

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
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Subject:	Internal Audit Annual Report 2017-18
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Nature and Reason for Reporting: The Public Sector Internal Audit Standards require the chief audit executive to produce an Internal Audit Annual Report.	

1. Introduction

1.1. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to deliver an annual internal audit opinion and report that the organisation can use to inform its governance statement. This Committee's terms of reference also require it to consider the annual report of the internal auditors. This report provides the Committee with the Internal Audit Annual Report for 2017-18, which provides the Head of Audit and Risk's overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control during the year, which will inform the Council's annual governance statement.

2. Recommendation

2.1. That the Committee considers and comments on the Head of Audit and Risk's annual report and overall 'opinion'.



INTERNAL AUDIT ANNUAL REPORT 2017-18

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INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive', in the Council's case the Head of Audit and Risk, to deliver an annual internal audit opinion that the organisation can use to inform its Annual Governance Statement¹.

The annual opinion must include:

- An opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes
- Disclose any qualifications to that opinion, together with the reason for the qualification
- Present a summary of the audit work from which the opinion is derived, including reliance placed on other assurance bodies
- Draw attention to any issues the chief audit executive judges particularly relevant to the preparation of the Annual Governance Statement
- Summarise the performance of the internal audit function against its performance measures
- Comment on compliance with the PSIAS and communicate the results of the Internal Audit quality assurance programme.

¹ The Accounts and Audit (Wales) Regulations 2014 requires a review of governance arrangements to be reported within the authority, in the Council's case, the Audit and Governance Committee, and externally in the published accounts. The Annual Governance Statement (AGS) is an annual review of the systems of internal control and gathers assurance from various sources to support it. Internal Audit is a key contributor and the Head of Audit and Risk provides a written annual report to those charged with governance to support the AGS.

INTERNAL AUDIT OPINION

Head of Internal Audit Opinion 2017/18

For the 12 months ended 31 March 2018, the Isle of Anglesey County Council's Head of Audit and Risk's opinion is that the organisation has an adequate and effective framework for risk management, governance and internal control.

While I do not consider any areas of significant corporate concern, some areas require the introduction or improvement of internal controls to ensure the achievement of objectives, and these are the subject of monitoring.

There are no qualifications to this opinion.

BASIS OF MY OPINION

Scope

I have reached my opinion by considering the work and activities we have carried out during the year ([Appendix A](#) refers). The opinion does not imply that we have reviewed all risks and assurances relating to the Council, but it is substantially derived from the setting of a risk-based plan of work, agreed with management and approved by the Audit and Governance Committee, which should provide a reasonable level of assurance, subject to the inherent limitations below.

The matters raised in this report are only those that came to our attention during the course of our work and activities within the Council. They are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Neither this report, nor our work, should be taken as a substitute for management's responsibilities for the application of sound internal control practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist.

Environment and Relationships

During 2017-18, we have found senior management at the Council to be supportive and responsive to the issues we have raised. We have a good relationship with management; they openly share the areas where they perceive to be potential problems and take on board the results of our work as an opportunity for making improvements. We have also been commissioned to undertake advisory work in the year at the request of management, which gives a strong indicator that managers are willing to engage with Internal Audit to establish good risk and control environments.

Assurances

Five audits during the year have received 'Limited' assurance, with the remainder awarded 'Substantial' (10) or 'Reasonable' (11) Assurance ratings.

- Corporate Procurement Framework
- Council's preparations for the General Data Protection Regulations
- Payment Card Industry Data Security Standard
- Sundry Debtors
- School Transport - *assurance increased to 'Reasonable' after a follow up review*

Follow up reviews are taking place to monitor the implementation of the risks raised. No audits have received 'Minimal' assurance ratings. The definition of assurance ratings are at [Appendix B](#).

Outstanding Issues/Risks

Where we have identified Issues/Risks, management has accepted them all.

