

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	28 June 2017
Subject:	Internal Audit Update
Head of Service:	Marc Jones, Head of Function (Resources) / S151 Officer 01248 752601 marcjones@ynysmon.gov.uk
Report Author: Tel: E-mail:	Marion Pryor, Head of Audit and Risk 01248 752611 marionpryor@ynysmon.gov.uk
Nature and Reason for Reporting: This report provides an update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement. It also updates the Committee on progress made on specific items that the Committee has requested.	

1. Introduction

1.1. The report provides an update as at the end of May 2017 on:

- Internal Audit reports issued since 1 April 2017
- Follow up of previous Internal Audit reports
- Progress in delivering the Internal Audit Annual Plan 2017/18
- Specific updates requested by the Audit and Governance Committee

2. Recommendation

2.1. That the Audit and Governance Committee notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

3. Background

3.1. This is my first update report as the new Head of Audit and Risk. I am currently conducting a review of the internal audit service and its approach, including reporting formats. Therefore, this report format will likely change following consultation with our stakeholders and, in particular, the Section 151 Officer and the Audit and Governance Committee.

- 3.2. We provide an opinion on the overall level of assurance for each individual internal audit assignment. This takes into account the expectations of senior management and other stakeholders and is supported with sufficient, reliable and relevant information. In reaching a conclusion, we use the following definitions:

Definition of Assurance Rating

Level of Assurance	Definition	Management Intervention
Substantial Assurance	<p>Arrangements for governance, risk management and internal control are good.</p> <p>No significant or material errors were found.</p>	<p>No or only low impact management action is required.</p> <p>Findings, which are easily addressed by line management.</p>
Reasonable Assurance	<p>Arrangements for governance, risk management and/or internal control are reasonable.</p> <p>Some inconsistency in application and opportunities still exist to mitigate against further risks.</p>	<p>Management action of moderate to low impact is required.</p> <p>Findings are containable at service level.</p>
Limited Assurance	<p>Arrangements for governance, risk management and internal control are limited.</p> <p>There are gaps in the process that leave the service exposed to risks. Objectives are not being met or met without achieving value for money.</p>	<p>Management action of high to moderate impact is required.</p> <p>Findings that need to be resolved by heads of service and SLT may need to be informed.</p>
Minimal Assurance	<p>Arrangements for governance, risk management and internal control are significantly flawed.</p> <p>Key controls are considered insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected.</p>	<p>High impact management action is required in a number of areas.</p> <p>Weaknesses in control that require the immediate attention of SLT, with possible Executive intervention.</p>

4. Internal Audit reports recently issued

- 4.1. This section provides an overview of recent Internal Audit reports, including the overall Assurance Rating and the number of Recommendations raised in the report's action plan.

Energy Island – April 2017 (2016/17 slippage)

Substantial Assurance	Risks/ Issues	
	0	Catastrophic
	0	Major
	0	Moderate
	0	Minor

- 4.2. The Anglesey Energy Island™ programme is a collective effort between several stakeholders within the public and private sector working in partnership to put Anglesey at the forefront of energy research and development, production and servicing, bringing with it potentially huge economic rewards. The Council's Economic Development Unit manages the programme.
- 4.3. The objective of the Energy Island programme is to be a vehicle for employment growth and development opportunities. The programme manages risks, stakeholders, benefits, resources and quality. All these aspects need to inter-relate to form an organised approach for the programme.
- 4.4. The audit was designed to provide assurance that appropriate governance arrangements ensure that the purpose and outcomes of the partnership and framework are achieved, which are monitored on a regular basis to mitigate the risks associated with working within a framework and in partnership.
- 4.5. We concluded that effective governance arrangements exists:
- a Strategic Board exists
 - risks have been assessed and mitigating actions identified
 - a 'Memorandum of Understanding' exists and has been signed by all parties
 - procurement complied with the Council's formal contract procedure rules and was advertised on the Sell2Wales site
 - budget management is effective
- 4.6. No risks / issues were raised.

