

ISLE OF ANGLESEY COUNTY COUNCIL	
<b>Report to:</b>	Audit and Governance Committee
<b>Date:</b>	21 September 2017
<b>Subject:</b>	Internal Audit Update
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<b>Nature and Reason for Reporting:</b> This reports provides information on work carried out by Internal Audit since the last Committee meeting It also updates the Committee on progress made on specific items that the Committee has requested. It allows the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee can receive assurance on other Council services and corporate areas.	

## 1. Introduction

1.1. The report provides an update as at 7 September 2017 on:

- Internal Audit reports issued since 12 July 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
- A review of the Committee's terms of reference

## 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 and decides whether it needs any further assurance on audit reports.
- 2.2. That the Audit and Governance Committee approves the postponement of the review of its terms and conditions until the Chartered Institute of Public Finance and Accountancy issues its new guidance document.

### 3. Internal Audit reports recently issued

3.1. This section provides an overview of recent Internal Audit reports, including the overall Assurance Rating and the number of Issues / Risks raised in the report's action plan.

3.2. We have finalised five reports in the period, summarised below:

Title	Assurance Level	Catastrophic	Major	Moderate	Minor
Civil Registrations	Substantial	0	0	2	2
Housing Benefit & Council Tax Relief Scheme	Reasonable	0	0	8	1
Corporate Procurement Framework – Corporate Compliance	Limited	1	1	16	2
School Transport	Limited	0	7	6	3
Ethical Culture	Reasonable	0	2	11	4

#### Civil Registrations

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

3.3. The General Register Office recommends an internal audit review of the civil registration service on a periodic basis.

3.4. We undertook an audit to assess the systems and processes for issuing certificates and licences, for collecting and accounting for income and expenditure and for managing the budget and performance. We also looked at the service's compliance with the requirements of the Well-being of Future Generations Act.

3.5. The civil registration function is well managed and scores highly against the performance indicators linked to the service. Formal procedures are followed

and adequate records are maintained. Effective processes are in place for income, budget and performance monitoring.

- 3.6. Consequently, taking all these factors into consideration and the minor nature of the risks raised, we are able to provide 'Substantial Assurance' on the governance and management of risk and control for Civil Registrations.

### **Housing Benefit and Council Tax Reduction**

<b>Reasonable Assurance</b>	<b>Risks / Issues</b>	
	<b>0</b>	<b>Catastrophic</b>
	<b>0</b>	<b>Major</b>
	<b>8</b>	<b>Moderate</b>
	<b>1</b>	<b>Minor</b>

- 3.7. We undertook an audit to assess the systems and processes for managing risk including a review of compliance with policies and procedures, claims for benefits and council tax reduction, overpayments, the management of performance, safeguarding and compliance with the Well-being of Future Generations Act.
- 3.8. This audit has received an improved assurance rating compared to the previous year's report. This is mainly due to a stronger accuracy-monitoring process being in place.
- 3.9. The Benefits Manager confirmed that there are currently plans in place to mitigate the risks we raised during the review.
- 3.10. Consequently, taking all these factors into consideration and the moderate nature of the risks raised, we are able to provide 'Reasonable Assurance' on the governance and management of risk and control for Housing Benefits and Council Tax Reduction.

### **School Transport**

<b>Limited Assurance</b>	<b>Risks / Issues</b>	
	<b>0</b>	<b>Catastrophic</b>
	<b>7</b>	<b>Major</b>
	<b>6</b>	<b>Moderate</b>
	<b>3</b>	<b>Minor</b>

- 3.11. *In accordance with the Audit and Governance Committee's resolution with regards 'Limited Assurance' reports, I have provided a copy of the full report to the members separately.*
- 3.12. At the request of the Head of Learning, we reviewed the arrangements for School Transport. We examined the systems and processes relating to the provision of school transport and in particular, how the Council monitored the contractors' compliance with the contract conditions, the controls over expenditure and budget monitoring processes and how effective the Council were in collecting income.
- 3.13. The audit highlighted a number of concerns in all three areas that were of such a significance that the audit could only provide a Limited Assurance rating. Areas of concern included the failure to have a clear and proper process which was adequately resourced to monitor that contractors fully complied with all the contract requirements, a failure to consider how best to minimise costs and optimise routes when children move schools or home addresses and a failure to robustly ensure that all income was collected.
- 3.14. Both the Education and Highways Services accepted the findings of the report and have commenced work to implement the agreed action plan.
- 3.15. In accordance with the Internal Audit Charter, a follow up audit will take and a report will be made to this Committee to provide Members assurance that the risks identified by the audit are being addressed.