Management has implemented all of the outstanding 'High' priority rated **recommendations** (raised during the former audit methodology) and 69% of the new 'Red' Issues/Risks have been addressed, which confirms that management is responsive to our work.

No 'Red' Issues/Risks were raised during the year. Four 'Red' Issues/Risks remain and are listed at [Appendix C](#). These refer mainly to safeguarding considerations within contracts and evidence of visits in accordance with care plans where childcare court orders are in place. Follow ups of these outstanding risks are scheduled for July 2018.

ISSUES RELEVANT TO THE PREPARATION OF THE ANNUAL GOVERNANCE STATEMENT

There are no issues that we judge to be particularly relevant to the Annual Governance Statement.

OUR PERFORMANCE

Adding Value

Throughout the year, we have strived to add value wherever possible, i.e. going beyond the standard expected and providing something more without any added costs or reducing costs.

We have:

- shared practice and work programmes with other public sector internal audit teams, i.e. ethical culture, corporate safeguarding, Deprivation of Liberty Safeguards
- shared areas of emerging risk
- worked with partners to consider joint assurance provision, such as the implementation of pooled budgets under Section 9 of the Social Services and Well-being (Wales) Act 2014
- organised high-value training courses at a low-cost for all public sector auditors across the north and mid-Wales region.

Performance Measures

We have in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit service. A number of performance targets were agreed with the Audit and Governance Committee in the Strategy for 2017-18, which can be seen at [Appendix D](#).

We have performed well against our targets, with six indicators meeting or surpassing their target. We have performed less well in terms of the number of audits completed and our productivity. This is mainly attributable to the long-term absence of a member of staff during 2017/18, and the original plan for 2017/18 not being realistic or achievable.

Our Strategy for 2018/19 is more realistic and achievable, although we continue to have resource pressures due to absence and vacancies (discussed further in [Challenges Going Forwards](#) below).

Benchmarking

We have also benchmarked our performance against our peers. Benchmarking is a standard against which quality can be measured. It helps structure how best practice is identified and achieved, resulting in changes that bring about improved services. Consequently, we benchmark our performance against the 21 members of the Welsh Chief Auditors Group.

We are the smallest authority within the Group in terms of population and therefore do not benefit from the economies of scale available to some of the other members. Due to having the smallest population, we are the most expensive in terms of cost per head of population and cost per £m of Gross Revenue Expenditure including the Housing Revenue Account.

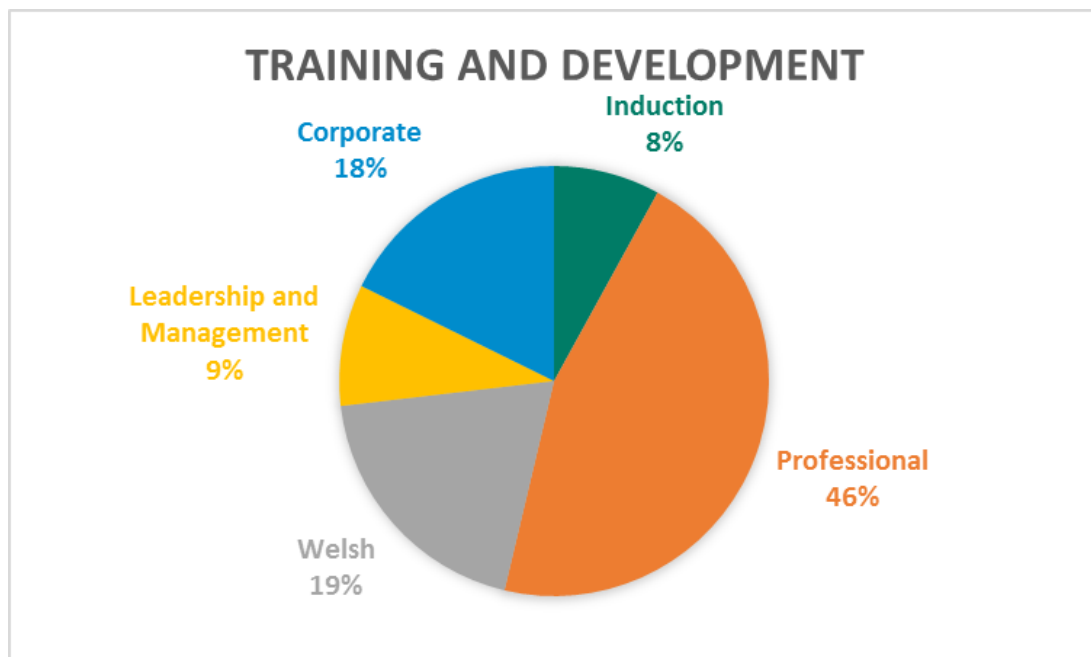
However, **we have achieved top quartile performance for:**

