

GOVERNANCE & AUDIT COMMITTEE

23rd April 2021

REPORT OF THE HEAD OF FINANCE – HUW JONES

MATTERS FOR DECISION

WARDS AFFECTED - ALL

INTERNAL AUDIT PLAN FOR THE PERIOD – 01.04.21-31.03.22

1. Purpose of Report

- 1.1 The purpose of this report is to provide members with details of the draft Internal Audit Plan for the period 1st April 2021 to 31st March 2022 and to seek their approval of the plan. The plan is attached as appendix 1 of this report.
- 1.2 To seek members' approval of the Internal Audit Charter as contained within appendix 2 of this report.
- 1.3 To seek members' approval to change the system used to rate completed audits.

2. Background

- 2.1 This report aims to inform members of the work which Internal Audit intend to undertake during the forthcoming financial year.
- 2.2 In line with the Public Sector Internal Audit Standards the Head of Internal Audit (Head of Finance) must produce an annual risk based internal audit plan which is consistent with the Council's objectives and linked priorities which are detailed in the Corporate Plan.
- 2.3 The Council's Objectives which are further underpinned by its improvement priorities are:

- To improve the wellbeing of children and young people. “All of our children and young people will have the best start in life, so they can be the best they can be.”
- To improve the wellbeing of all adults who live in the county borough. “Everyone participates fully in community life – socially and economically.”
- To develop the local economy and environment so that the well-being of people can be improved: “The whole of Neath Port Talbot county borough will be a vibrant, healthy and safe place to live, work and enjoy recreational time”

2.4 The attached draft Internal Audit Plan has been compiled with reference to the Corporate Plan, Corporate Risk Registers, input from Chief Officers and cumulative audit knowledge and experience. The plan also includes audits which are subject to service level agreements, and those which are carried out annually to provide assurance to the Section 151 Officer (Director of Finance & Corporate Services) around the controls operating in the major financial systems of the Authority. Additionally allowances are made for special investigations that inevitably arise throughout the year.

2.5 As members are aware the plan needs to be flexible to allow for unexpected items during the year that require audit input. In line with the terms of reference of this committee quarterly reports will be provided which will detail progress against the plan and advise members of any changes to items contained within the plan.

3. Audit Ratings

3.1 Currently when an audit is completed the Auditor assigns a risk rating to the service area. These risk ratings have been in use for a number of years and it is now proposed to change from a risk rating to an assurance rating. This change will reflect more current audit practice and ensure compliance with the Public Sector Internal Audit Standards.

3.2 The current risk ratings are:

- Risk Rating 1 – testing found good controls to be in place
- Risk Rating 2 – Testing found some controls that need enhancing which will be achieved by implementation of the recommendations.
- Risk Rating 3 - Testing revealed a number of areas where improvements in controls are required. A verbal update will be provided at the next Audit Committee.
- Risk Rating 4 - Testing revealed areas of concern, the Head of Service will provide a written response to the Audit Report for consideration by Members of the Audit Committee.
- Risk Rating 5 - Testing revealed areas of significant concern, The Head of Service and/or Service Manager will attend Audit Committee

3.3 It is proposed that from this financial year the following assurance ratings be applied to completed audits:

- Substantial Assurance – testing found good controls to be operating
- Reasonable Assurance – testing found some controls which need enhancing which will be achieved by implementing the agreed recommendations
- Limited assurance – testing revealed a number of areas where enhancement to existing controls is required. The Head of Service to provide a written response on actions taken to address the issues raised during the audit to this committee for members consideration
- No assurance – testing revealed areas of significant concern, The Head of Service and/or Accountable Manager will attend this committee to provide members with an update on actions taken to address the issues raised during the audit.

4. Recommendations

4.1 It is recommended that members approve the draft Internal Audit Plan as set out in appendix 1.

4.2 It is recommended that members approve the Internal Audit Charter as detailed in appendix 2.

4.3 That members approve the change in how audits are rated.

5. Reason for Proposed Decision

To ensure compliance with the terms of reference of the Governance and Audit Committee and the Public Sector Internal Audit Standards.

6. Financial Impact

There is no financial impact associated with this report.

7. Equality Impact Assessment

There are no equality impacts associated with this report.

8. Workforce Impacts

There are no workforce impacts associated with this report.

9. Legal Impacts

There are no legal impacts associated with this report.

10. Risk Management

The Audit Plan and the proposed audits contained therein form a fundamental part of the risk management processes used by the Council.

11. Consultation

There is no requirement under the Constitution for external consultation on this item.

