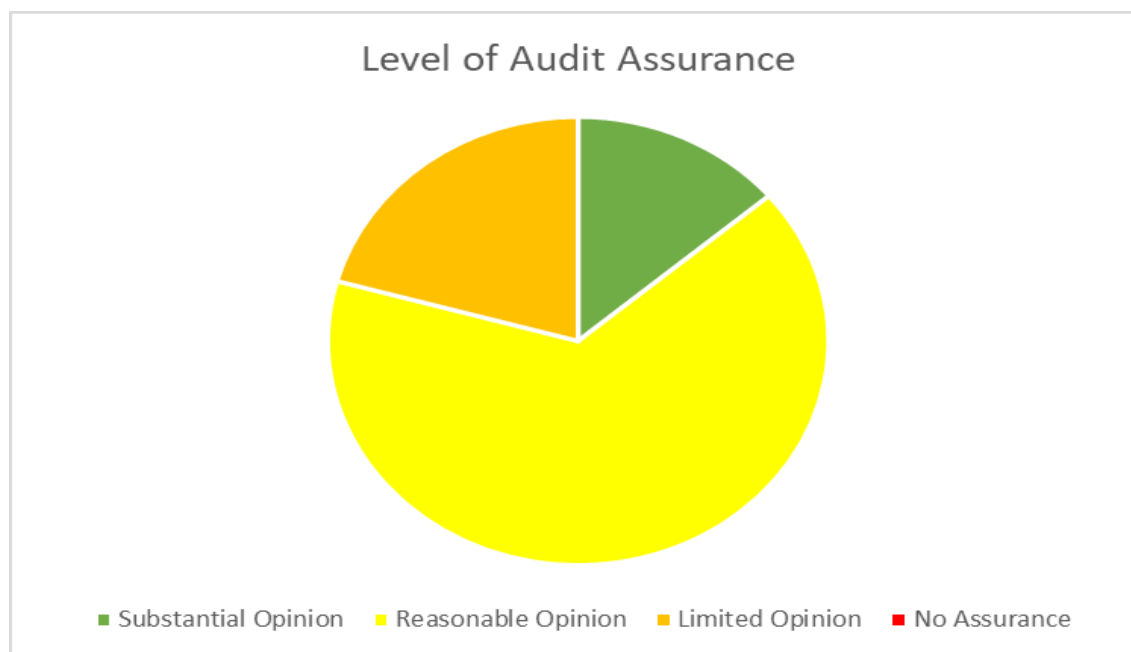
Table 1 - Audit Assurance Category Code	
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Table 2 – Audit Opinion Given to Completed Audit Reviews 2023/24

Opinion	Follow Ups	Financial Systems	Other Audit Reviews	Schools	Grant Verification	Total	%
Substantial	0	1	3	0	0	4	14
Reasonable	5	5	7	1	1	19	65
Limited	1	1	3	1	0	6	21
No Assurance	0	0	0	0	0	0	0
Total	6	7	13	2	1	29	100

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Figure 1



- 2.3 Table 2 illustrates that a total of 29 reviews have been given an audit opinion. A list of these audits is at **Annex 1**. A comparison of opinions issued in the previous year is shown at Table 3 below:

Table 3: Comparison of Audit Opinions

Opinion	2022/23		2023/24	
	Total	%	Total	%
Substantial	6	20%	4	14%
Reasonable	18	60%	19	65%
Limited	5	17%	6	21%
No Assurance	1	3%	0	0
Total	30	100%	29	100%

- 2.4 A summary of the key control issues identified within the 6 **Limited Assurance** opinion audits are in Section 3 of the report.
- 2.5 The final position against the 2023/24 approved audit plan is attached at **Annex 2**. This details the status of each planned review, the audit opinion and the number of any high, medium or low recommendations made to improve the control environment. It should be noted that 14 audit reviews listed have no audit opinion. The majority of these are routine internal audit work, for example advice and

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guidance, external audit liaison, fraud and irregularity work, audit planning and recommendation monitoring. This work is planned but the nature of the audit work carried out in respect of these items does not lead to testing and the formation of an audit opinion. Fact finding pieces of work were also undertaken whereby an audit opinion is not formed.

- 2.6 **Annex 2** illustrates the status of the 57 audit assignments included in the audit plan, 43 of which were opinion related. A summary of the status of the planned audits is illustrated in Table 4 below.