Stock Check, Housing Maintenance Unit, Gaerwen – May 2017

Limited Assurance	Risks / Issues	
	n/a	Catastrophic
	n/a	Major
	n/a	Moderate
	n/a	Minor

- 4.7. This review is carried out annually to provide assurance that the stock figures were accurate for year-end accounting purposes.
- 4.8. On completion of the appropriate checks, we concluded that the stock records maintained at the depot were insufficiently accurate and did not provide a reliable record of the stock levels at the year-end. Due to the type of audit, we did not raise any recommendations. However, we sought clarification from the Head of Housing that action was in hand to address the situation.
- 4.9. Briefly, the Council entered into a procurement exercise to commission a single supplier 'Managed Stores' to assist in the delivery of its repairs and maintenance programme.
- 4.10. Following a competitive tender process through Sell2Wales, the Council awarded a contract with a provisional handover date of June 2016. However, although operational and ICT requirements progressed well, problems emerged around the TUPE provisions and, in particular, the liabilities around the Local Government Pension Scheme. In May 2017, following much dialogue and following advice from the Council's Legal Department, the Head of Housing rejected the offer, which ended the proceedings mutually.
- 4.11. The Head of Housing is currently reviewing the options available to the Council.

Housing Maintenance Unit – May 2017 (2016/17 slippage)

Limited Assurance	Risks / Issues	
	1	Catastrophic
	9	Major
	6	Moderate
	2	Minor

- 4.12. The Housing Maintenance Unit is based in the Gaerwen Depot. It provides maintenance and repairs services for the Council's social housing. The

maintenance and repairs are managed on the Housing Orchard system, which was the focus of our audit.

- 4.13. The system allows jobs to be created and allocated to relevant operatives. The operatives update jobs remotely using a hand-held device. Once jobs have been completed and updated on the system, the system automatically generates invoices to be recharged to the Council.
- 4.14. Our 'Limited Assurance' judgement was primarily based on the risks surrounding the controls within the system. Staff have access to create, amend, complete and cancel entries on the system and have access to resources beyond what is necessary to perform their duties. A separation of these duties is fundamental to ensure accurate and full recording of transactions.
- 4.15. Testing highlighted that the inputting activity for job completion dates suggests data is being manipulated to achieve performance targets and explanations for cancellations are not routinely recorded or authorised. The risk is further compounded by the inability to produce a report listing user access and permission rights and a lack of documented procedures to instruct staff on the use and the permission rights of the system.
- 4.16. The system does not include staff costs per job and so the true costs of each job are not identified and recharged. Consequently, the trading account is misstated resulting in poor decision-making and value for money analyses.
- 4.17. A reconciliation of invoices received with jobs recorded on the system is also problematic as there is no interface between the financial system and the Orchard system.
- 4.18. The lack of internal controls in the Orchard system undermine the validity of the data. There is a risk that officers can manipulate or misstate data resulting in poor decision-making and performance management or potential fraud.
- 4.19. We developed an Action Plan in conjunction with the Head of Housing. Management plan to address the majority of recommendations immediately, with plans for the service to address the remainder by March 2018.

Main Accounting System – May 2017 (2016/17 slippage)

Reasonable Assurance	Risks / Issues	
	0	Catastrophic
	0	Major
	2	Moderate
	0	Minor

- 4.20. This review assessed the Finance Service's controls to manage the Council's main accounting system and the processes in place to verify its accuracy.
- 4.21. Testing confirmed that the Finance Service properly manages and maintains the main accounting system. Evidence supported that:
- the Accounting Team processes interfaces to schedule and appropriate controls exist for checking balances to ensure all input transactions are valid and accurately implemented
 - accountability for maintaining the system and system users is in place and the team maintains an adequate segregation of duties
 - the system maintains an appropriate audit trail to ensure that all transactions are traceable to source, date and time
 - procedures for month-end and the operation of accountancy function for year-end closures exist
 - for the purpose of year-end closure accounts preparation, in the absence of the Income Section performing the debtors' system reconciliation, the Accounting Assistant in the Accountancy Section reconciled the debtors system to the general ledger to ensure that there were no material errors in the general ledger and found no material errors.
- 4.22. However, we identified the following moderate risks:
- The Income Officer does not promptly clear the unidentified income in the income suspense account. In the past, the income suspense account has been cleared annually. However, this delay in clearing the account delays other accounting processes being implemented promptly.
 - The ICT service undertakes data and system backups on a daily basis. However, the service has not tested backups to ensure data and the system can be accurately and promptly restored in a disaster scenario.
 - Balances from the payroll debts interface fail to appear on the debtors' system daybook and are debited to the Sundry Debtors Control holding account. The Senior Accountant believes the balances are not corrected in the system when undertaking its routine reconciliations. If not corrected, the system continues to present an issue and there is a risk of potential misstatement in the accounts. We have not raised a recommendation but will review the process in our review of the Debtor system, scheduled for June 2017.