### **Corporate Procurement Framework – Corporate Compliance**

<b>Limited Assurance</b>	<b>Risks / Issues</b>	
	<b>1</b>	<b>Catastrophic</b>
	<b>1</b>	<b>Major</b>
	<b>16</b>	<b>Moderate</b>
	<b>2</b>	<b>Minor</b>

- 3.16. *In accordance with the Audit and Governance Committee's resolution with regards 'Limited Assurance' reports, I have provided a copy of the full report to the members separately.*
- 3.17. We undertook an audit to assess the systems and processes for guiding officers to obtain value for money, to manage contracts and to comply with corporate responsibilities, to review the technology in use to ensure the cost effectiveness of the procurement process, to review the use of corporate purchasing cards and to ensure the performance of corporate procurement is managed.

- 3.18. Our review identified that it is possible that fit for purpose contracts are not in place and issues such as safeguarding, safety and value for money have not been considered. We are therefore only able to provide 'Limited Assurance' for the governance and management of risk and control within corporate procurement practices.
- 3.19. The Corporate Procurement Team and services have accepted the findings of the report and have commenced work to implement the agreed action plan.
- 3.20. A follow up audit will take place and a report will be made to this Committee to provide Members assurance that the risks identified by the audit are being addressed.

## **Ethical Culture**

<b>Reasonable Assurance</b>	<b>Risks / Issues</b>	
	<b>0</b>	<b>Catastrophic</b>
	<b>2</b>	<b>Major</b>
	<b>11</b>	<b>Moderate</b>
	<b>4</b>	<b>Minor</b>

- 3.21. A strong ethical culture is the foundation of good governance; created through a robust ethics programme that sets expectations for acceptable behaviours in conducting business within an organisation and with external parties.
- 3.22. To determine whether the Council has arrangements in place to support an ethical culture, we undertook a review of the Council's formal codes of ethics, ethics related training, compliance policies regarding ethics, whistleblowing arrangements, leadership and commitment from the highest level of the organisation in relation to expectations regarding ethical conduct and formal oversight and monitoring.
- 3.23. Our review concluded that the Council has a robust framework in place to support the existence of an ethical culture. A number of risks of a moderate nature were raised and in response, management has proposed actions to address all the risks raised.

## **4. Follow up of previous Internal Audit reports**

- 4.1. Currently, we follow up all reports with an assurance rating of 'Limited' or below.
- 4.2. We have finalised two follow up reviews in this period.

## Housing Maintenance Unit – First Follow Up

Good Progress	Original Issues / Risks		Outstanding Issues / Risks
	Report Date	May 2017	August 2017
	Assurance	Limited	Reasonable
	Catastrophic	1	0
	Major	9	2
	Moderate	6	0
	Minor	2	0

- 4.3. The Audit and Governance Committee requested that a follow up review be undertaken to report the progress of the management action proposed to address the risks.
- 4.4. Our follow up review has confirmed that from 18 risks raised, 14 have been addressed and two have been deleted. Of the remaining two risks, one target date has been extended where the original implementation date cannot be met and one target date has not been reached. As a result, two 'Major' risks are outstanding.
- 4.5. With regards to the deleted risks, the original report recommended that the staff costs per job should be included in the trading account to ensure true costs were identified to inform value for money analysis. There was a risk that the trading account was not a complete and accurate report for assessing the value for money of the Service.
- 4.6. Following further work with the Housing Maintenance Unit General Manager, we deem the trading account to be a reasonable basis for assessing value for money of the Service and we have deleted this risk along with a related risk as they are no longer valid.
- 4.7. The Housing Maintenance Unit has demonstrated '**good progress**' in implementing the actions agreed to address the risks identified and consequently we can now provide 'Reasonable Assurance' for the arrangements for governance, risk management and/or internal control.