Table 4 – Status of Planned Audits 2023/24

Status of Audits Assignments	Number	Percentage Completed (%)
Complete with audit opinion	25	
Draft with audit opinion	4	
Audit ongoing and carried forward	4	
Audit not started and included 2024/25 Plan	10	
Not undertaken or carried forward	0	
Sub Total	43	67%
Complete with no audit opinion	14	
Total	57	75%

- 2.7 The 10 planned audits which had not started during 2023/24 will be included in the 2024/25 audit plan.
- 2.8 It is therefore considered that the level of Internal Audit coverage was sufficient for the Head of Audit to be able to give an annual overall opinion.

Section 3 – Limited Reports - Control Issues

- 3.1 Table 2 illustrates that 6 audit reviews identified control issues which meant that only *Limited Assurance* could be provided. These are detailed below:

3.2 Blessed Carlo Acutis Catholic School

Internal Audit undertook a routine audit in accordance with the Internal Audit Risk Based Plan for 2023/24. The school was formed following amalgamation of three former Primary Schools and one Secondary School to form a new All Through 3-16 Catholic School in the County Borough. The school is currently split over four sites but has one Governing Body. The audit opinion of 'Limited Assurance' was given on the basis that:

- Safeguarding – 3 of the 4 findings identified are high priority;
- School Private Fund – 5 of the 15 findings identified are high priority.

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3.3 Security & Access to Council Buildings

The audit opinion of '*Limited Assurance*' was given on the basis that 5 of the 11 findings identified were high priority and indicate fundamental gaps in the internal control environment. All recommendations have been agreed by Management and a follow up audit review will be scheduled for 2024/25 to provide assurance that all recommendations have been fully implemented.

3.4 Afon Taf High School Follow Up

This school was last subject to an audit review in October 2022 when an audit opinion of '*Limited Assurance*' was provided in respect of the overall control environment relating to the school's financial and governance arrangements. This follow up again resulted in an audit opinion of '*Limited Assurance*' as, although improvements have been made, not all recommendations have been addressed. Areas where recommendations have been made include:

- The School Private Fund
- Safeguarding
- Purchasing Card and Purchasing

3.5 Procurement Arrangements

This review was given a '*Limited Assurance*' audit opinion due to the wide span of issues noted across the areas reviewed as follows:

- Absence of an up-to-date procurement strategy;
- Procurement governance and procedures need updating;
- Atamis supplier spend analysis could be strengthened to help identify off contract expenses;
- The Procurement Team's roles and responsibilities need clarifying;
- Procurement training needs refreshing and delivering on a regular basis;
- Data in the contract register is not used for management reporting to track potential contract risks; and
- Exemption forms not always include authoriser's signatures.

3.6 Emergency Planning & Business Continuity Arrangements

A '*Limited Assurance*' opinion has been provided to reflect that several gaps were identified, and 11 findings raised, including 3 high priority. The main issues raised are as follows:

- The Business Continuity Plan (BCP) has not been updated in a timely manner, does not reflect the current MTCBC structure, and does not provide clear direction as to what actions would be taken in a range of emergencies.

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- Risk management activity does not define mitigatory actions nor responsibilities, and there is no centrally managed list of business-critical suppliers required to maintain statutory obligations in the event of an emergency.
- There are no actions in place to mitigate the known threat to continuity of the statutory service of school transport.
- There is no formal testing and training schedule for the MTCBC BCP and service area BCPs.

3.7 Review of Petty Cash & Cash held at Council Establishments

This review identified a wide span of issues as follows:

- It was not possible to determine whether Petty Cash Procedures Notes exist as none were provided during the audit review;
- Training is not provided to new Petty Cash account holders.
- An overall lack of control and monitoring of the petty cash floats/accounts in operation was identified;
- Instances of non-compliance of Section 4.07.14 of the Council's Constitution (Petty Cash and Imprest Accounts) were identified during testing (e.g. purchases not supported by receipts, purchases made over £50, claims are not submitted monthly);
- Petty Cash accounts/floats are not always held securely or in line with Insurance requirements.
- VAT at standard rate is not always claimed on applicable purchases.

3.8 Follow up audits are undertaken on previous *Limited Assurance* reports to ensure that improvements have been made to mitigate the risks previously identified. Table 2 illustrates that 6 follow up audits were undertaken during 2023/24. Afon Taf High School follow up has been covered above as it remained as *Limited Assurance*, but it is pleasing to note that the remaining 5 follow up audits demonstrated improvements and a *Reasonable Assurance* audit opinion was provided to all 5. These were:

- Temporary Housing Solutions & Compliance with the Statutory Duty
- Sundry Debtors
- School Mini Bus Operation, Compliance & Monitoring
- Pen y Dre High School
- Waste Services - Income Collection

Section 4 – Recommendations 2023/24

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- 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 a management action plan and following each audit report recipients are asked to complete the action 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, these ratings being High, Medium and Low.