- 4.23. We developed an Action Plan in conjunction with the Accountancy Services Manager, who plans to address the recommendations by December 2017.

5. Follow up of previous Internal Audit reports

- 5.1. Most of our Internal Audit reports identify risks and control weaknesses. To ensure we carry out our work in accordance with the Council's risk appetite we assess the risks we identify against the Council's risk management framework and rate recommendations as catastrophic, major, moderate or minor.
- 5.2. In conjunction with management, we develop an Action Plan for management to record the proposed action to address the risks we have identified. Management agrees actions to address the risks, including responsibilities and timescales.
- 5.3. We follow up the action taken to monitor progress and report progress to the Section 151 Officer and the Audit and Governance Committee.
- 5.4. We assess each follow up according to the progress made in implementing the management actions:

Progress in implementing recommendations	Consideration of fundamental recommendations	Consideration of significant recommendations	Consideration of minor recommendations
Good Progress	None outstanding	Medium category recommendations outstanding are in the process of being implemented	Low category recommendations outstanding are in the process of being implemented
Reasonable Progress	High category recommendations outstanding are in the process of being implemented	Medium category recommendations outstanding are in the process of being implemented	Low category recommendations are in the process of being implemented
Little Progress	Unsatisfactory progress has been made	Unsatisfactory progress has been made	Unsatisfactory progress has been made

- 5.5. Currently, we follow up all reports regardless of the assurance level we have provided. Due to reducing resources and the implementation of a more risk-based prioritisation, going forward, this will be reviewed.
- 5.6. We are currently compiling a report of the performance in implementing all outstanding recommendations, which will be presented to the next Audit and Governance Committee in July 2017.

5.7. In the meantime, we have completed two follow up reviews:

Building Regulations Fees – Inspection and Enforcement (First Follow Up) April 2017

Little Progress		Original Recommendations¹	Outstanding Recommendations
	Catastrophic		
	Major		
	Moderate	3	3
	Minor	2	2

- 5.8. A review of the Council's Building Regulations Fees – Inspection & Enforcement arrangements was conducted in August 2016, which resulted in a 'Reasonable Assurance' rating.
- 5.9. The Building Control Service provides advice, support, plans checking and site inspections in compliance with Building Regulations for the construction industry, residents, other professionals and internal customers.
- 5.10. For the purposes of this follow up review, the manager responsible for the implementation of recommendations was interviewed to determine the status of agreed actions.
- 5.11. The Team Leader Building Control confirmed that from five recommendations made, none had been implemented to date. A suggestion to purchase a module within CIVICA was made. However, it was explained that a new system is being introduced (Arcus) and will be used to manage inspections. Recommendations assessed as not fully implemented have been reiterated.
- 5.12. We assessed that the Building Control Service has demonstrated 'little progress' in implementing actions agreed to address the audit recommendations. However, the Team Leader Building Control has provided assurances that the majority of recommendations will be addressed by the end of July 2017.
- 5.13. We will undertake a further follow up review during August 2017 to monitor the progress of implementing the management actions.

¹ Categorized as High, Medium and Low

ICT Disaster Recovery – Third Follow Up (June 2017)

Little Progress		Original Recommendations ²	Outstanding Recommendations ³
	Catastrophic		
	Major	8 (High)	0
	Moderate	5 (Medium)	2
	Minor	(Low)	4

- 5.14. We undertook a review of the ICT Disaster Recovery Plan and a report was issued in July 2015 with a 'Minimal Assurance' rating as the ICT Service had taken little action to address recommendations from a previous review. Since then, two follow up reviews have been undertaken on its progress, issued in March 2016 January 2017 respectively. Both reported progress made, resulting in a 'Reasonable Assurance' rating. All progress reports have been reported to the Audit and Governance Committee, which has continued to request the latest follow-up/progress report.
- 5.15. The last review in January 2017 reported three high and three medium-rated recommendations outstanding.
- 5.16. We have assessed that the ICT Service has demonstrated 'little progress' in implementing actions agreed to address the audit recommendations. However, the ICT Management Team have provided assurances that the majority of recommendations will be addressed by the end of July 2017. Two remaining actions fall under the responsibility of Property Services, which will be implemented by the end of March 2018.
- 5.17. We will undertake a further follow up review during August 2017 to monitor the progress of implementing the management actions.