## ICT Disaster Recovery (Fourth Follow Up)

Good Progress	Original Issues / Risks		Outstanding Issues / Risks
	Report Date	July 2015	September 2017
	Assurance	Minimal	Substantial
	Catastrophic	8	0
	Major	5	0
	Moderate	0	0
	Minor	0	3

- 4.8. A review of the ICT Disaster Recovery Plan was undertaken during 2015/16. The report was issued in July 2015 also with a 'Minimal Assurance' rating. Since then, three follow up reviews have been undertaken on its progress, issued in March 2016, January 2017 and June 2017 respectively. All reported progress made, resulting in a 'Reasonable Assurance' rating.
- 4.9. All progress reports have been reported to the Audit and Governance Committee, which has continued to request the latest follow-up/progress report.
- 4.10. The last review in June 2017 reported two 'Moderate' and four 'Minor' recommendations outstanding.
- 4.11. The latest review confirms that from these six recommendations outstanding, three have been implemented to date and three remain outstanding. However two of these have not reached their target date for implementation.
- 4.12. The Council has demonstrated '**good progress**' in implementing actions agreed to address the audit recommendations and as a result the level of assurance rating of the report has changed from a 'Reasonable Assurance' to a 'Substantial Assurance' level.

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

- 5.1. The Annual Plan is attached at [Appendix A](#). To date, we have completed 22% of the plan, with a further 17% currently work in progress.
- 5.2. Following the Head of Audit and Risk's commencement in post in April 2017, work has been ongoing to revise and modernise the internal audit approach, including a *Systems Thinking* exercise to identify efficiencies and improve the process and reporting mechanisms. This work continues.
- 5.3. In addition, due to the retirement of the Corporate Fraud Officer on 18 August 2017 and a significant slippage of work from 2016/17, the resource available to complete the Operational Plan for 2017/18 has been reduced.

- 5.4. The Head of Audit and Risk will undertake a risk assessment during quarter three and audit reviews will be prioritised to ensure resources are targeted to the areas of highest risk. A report on this issue will be submitted to the Committee's December meeting.

## **6. Updates requested by the Audit and Governance Committee**

- 6.1. At its meeting of 21 July 2017, the Committee requested:
- a progress update on the ICT Disaster Recovery review,
  - a formal follow-up report for the review of the Housing Maintenance Unit.
- 6.2. Both are included above.

## **7. Other Issues**

### **Audit and Governance Committee Terms of Reference**

- 7.1. The Committee should periodically review its terms of reference for appropriateness. It last reviewed and approved its terms of reference in February 2015, with approval granted by the Executive in April and the County Council in May 2015.
- 7.2. The current terms of reference were updated to reflect changes in the regulatory framework and an increasing emphasis on developing the role of the Audit Committee in relation to all aspects of assurance and not only the Council's financial reporting process and arrangements.
- 7.3. In accordance with the Committee's Forward Work Programme, the terms of reference were due to be submitted to the Committee's September meeting. However, due to two issues, the review of the terms of reference have been postponed until the Committee's December meeting.
- 7.4. Firstly, the Committee members are receiving training on 15 September 2017, where they have an opportunity to review the terms of reference for appropriateness. The Committee deadlines for submission of reports have passed by this date.
- 7.5. Secondly, the terms of reference were also updated in 2015 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) guidance issued in 2013. The CIPFA publication sets out guidance on the function and operation of audit committees in local authorities. This guidance is currently being reviewed and will take into account the legislative changes and professional developments that have affected the sectors. It includes additional



guidance and resources to support audit committee members, and those working with and supporting the committee's development.

- 7.6. It is anticipated that the new guidance will be published in November 2017. Therefore, it is proposed to postpone the review of the terms of reference until the next Committee meeting after the new guidance is published.
- 7.7. The Committee is asked to approve this postponement.