Recommendation Categorisation	
Risk may be viewed as the chance, or probability, of one or more of the organisation's objectives not being met. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results. The criticality of each recommendation is as follows:	
High Priority	Action that is considered imperative to ensure that the organisation is not exposed to high risks.
Medium Priority	Action that is considered necessary to avoid exposure to significant risks.
Low Priority	Action that is considered desirable and should result in enhanced control.

- 4.2 Management are asked to provide feedback on the status of each recommendation once the target date for implementation has expired. The implementation of these recommendations is monitored using MK Insight internal audit software to ensure improvements are being made and the monitoring is regularly report to Senior Officers via Corporate Management Team and to Governance and Audit Committee.

Table 5 – Analysis of Recommendations Made During 2023/24

Recommendations	Follow Ups	Financial Systems	Other Audit Reviews	Schools	Grant Verification	Total	%
High	3	4	10	8	0	25	12%
Medium	30	27	53	26	0	136	65%
Low	15	10	11	11	0	47	23%
Total	48	41	74	45	0	208	100%

- 4.3 Table 5 illustrates that a total of 208 recommendations have been made to improve the control environment of the areas reviewed during 2023/24. Management has given written assurance that these will be implemented or have accepted the identified risk if the recommendation has not been accepted.
- 4.4 **Annex 3** provides a summary of the status of the internal audit recommendations made. This includes recommendations made in relation to audits completed in

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2022/23 which are yet to be implemented. The monitoring of recommendations is undertaken regularly by Auditors and any undue delays or issues are highlighted to Senior Management and ultimately the Governance and Audit Committee.

Section 5 – Counter Fraud Work

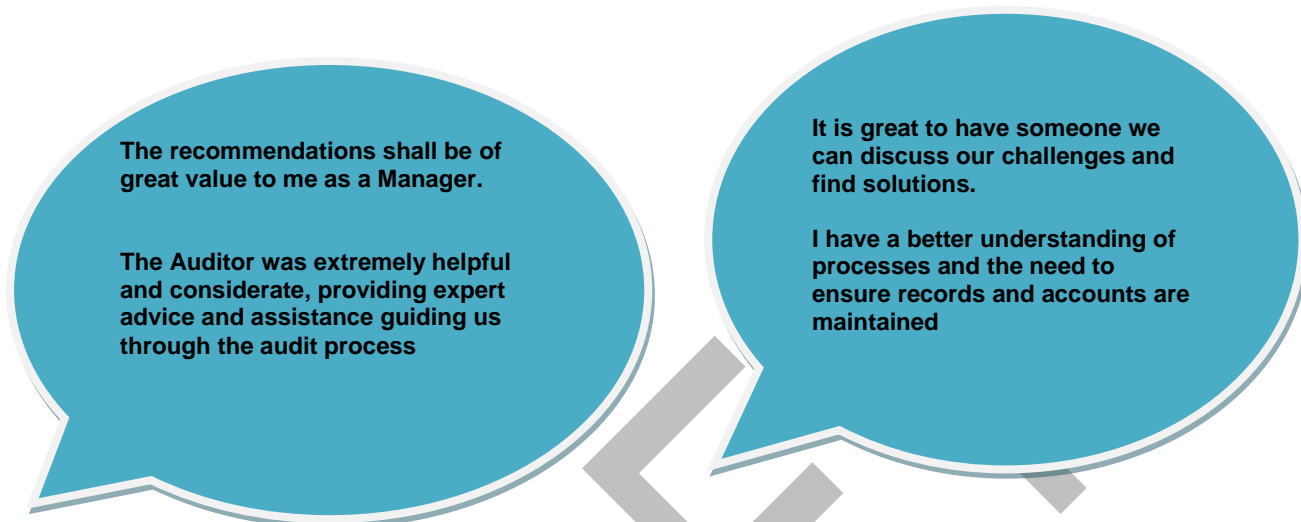
- 5.1 In respect of suspected fraud, two matters were referred to Internal Audit for review during 2023/24. One related to system access controls and another a contract issue. Fact-finding exercises were undertaken, and fraud was not proven. However, areas for improvement within the Council's processes were identified and recommendations made to improve the controls and mitigate the identified risks within existing systems.
- 5.2 The National Fraud Initiative is also included in the audit plan. Internal Audit facilitates the upload of data and works with the Council's Fraud Investigator to provide advice to officers reviewing the data matches. A biennial exercise commenced when data was extracted from the various Council systems and submitted for matching in October 2022. The matches were returned in January 2023 and work is still ongoing to review the data matches to identify if there any fraud or error has occurred. A new exercise will commence in October 2024.
- 5.3 A separate Annual Corporate Fraud Report will be presented to the Governance and Audit Committee which will outline the counter fraud work undertaken during 2023/24. Internal Audit has an excellent working relationship with the Fraud Investigator and significant liaison takes place in relation to policies, corporate fraud matters and related investigations.