12. Appendices

Appendix 1 – Draft Internal Audit Plan for the period 1 April 2021 – 31st March 2022

Appendix 2 – Internal Audit Charter

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NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

Finance & Corporate Services Directorate

Internal Audit Service

***INTERNAL AUDIT PLAN
FOR THE PERIOD
1 April 2021– 31 March 2022***

Issue Date – 23rd April 2021

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**STRATEGIC AUDIT PLAN IN RESPECT OF THE PERIOD
1 APRIL 2021 to 31 March 2022**

1. INTRODUCTION

- 1.1 This plan outlines details of the Internal Audit Service involvement in Council services/functions for the period 1 April 2021 to 31 March 2022.
- 1.2 The plan has been prepared using the following assumptions and methodology.
- 1.3 The staffing complement for 2021/22 is 8.19 full time equivalent (FTE).
- 1.4 An allowance has been made for special investigation type work i.e. theft, general malpractice issues in relation to employees and clients of Council services.
- 1.5 The risk factors noted against each audit heading are based on a formula that calculates the scores using 12 different variables.
- 1.6 The plan details the areas that are due to be audited during 2021/22. However, the audit plan is almost invariably subject to change as issues arise during the year. This flexibility is vital to ensure that new or increased risks are assessed and reported upon in order that assurance can be provided to members.

2. INTERNAL AUDIT SERVICE PERFORMANCE MONITORING

Prior to April 2021 Internal Audit reported its performance to the Audit Committee since its inception as a standalone entity in May 2002. Performance will continue to be reported to this committee on a quarterly basis as will any changes to the plan which are required in year. All Internal Audit work will continue to comply with the Public Sector Internal Audit Standards.

3. THE YEAR AHEAD

As for every year to date, a number of challenges lie ahead and the coming year is no different:

- Continue to adapt to auditing in a different way due to the need for remote working
- Adapt to the new systems in place which have been necessary due to the impact of the pandemic
- Provide advice and assistance as the Council enters into recovery from the pandemic and services open back up
- Provide an adequate level of audit coverage in challenging times
- Provide assurance to members on the adequacy and effectiveness of the internal controls operating and on the Council's governance arrangements
- To further improve the assessment of risk in audit work
- Continuing to work closely with service managers to improve the effectiveness of audit work, particularly with regard to new and emerging risks
- Continue to revise and tailor our audit programmes to ensure that the audits we deliver add value
- Continuing to work with Audit Wales to maximise the effectiveness of audit work for the Authority.

Finally, this Internal Audit Plan is submitted to the Governance and Audit Committee for approval at its meeting scheduled for 23rd April 2021.

Huw Jones
Head of Finance/Head of Internal Audit

Anne-Marie O'Donnell
Audit Manager

SECTION 1 - Definition of Internal Audit and legislative requirements

1.1 Definition of Internal Audit

The Public Sector Internal Audit Standards (PSIAS) define Internal Audit as follows; “Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

1.2 Requirement for Internal Audit

The Accounts and Audit (Wales) Regulations 2014 state ... (1) A relevant body must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control. (2) Any officer or member of that body must, if the body requires (a) make available such documents of the body which relate to its accounting and other records as appear to that body to be necessary for the purpose of audit; and (b) supply the body with such information and explanation as that body considers necessary for that purpose.

These Accounts and Audit Regulations are supplemented by this Authority’s Financial Regulation No 3.4.5 and Financial Procedures Nos. 4.9.8 and 4.9.9 which clearly define Chief Officers’ responsibilities in respect of Internal Audit rights of access.

Section 151 of the Local Government Act 1972 requires that “every local authority shall make arrangements for the proper administration of their financial affairs and shall ensure that one of their officers has responsibility for the administration of those affairs.”

The responsible financial officer in this Authority is the Director of Finance & Corporate Services, and one of the more important ways in which he exercises his statutory responsibility for financial administration is through the work of the Internal Audit Service.

It is a requirement of the Public sector Internal Audit Standards that each Internal Audit service has an Audit Charter. The standards state

“The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of ethics and Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.” The current Audit Charter is attached with this plan for members’ approval.

SECTION 2

INTERNAL AUDIT PLAN 2021/22 CALCULATION OF AVAILABLE DAYS

- 2.1 The total number of days included in the Plan is based on a total of 8.19 (FTE) staff.
- 2.2 A number of allowances have to be made to the total number of days available to allow for annual leave, public holidays, sickness, training etc. An estimate also has to be made for staff vacancies arising from the possibility of staff turnover occurring over the year.
- 2.3 These allowances result in a total number of ‘available’ days to the section of 1,568. From this is deducted a number of days to allow for the general supervision and management of the Section and other ‘non-chargeable’ items such as attendance at seminars, team meetings etc. The total number allocated to these overhead type areas is 195 days.
- 2.4 This leaves a total of 1,373 days available for planned work.
- 2.5 Internal Audit recommendations made will be followed up during formal Post Audit Reviews throughout the year, the results of which will be reported to members. The time for these reviews are built into the days assigned to the audit.