- completing the Plan,
- having satisfied clients,
- having recommendations accepted,
- completing audits within planned time
- achieving our planned directly chargeable time.

TRAINING AND DEVELOPMENT

Most members of the team are professionally qualified, with a good mix of professional qualifications. The **service has invested significantly** to ensure they continue their professional development and stay abreast of emerging risks and developments in the sector.

We have also participated in the mandatory corporate training, where required. In total, the service has invested 88 days in training and development during 2017-18, consisting of the following:



CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Under the Standards, internal audit services are required to have an external quality assessment every five years.

An external assessment of the Isle of Anglesey County Council Internal Audit Service, conducted in March 2017, provided assurance that the service 'Generally Conforms'² with the Standards, which is the top assessment available to the assessor.

The external assessor raised seven areas of improvement for consideration. The Head of Audit and Risk has fully addressed six of the seven areas for improvement. The remaining issue - the lack of an audit assurance framework - will be addressed with the implementation of the new risk management software (4Risk), which is being implemented over the summer of 2018.

² 'Generally Conforms' means the evaluator has concluded that the relevant structures, policies and procedures of the internal audit service, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the service has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete / perfect conformance, the ideal situation, successful practice, etc.

CHALLENGES GOING FORWARDS

In 2018/19, two vacancies and a long-term absence have already significantly reduced the resource available to deliver the internal audit activity going forwards. This will also be the first year of implementing a fully risk-based plan.

However, it will be the second year in post for the Head of Audit and Risk and of operating the new audit methodology. The experience from last year has provided valuable learning; an enthusiastic and dedicated team, supplemented by two new members of staff, and new risk management software, will place the internal audit team in **a good position to ensure delivery of its plan** and continue to support the Council as a key component of its governance structure.

APPENDIX A: SUMMARY OF INTERNAL AUDIT WORK

Ref	Service	Title	Source	Current Status	Reported to Audit & Governance Committee ³	Assurance Level	Actual Days
AUTHORITY WIDE REVIEWS (CORPORATE)							
1	Corporate	Capital Expenditure	Cyclical IA	Final	December 2017 (T) February 2018 (A)	Substantial	15
2	Corporate	Corporate Procurement Framework	IA Assessed Risk	Final	September 2017	Limited	6
3	Corporate	Data Protection & Information Governance - General Data Protection Regulations - Readiness (Interim)	Corporate Risk YM13 ICO Report	Final	February 2018	Reasonable	10
55	Corporate	Data Protection & Information Governance - General Data Protection Regulations - Readiness (Full)	Corporate Risk YM13 ICO Report	Final	June 2018	Limited	13
4	Corporate	ICT Disaster Recovery	Corporate Risk YM10	Final	September 2017	Substantial	6
6	Corporate	Corporate Safeguarding	Corporate Risk YM12	Final	July 2017	Reasonable	20
8	Corporate	Ethical Culture	PSIAS Requirement	Final	September 2017	Reasonable	16
10	Corporate	Programme/Project Management	CEO Request - SLT Objective	Final	February 2018 (T) April 2018 (A)	Reasonable	13
11	Corporate	Corporate Health & Safety	Audit Concern	Final	February 2018 (T) June 2018 (A)	Reasonable	25
HEAD OF FUNCTION - RESOURCES & SECTION 151 OFFICER							
12	Resources	Council Tax & NDR	Key Financial System	Final	December 2017	Reasonable	19
15	Resources	Housing Benefit & Council Tax Relief Scheme	Key Financial System	Final	September 2017	Reasonable	23
16	Resources	Main Accounting System	Key Financial System	Final	June 2017	Reasonable	7
17	Resources	Payment Card Industry Data Security Standard	Key Financial System	Final	February 2018	Limited	10
19	Resources	Sundry Debtors	Key Financial System	Final	December 2017	Limited	27
HEAD OF REGULATION & ECONOMIC DEVELOPMENT							
28	Trading Standards	Civil Registration	Not audited for significant time	Final	September 2017	Substantial	10