Section 6 – Key Performance Measures – Client Satisfaction Questionnaires

- 6.1 The Internal Audit Service uses MK Insight (Internal Audit software) 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. The questions are contained in **Annex 4**
- 6.2 Only 18 questionnaires were issued but the return rate was 61% (66% in 2022/23); this is an area that needs to be improved. A review of the process undertaken where surveys have not been issued or returned will take place as well as a review of the questionnaires themselves to make sure they are easy to complete and submit.
- 6.3 The returned surveys however have confirmed satisfaction with the audit approach, the service provided and the conduct of the Auditors. It is pleasing that the average rate of satisfaction is 97% (the same as 2022/23). In addition to the above

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questions, the client also has an opportunity to make comments within the Client Satisfaction Questionnaire. Set out below are examples of comments received during the period. Most of the feedback received was positive and all comments received are considered.



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, our two Graduate Auditors have each successfully completed 4 Chartered Institute of Public Finance & Accountancy (CIPFA) exams attaining the CIPFA Certificate in Management and Financial Accounting. Their study will continue over the next 2 years and will result in them becoming fully qualified CIPFA Accountants. Another member of staff is working towards the Chartered Institute of Internal Auditors, Certified Internal Auditor qualification, whilst a further 5 members of the team have indicated they wish to commence professional training during 2024/25.
- 7.3 Staff are encouraged to complete on-line courses to develop their skills and networking opportunities. Listed below illustrate the range of training courses that staff have completed during 2023/24: -
- Information Security
 - Phishing Training
 - Data Protection
 - Equalities
 - Climate Change
 - Ethics

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- Challenging Conversations
- Delivering Effective Feedback
- Fraud Awareness
- How to use data effectively
- Stress Awareness

7.4 In addition, those staff who hold professional qualification continue to meet their continuing professional development (CPD) requirements.

Section 8 – Key Performance Measures – Benchmarking

8.1 The Regional Internal Audit Service (RIAS) participates annually in the Welsh Chief Auditors Group (WCAG) benchmarking exercise. The key performance measures for the Service are illustrated in Table 6. It should be noted that 13 of the 22 Councils returned their performance figures for 2022/23 representing a return rate of 59%.

Table 6 – Performance Data

Performance Indicator	RIAS Performance MTCBC 2023/24	RIAS Performance MTCBC 2022/23	WCAG Average Performance 2022/23
% of Planned Audits Completed	75%	74 %	75%
% of recommendations accepted versus made	99.5%	99%	98%
% of clients responses at least satisfied	97%	97%	100%

8.2 The RIAS set quarterly targets to monitor the delivery of the approved audit plan to assist in ensuring sufficient audit coverage has been given to the Council to provide an overall opinion at the end of 2023/24. The year-end target set was 80% and Table 6 illustrates that 75% of the audit plan was completed, a slight improvement to the previous year. A total of 57 assignments were planned during the year of which 43 were completed. Of these, 29 audits were completed with an audit opinion. The nature of the remaining 14 audits did not lead to testing and the formation of an audit opinion, although in some instances recommendations were made.

8.3 Table 6 and **Annex 3** illustrate that 99.5% of the high and medium recommendations made during 2023/24 were accepted by managers, that is only 1 recommendation was not agreed and therefore the risk accepted. The implementation of recommendations is regularly monitored by Internal Audit staff and reported to Governance and Audit Committee and the Corporate Management Board.

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- 8.4 Table 6 illustrates that 97% of clients who responded to the questionnaire were at least satisfied with the work undertaken by Internal Audit. This level has improved slightly from last year.
- 8.5 The PI's illustrate that the performance of the Regional Internal Audit staff within Bridgend Council is still comparable to the Welsh average.