SECTION 3 – INTERNAL DRAFT AUDIT PLAN FOR 2020/21

| Service Area | Days Allocated | Risk Factor |
|---------------------|---------------------------|------------------------|
|---------------------|---------------------------|------------------------|

Education Leisure & Lifelong Learning**School based audits**

| | | |
|-------------------|-----|---|
| Primary Schools | 120 | M |
| Secondary Schools | 35 | H |

Other education

| | | |
|------------------------------------|----|---|
| Challenge Advisers Role & outcomes | 20 | H |
| Home to School Transport | 20 | H |
| Education other than at school | 15 | M |
| Pupil exclusions | 10 | M |
| Education Library Resource Service | 10 | M |
| Grants | 20 | H |

Leisure

| | | |
|---------------------------|----|---|
| Princess Royal Theatre | 10 | M |
| Leisure Services Contract | 10 | M |
| Margam Park Development | 10 | H |

Total number of days = 280

| Service Area | Days Allocated | Risk Factor |
|---------------------|---------------------------|------------------------|
|---------------------|---------------------------|------------------------|

Chief Executive's

| | | |
|--|----|---|
| Integrated Impact Assessments | 15 | M |
| Compliance with the Welsh Language Standards (No1) Regulations | 10 | M |
| Margam Crematorium | 15 | M |
| GDPR/Data Security | 10 | M |

Total number of days = 50

| Service Area | Days Allocated | Risk Factor |
|----------------------------------|---------------------------|------------------------|
| <u>Environment</u> | | |
| Stores – stocktake assistance | 2 | H |
| Grants | 15 | M |
| Fuel Usage & Controls | 15 | H |
| Drainage/Flood risk management | 15 | M |
| Pest Control | 15 | M |
| Regeneration | 10 | M |
| Business Support Loans & Grants | 15 | M |
| Crymlyn Burrows Transfer Station | 25 | H |
| Final Accounts | 5 | H |

Total number days = 117

| Service Area | Days Allocated | Risk Factor |
|--|---------------------------|------------------------|
| <u>Finance & Corporate Services</u> | | |
| Revenue Collection | | |
| Council Tax | 3 | L |
| NNDR | 3 | L |
| Sundry Debtors (new IT system in place) | 15 | H |
| Benefit Administration | | |
| Housing Benefits | 3 | L |
| Exchequer | | |
| Payroll (new IT system in place) | 20 | H |
| Creditor Payments | 3 | L |
| Creditors (FIS) checks | 20 | H |
| Accountancy | | |
| Treasury Management | 15 | M |
| 3 rd Sector Grants | 10 | M |
| Capital Programme | 15 | H |
| Asset Valuations | 10 | H |
| IT | | |
| Cyber Security | 15 | H |

Total number of days = 132

Service Area

| <u>Social Services, Health & Housing</u> | Days Allocated | Risk Factor |
|---|---------------------------|------------------------|
| <u>Social Services</u> | | |
| Hillside Secure Unit | 15 | M |
| Grant certification | 10 | M |
| <u>Safeguarding:</u> | | |
| Children's & Adult Services (areas to be agreed) | 40 | H |
| Monitoring of External Providers | 20 | M |
| Youth Offending Team | 20 | H |

Total number days = 105

| Service Area | Days Allocated | Risk Factor |
|--|---------------------------|------------------------|
| <u>Cross Directorate</u> | | |
| Covid Recovery | 15 | H |
| Covid hardship fund grants | 25 | H |
| Corporate Debt Recovery (Breathing Space Legislation) | 15 | H |
| Special Investigations | 150 | N/A |
| Advice & Guidance requests | 90 | N/A |
| Officer Declarations | 15 | M |
| Procurement | 30 | H |
| Fraud (to include joint working With DWP & NFI) | 210 | H |
| Money Laundering (compliance with policy) | 10 | H |
| Grants | 10 | H |
| Sickness | 25 | M |
| Use of Agency Workers | 10 | M |

Total number of days = 605

Other Commitments

| | | |
|-----------------------|---|-----|
| Banking Administrator | 4 | N/A |
|-----------------------|---|-----|

| | | |
|-------------------------------|----|-----|
| Attendance at working Parties | 20 | N/A |
| Servicing Audit Committee | 20 | N/A |
| Vision Impaired West Glam | 10 | L |
| SWTRA | 15 | N/A |
| FOI Requests | 5 | N/A |
| Staff association/lottery | 10 | N/A |

Total number of days = 84

Total number of days for 21/22 = 1373

H = High, M = Medium, L=Low

DRAFT

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

INTERNAL AUDIT CHARTER

Introduction

The purpose of this charter is to define what Internal Audit is and explain its purpose, authority and responsibility.