## Appendix A – Annual Internal Audit Plan 2017/18

Ref	Service	Title	Source	Current Status	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
<b>AUTHORITY WIDE REVIEWS (CORPORATE)</b>									
1	Corporate	Contract Audit - Capital Expenditure	Cyclical IA	Fieldwork		15	15	1	
2	Corporate	Corporate Procurement Framework	IA Assessed Risk	Complete	Limited	10	6	6	Excess days transferred to contingency
3	Corporate	Data Protection & Information Governance - General Data Protection Regulations - Readiness	Corporate Risk YM13 ICO Report	Fieldwork		15	29	4.5	
4	Corporate	ICT Disaster Recovery	Corporate Risk YM10	Complete	Substantial	10	6	6	Excess days transferred to contingency
5	Corporate	Risk Management	Cyclical IA			10	10	0	
6	Corporate	Corporate Safeguarding	Corporate Risk YM12	Complete	Reasonable	20	20	20	
7	Corporate	Transformation Programme - Smarter Working	Sec 151 Officer Request			15	15	0	
8	Corporate	Ethical Culture	PSIAS Requirement	Complete	Reasonable	20	16	16	Excess days transferred to contingency
9	Corporate	Wellbeing of Future Generations Act	New legislation			20	20	0	
10	Corporate	Programme/Project Management	CEO Request - SLT Objective	Scoping		15	15	1.75	
11	Corporate	Corporate Health & Safety	Audit Concern			15	15	0	
<b>HEAD OF FUNCTION - RESOURCES &amp; SECTION 151 OFFICER</b>									
12	Resources	Council Tax & NNDR	Key Financial System	Fieldwork		20	20	12.5	
13	Resources	Fixed Asset Register & Capital Accounting	Key Financial System			10	10	0	

Ref	Service	Title	Source	Current Status	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
14	Resources	High Level Controls for Key Financial Systems	Key Financial System	n/a		10	0	0	Days transferred to Sundry Debtors due to issues identified. Key financial systems have been covered individually except for Treasury Management, which has been green for a number of years.
15	Resources	Housing Benefit & Council Tax Reduction Scheme	Key Financial System	Complete	Reasonable	15	22.5	22.5	Excess days transferred from contingency
16	Resources	Main Accounting System	Key Financial System	Complete	Reasonable	10	7	7	Excess days transferred to contingency
17	Resources	Income - CHIP & PIN, Credit Card Payments	Key Financial System			15	15	0	
18	Resources	Petty Cash/Imprest Accounts	Key Financial System			10	10	0	
19	Resources	Sundry Debtors	Key Financial System	Fieldwork		10	20	16	Days transferred from Key Financial Systems due to issues identified.
<b>HEAD OF FUNCTION - COUNCIL BUSINESS &amp; MONITORING OFFICER</b>									
20	Business	Democratic & Member Services - Members' Allowances	Service not audited for significant time	Deleted	n/a	8	0	0	Discussed with Monitoring Officer - not a risk. Days transferred to GDPR Readiness audit
21	Business	Legal Services	Service not audited for significant time	Deleted	n/a	6	0	0	Discussed Risk Register with Monitoring Officer - all actions on track. Days transferred to GDPR readiness audit.
<b>HEAD OF FUNCTION - TRANSFORMATION</b>									
22	Transformation	Data Centres	Fundamental to Council's Operations			10	10	0	

Ref	Service	Title	Source	Current Status	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
23	Transformation	Active Directory	Fundamental to Council's Operations			15	15	0	
24	Transformation	Network Security Audit	Fundamental to Council's Operations			15	15	0	
<b>HEAD OF REGULATION &amp; ECONOMIC DEVELOPMENT</b>									
25	Economic Development	Economic Development Function	Annual Delivery Document 2016/17			15	15	0	
26	Leisure	Leisure Function & Performance	Annual Delivery Document 2016/17			15	15	0	
27	Planning	Strategy & Support Team	Head of Service request			10	10	0	
28	Trading Standards	Civil Registration	Service not audited for significant time	Complete	Substantial	10	10	10	
29	Regulation	Licensing Services	Service not audited for significant time	Fieldwork		10	20	17	Excess days transferred from contingency. Not audited before and significant amount of legislation to consider.
<b>HEAD OF HIGHWAYS, WASTE &amp; PROPERTY SERVICES</b>									
30	Highways	Car Park Services & Enforcement	Service not audited for significant time			15	15	0	
31	Highways	Engineering & Design Services	Service not audited for significant time			15	15	0	
32	Property	Estate & Property Management	Service not audited for significant time			15	15	0	