Section 9 – Public Sector Internal Audit Standards

- 9.1 The Public Sector Internal Audit Standards (PSIAS) 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 by a qualified, independent reviewer from outside of the organisation.
- 9.3 The two possible approaches to external assessments outlined in the standard include either a full external assessment or an internal self-assessment which is validated by an external reviewer.
- 9.4. Members of the Welsh Chief Auditor Group (WCAG) elected to adopt the self-assessment approach, with another member of the WCAG undertaking the validation, a peer review assessment. At the time this was agreed with the Section 151 Officers and the former Audit Committees of the regional service.
- 9.5 The Internal Audit Service undertook as self-assessment against the standards during 2022/23 and a few areas of improvement were identified. This self-assessment and the supporting documentation were provided to the external assessor, the Acting Chief Internal Auditor at Newport City Council, to inform an external assessment undertaken in accordance with the Standards.
- 9.6 The outcome of the external assessment was that the Regional Internal Audit Service is fully conforming to the Standards with no partial conformance or non-conformance areas. There were two areas for consideration which would further enhance conformance with the PSIAS, although these were not a significant concern. The result of the external assessment was presented to Governance & Audit Committee in September 2023.

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Section 10 – Regional Internal Audit Service Progress

- 10.1 The expanded shared service came into existence on 1st April 2019, it is hosted by the Vale of Glamorgan Council and provides internal audit services to the Vale, Bridgend, Merthyr Tydfil & Rhondda Cynon Taf Councils. Rhondda Cynon Taf (RCT) have given notice that they do not wish to continue with the shared service partnership arrangement with effect from April 2024. Therefore a 3 Partner Model will be adopted during 2024/25.
- 10.2 The vision for the service is 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 and to be a service that is regarded as:
- ✓ Professional
 - ✓ Approachable
 - ✓ Flexible
 - ✓ Independent but internal to the organisation – a critical friend
- 10.3 During 2023/24, the recruitment process continued with the successful recruitment of 1 Auditor to a fill vacant post. This is a positive development, particularly when many services are struggling to recruit staff. The Graduate Auditors are being supported to become professionally qualified which will assist in succession planning.
- 10.4 Audit work has been conducted using various digital solutions and audit staff and auditees all have adjusted well to this way of working. It is likely that the audit service will largely continue to be delivered remotely with an element of office based and face to face working as required.
- 10.5 The audit software solution continues to be used. Ongoing development will continue to ensure maximum use of the improved functionality and reporting tools.
- 10.6 The longer-term success of the Regional Internal Audit 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.

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Section 11 - Opinion Statement 2023/24

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. Revenues and Benefits) or generally in the reviews undertaken in respect of directorate systems and processes.

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 2023/24 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 2024
- 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

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Risk Management

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

Key risks are distilled in the Corporate Risk Assessment which is reviewed and challenged by senior management. Detailed reports are also provided quarterly to the Governance & Audit Committee. A Corporate Risk audit was undertaken during 2023/24 and a reasonable opinion provided. Risk management is also considered as part of every audit.

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, but one of **Reasonable Assurance** is given.

Governance Arrangements

Good Governance will facilitate effective management that can deliver long term success and performance of an organisation.

Governance arrangements are considered as part of every audit where applicable.

The Council has responsibility for conducting on an annual basis the review of the effectiveness of its governance framework. The assessment process and the results of the assessment are published within the Annual Governance Statement. This work is co-ordinated by the Regional Internal Audit Service.

Whilst some governance issues were identified within the school audits, no other significant issues were identified from a governance perspective therefore an opinion of **Reasonable Assurance** is given.

Internal Control

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

A total of 29 reviews culminating in an overall opinion have been completed, 23 (79%) of which have been closed with either a *Substantial* or *Reasonable Assurance* opinion level. 6 reviews (21%) were given a *Limited* opinion which identified significant weaknesses in the overall control environment, and these have been summarised in Section 3 above.

Therefore, an opinion of **Reasonable Assurance** can be given on internal control.

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Head of Internal Audit Opinion Statement 2023/24

From the work undertaken during the financial year 2023/24 and taking into account other sources of assurance, such as Head Teacher and Chair of Governor Assurance Statements, the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2023/24 is:

“Reasonable Assurance”

The opinion states that, based on the work completed by the Regional Internal Audit Shared Service for the financial year, no significant cross-cutting control issues have been identified that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific.

Many Council staff are continuing to work remotely, and systems & processes have had to be adjusted to cater for the new ways of working. Similarly, Internal Audit has worked remotely, conducting audits and obtaining evidence digitally. Each audit has considered the potential impact of remote working to ensure adequate controls and governance arrangements remained in place.

The recommendations made to improve governance, risk management and control have been accepted and are at various stages of implementation.

Andrew Wathan CPFA
Head of Regional Internal Audit Service
May 2024