For the purposes of internal audit activity the following terms are defined as follows:

- “board” – the Governance & Audit Committee
- “senior management” - Chief Executive, Corporate Directors and Heads of Service

Purpose, Scope & Authority

Purpose

The Public Sector Internal Audit Standards (PSIAS), last updated and revised in April 2017, define Internal Audit as:

“... an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

Scope

Financial Regulations 4.9.8 state that it is the responsibility of the Director of Finance & Corporate Services to ensure that internal auditors have the authority to:

- Access authority premises at reasonable time
- Access assets, records, document, correspondence and IT systems

- Receive any information and explanation considered necessary concerning any matter under consideration
- Require any employee of the Authority to account for cash, stores or any other Authority asset under their control
- Access records belonging to third parties, such as contractors, when required
- Directly access the Head of Paid Service, the Executive and Governance & Audit Committee
- To ensure effective procedures are in place to investigate promptly any fraud, irregularity or malpractice

Authority

The authority for an internal audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities “make arrangements for the proper administration of their financial affairs”. The Accounts and Audit (Wales) Regulations 2014 Regulation 7, more specifically require that (1) a “relevant body shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control . (3) “A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit.”

Objectives

Internal Audit’s main objectives are to:

- Provide a quality, independent and objective audit service that effectively meets the Council’s needs, adds value, improves operations and helps protect public resources
- Provide assurance to management that the Council’s operations are being conducted in accordance with external regulations, legislation, internal policies and procedures

- Provide advice and support to management to enable an effective control environment to be maintained
- Promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- Investigate allegations of fraud, bribery and corruption

Roles and responsibilities

Role of Internal Audit

To meet Internal Audit objectives, Internal Auditors are responsible for:

- Reviewing and assessing the soundness, adequacy and reliability of financial and non-financial management
- Reviewing and assessing the effectiveness of internal controls and making recommendations for improvement, where appropriate
- Reviewing and assessing procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- Checking for compliance with legislation, Council policies and procedures
- Promoting and assisting the Council in the effective use of resources
- Undertaking independent investigations into allegations of fraud and irregularities in accordance with Council policies and procedures and relevant legislation

Provision of the Internal Audit Function

The Internal Audit Function is provided "in house" and consists of the Audit Manager, 1 Senior Auditor, 4 Auditors, 1 Fraud Officer and 2 Assistant Auditors

(9 people 8.19 FTE). The role of Head of Internal Audit is undertaken by the Head of Finance.

In his role as Head of Finance the Head of Internal Audit also has responsibility for the Authority's accountancy teams, payroll and exchequer services, council tax, housing benefits, financial assessments and the Authority's Court Deputy team. To maintain his independence in relation to the audit of the other functions he has responsibility for he has no involvement in the scope, timing, staffing or agreement of any recommendations in relation to these audits and receives the final report in line with normal reporting arrangements.

Management Structure

Internal Audit is part of the Finance Division of the Finance & Corporate Services Directorate. However to ensure independence Internal Audit has the right of access to the Chief Executive and or the chair of the Governance & Audit Committee should a situation warrant it.

Audit Manager's Responsibilities

- In managerial terms to the Head of Finance
- To manage and lead the Internal Audit Team
- For the performance of the Internal Audit Service
- Presenting the Internal Audit Charter to the Chair of the Governance & Audit Committee for approval
- Presenting and obtaining approval of the annual audit plan from the Governance & Audit Committee
- Reporting quarterly to the Governance & Audit Committee on the work undertaken by the service
- Reporting to the Governance & Audit Committee on any serious weaknesses found in the internal control systems and any instances where recommendations have not been acted upon

Code of Ethics

The Internal Audit Service operates in accordance with the mandatory Public Sector Internal Audit Standards (PSIAS) 2013 updated in 2017 by ensuring that all internal auditors conform to the Code of Ethics principles of integrity, objectivity, confidentiality and competency.

Internal Audit Staff are required to complete a declaration of interests on an annual basis and are aware of the need to make known any changes which may affect their declaration as and when the changes occur.