Ref	Service	Title	Source	Current Status	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
33	Highways	Highways & Civil Engineering	Service not audited for significant time			15	15	0	
<b>HEAD OF HOUSING</b>									
34	Housing	Housing Rents & Associated Charges, High Level Controls	Key Financial System			15	15	0	
35	Housing	Affordable Housing, Housing into Homes & Bridging Loan Scheme	Corporate Business Plan			15	15	0	
36	Housing	Supporting People Programme	Service not audited for significant time	Scoping		15	15	4	
<b>HEAD OF ADULT SERVICES</b>									
37	Adults	Deprivation of Liberty (DOLs)	Risk of Litigation in relation to Outstanding DOLs Assessments			15	15	0	
38	Adults	Joint Service Delivery & Management in relation to older people services with Health Board	Annual Delivery Document 2016/17			15	15	0	
39	Adults	Services for the Elderly - Home Care Contracts	Annual Delivery Document 2016/17			15	15	0	
<b>HEAD OF CHILDREN'S SERVICES</b>									
40	Children's	Corporate Parenting Strategy - Plant Mewn Gofal Invest to Save - Maethu	External Assurance			15	15	0	
<b>HEAD OF LEARNING</b>									
41	Learning	Secondary Schools - 6th Form Funding - Ysgol Syr Thomas Jones	Cyclical Review			10	10	0	

Ref	Service	Title	Source	Current Status	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
42	Learning	Remaining Primary Schools - Thematic Reviews - Schools Income Collection	Head of Service request			20	20	0	
43	Learning	School Sickness Absence	Head of Service request			20	20	0	
44	Learning	School Transport	Head of Service request	Complete	Limited	20	26	26	Excess days transferred from contingency. Significant issues identified.
<b>CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)</b>									
		Follow Up Work				35	65	38	Three new limited assurance reports. Significant amount of work being undertaken to clear old outstanding recommendations, particularly in schools.
		Counter Fraud Work, National Fraud Initiative, referrals and enquiries				155	75	73.75	Days reduced due to deletion of Corporate Counter Fraud Officer post and new way of working
		Closure of Previous Year's Work				20	20	20	
		Grant Certification				35	21	21	Grant certification work complete - excess days transferred to contingency
		Corporate consultancy				55	30	12	Excessive allocation - days transferred to contingency
		Audit & Governance Committee, including training for members				23	23	27	
		Management Review				0	50	20	Days transferred from Management
		Contingency				120	1.5	0	Contingency reallocated due to deletion of Corporate Counter Fraud Officer post

Ref	Service	Title	Source	Current Status	Assurance Level	Planned Days	Revised Days	Actual Days	Reason for Amendment
<b>NON CHARGEABLE DAYS (NON-PRODUCTIVE)</b>									
		Risk & Insurance				50	50	15	
		General Administration				70	70	51.75	
		Personal Development & Review, 121 & Team Meetings				8	25	11.25	Insufficient allocation. Days transferred from contingency.
		Management, including liaison with External Audit and audit plan preparation				75	25	11	Days transferred to Management Review
		Annual Leave, including statutory leave and special leave				245	257	157.5	Days amended due to retirement of Corporate Counter Fraud Officer and special leave of Senior Auditor - transferred from contingency
		Sick Leave				45	10	4	Good sickness record in the team - days transferred to training
		Training and development of staff, including induction and Welsh lessons				10	55	32	Insufficient allocation - days transferred from sickness allocation
						<b>1560</b>	<b>1400</b>	<b>664.5</b>	