6. Progress in delivering the Internal Audit Operational Plan 2017/18

- 6.1. Due to the slippage of the work from the 2016/17 Annual Plan, work on the 2017/18 Annual Plan has been slow.
- 6.2. However, the audit team is busy catching up and work is currently ongoing in 14 areas:

² Categorised as High, Medium and Low

³ Re-assessed according to the Council's risk management framework

- Corporate Safeguarding – First Follow-up
 - Corporate Procurement (2016/17 slippage)
 - Ethical Culture (2016/17 slippage)
 - Housing Benefits (2016/17 slippage)
 - Data Protection and Information Governance
 - Trading Standards – Civil Registrations
 - Council Tax and NNDR
 - Sundry Debtors
 - School Transport
 - Rent Smart Wales Grant 2016/17 certification
 - Creditors
 - Education Improvement Grant 2016/17 certification
 - Licensing Services
 - Pupil Deprivation Grant 2016/17 certification
- 6.3. The Head of Audit and Risk will review and amend the Annual Plan during the year to ensure the coverage remains relevant and risk-based. Changes will be reported to the Audit and Governance Committee at each meeting.
- 6.4. Despite the slow start, the service will complete enough work to allow the Head of Audit and Risk to provide an annual audit opinion at the end of the financial year.

7. Updates requested by the Audit and Governance Committee

- 7.1. At its meeting of 28 March 2017, the Committee requested progress updates on specific items:

Corporate Safeguarding Internal Audit Report

- 7.2. We are in the process of carrying out a follow up review of the Corporate Safeguarding internal audit report published in September 2016. The original review resulted in a 'Limited Assurance' rating.
- 7.3. Within the original report, seven 'High' priority, and 25 'Medium' priority recommendations were made.
- 7.4. Managers responsible for the implementation of recommendations have been interviewed to determine the status of the agreed actions. Where appropriate, we have also conducted audit testing to confirm the controls in place.
- 7.5. Early indications are that reasonable progress has been made in implementing the agreed actions and a draft report was issued on 14 June 2017. We will report

the results of the follow up review to the July meeting of the Audit and Governance Committee.

ICT Disaster Recovery

- 7.6. The result of our follow up work in this area is reported in section 5 above.

Children's Services – CSSIW Report

- 7.7. The Care and Social Services Inspectorate Wales (CSSIW) issued a report in March 2017 following an inspection of the Children Services. This report contained 14 recommendations, seven of which are considered as a priority. Due to the significant concerns identified, CSSIW will consider a re-inspection within 12-18 months.
- 7.8. The Audit and Governance Committee requested assurance from the former Audit Manager that there are processes in place to ensure that the CSSIW recommendations are addressed.
- 7.9. On the 13 and 20 of March 2017, the Head of Children's Services presented a report to Corporate Scrutiny Committee and the Executive, respectively. An action plan was also presented which contained the actions recognised as part of the Service Improvement Plan. A cross-reference is made where relevant to the recommendations made in the CSSIW report. All actions had responsible officers assigned to them and a deadline for completion. It was resolved by the Executive that the Service Improvement Plan incorporates the recommendations arising from the CSSIW report.
- 7.10. The Head of Children's Services presented a progress report on the Children Service Improvement Plan to Corporate Scrutiny Committee on 10 April 2017. Progress against the Improvement Plan will be monitored in monthly meetings chaired by the Assistant Chief Executive (Governance and Business Process Transformation), where lead officers will be expected to complete a highlight report on their active work for each meeting. A high level Gantt chart will be used to track progress and deadlines. Monthly meetings are currently planned to be held with CSSIW and a draft monitoring timescale has been developed.
- 7.11. The monitoring of progress of the Children's Services Improvement Plan is a standing item on the agenda of the Corporate Scrutiny Committee from June 2017 onwards.
- 7.12. We are therefore able to provide assurance to the Audit and Governance Committee that Children's Services have a process in place to ensure the

monitoring of the Service Improvement Plan, which has incorporated the recommendations from the CSSIW report.