Each member of the Internal Audit Section receives a copy of the Code of Ethics and signs up to an annual declaration to confirm that they will work in compliance with the Code of Ethics as well as the Councils standards and policies such as the Code of Conduct. Where potential areas of conflict may arise during the year, the auditor will also be required to disclose this. It is critical that all Auditors maintain high standards of integrity, independence, objectivity, confidentiality and competence.

Service Standards

What you can expect from us

All internal audit work complies with the mandatory Public Sector Internal Audit Standards.

Internal Auditors will, at all times, exercise due professional care, act with integrity and take a professional, reliable, independent and innovative approach to their work.

It is essential that Auditors are impartial so that when an audit opinion is given it is unbiased and based on the facts available. Should a situation arise where impartiality could be questioned then another Auditor will be assigned to undertake the audit.

Where an Auditor was previously employed in a service area subject to audit then the Audit Manager will ensure that the Auditor concerned is not assigned audits in that area until at least 2 years have elapsed.

Annual Audit Plan

An annual audit plan is produced using a risk based methodology and taking into account the risks detailed on the Authority's risk registers. During the planning process all Heads of Service are contacted and asked if there are any areas they wish to be included in the plan. The plan is then approved by the Governance & Audit Committee at their first meeting of the new financial year.

The plan is flexible and includes a contingency to allow for a change in priorities, emerging risks, specific service requests and ad hoc projects. An allowance is also included every year to allow for any special investigations i.e. allegations of fraud, theft of malpractice to be investigated.

In addition to the work carried out in line with the annual audit plan the Audit Manager and Senior Auditor also act as administrators for the Authority's online banking system. This is not deemed by either the Director of Finance & corporate Services in role as Section 151 Officer, the Head of Internal Audit or the Audit Manager to impair independence or provide any conflict of interest as the duties undertaken on the system are of a "housekeeping" nature and no transactions are undertaken.

Reporting

Audit Reports

Audit reports:

- Give an opinion of the service as at the time of the audit
- Provide an assurance rating of the service audited
- Detail the work carried out and subsequent recommendations together with management responses where applicable

Reporting Standards

Upon completion of the audit a draft report is issued to the service manager for agreement of findings and recommendations made. In accordance with

professional standards a post audit review is carried out after an agreed period to ensure that agreed recommendations have been implemented.

Any agreed recommendations not implemented within a reasonable timescale will be reported to Governance & Audit Committee.

Internal Audit works to the reporting quality standards of:

- Draft report issued within 10 days of field work being completed
- Final report issued within 2 working days of draft report being agreed

Quality Assurance

Internal Review

An internal self-assessment of the effectiveness of internal audit will be undertaken by the Head of Internal Audit annually.

Audits are fully reviewed by senior internal audit staff upon completion of field work, in addition to this all draft reports are reviewed by the Audit Manager prior to issue.

The Head of Internal Audit also monitors/reviews a sample of internal audit work programmes, working papers and reports to provide reasonable assurance that the work conforms to the relevant professional standards.

External Review

External assessments of the internal audit service are conducted annually by the Council's external auditor.

It is also a requirement of the PSIAS that all internal audit services are subject to a fully independent review every 5 years by a qualified independent assessor from outside the Authority. The next review is scheduled to be undertaken late 2022/early 2023.

Relationships

Internal Auditors will treat all staff with respect, courtesy and professionalism at all times. Any confidential or sensitive issues raised with or reported to Internal Audit staff will be dealt with in an appropriate manner. Where issues are likely to cause embarrassment to or adversely affect the reputation of the Authority these will be raised with senior management promptly and dealt with as a priority.

Internal Auditors will ensure that they explain fully the purpose of the audit and the various stages the audit will follow. Internal Audit will agree with service managers the timing and scope of the audit prior to its commencement.

The normal course of communication with Councillors will be via the Governance & Audit Committee which meets 4 times per year. The Audit Manager has access to the Chair of the governance & Audit Committee outside of the normal meetings should this be required in the event of a serious issue coming to light.

Internal audit will liaise with the Authority's external auditors in order to build a co-operative and professional working relationship, eliminate duplication of effort and ensure appropriate sharing of information.

Fraud and irregularities

Internal audit is responsible for investigating and reporting on all instances of suspected fraud, malpractice and theft whether reported directly to them or via the Authority's Whistleblowing Policy.

The Authority also participates in the National Fraud Initiative data matching exercise and Internal Audit investigate a range of the matches and co-ordinates the response to those best dealt with by the service areas.

Updated: April 2021