³ (T) - Target; (A) - Actual

Ref	Service	Title	Source	Current Status	Reported to Audit & Governance Committee ³	Assurance Level	Actual Days
29	Regulation	Licensing Services	Not audited for significant time	Final	December 2017	Substantial	17
HEAD OF HOUSING							
34	Housing	Housing Rents - Readiness for Welfare Reform (Universal Credit)	Key Financial System	Final	February 2018	Reasonable	23
35	Housing	Affordable Housing, Housing into Homes & Bridging Loan Scheme	Corporate Business Plan	Final	February 2018	Reasonable	5
36	Housing	Supporting People Programme	Not audited for significant time	Complete	February 2018	Substantial	15
HEAD OF CHILDREN'S SERVICES							
40	Children's	Foster Carer Recruitment	Head of Service request	Final	April 2018 (T) June 2018 (A)	Reasonable	20
HEAD OF LEARNING							
44	Learning	School Transport	Head of Service request	Final	September 2017	Limited	26
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)							
		Follow Up Work					84
		General Counter Fraud Work, National Fraud Initiative and enquiries					90
Referrals:							
46	Referral	CSSIW Report - Governance around Action Plan	Request from Audit & Governance Committee	Complete	June 2017	n/a	2
47	Referral	Payroll Overpayment	Request from Accountancy Services Manager	Complete	February 2018	n/a	7
48	Referral	Registration of Financial Charges	Request from Section 151 Officer	Postponed	February 2018 (T)		30
49	Referral	After School Club - Fund Irregularities	Request from Learning	Complete	n/a	n/a	14
		Closure of Previous Year's Work					20
Grant Certification:							
50	Grant	School Uniform Grant	Request from Accountancy	Complete	December 2017	Substantial	3
51	Grant	Rent Smart Wales Grant	Request from Accountancy	Complete	July 2017	Substantial	10
52	Grant	Education Improvement Grant	Request from Accountancy	Complete	July 2017	Substantial	3
53	Grant	Pupil Development Grant	Request from Accountancy	Complete	July 2017	Substantial	6
54	Grant	Sixth Form & Adult Continuing Learning 2016-17	Request from Accountancy	Complete	February 2018	Substantial	1
		Corporate consultancy					60

Ref	Service	Title	Source	Current Status	Reported to Audit & Governance Committee ³	Assurance Level	Actual Days
		Audit & Governance Committee, including training for members					45
		Management Review					43
		Contingency					0
NON CHARGEABLE DAYS (NON-PRODUCTIVE)							
		Risk & Insurance					11
		General Administration					64
		Personal Development & Review, 121 & Team Meetings					32
		Management, including liaison with External Audit and audit plan preparation					42
		Annual Leave, including statutory leave and special leave					309
		Sick Leave					19
		Training and Development for staff, including induction and Welsh lessons					88

APPENDIX B: DEFINITION OF ASSURANCE RATINGS

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>

APPENDIX C: OUTSTANDING 'RED' ISSUES/RISKS

Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Management Comments / <i>Internal Audit Comments</i>
Child Care Court Orders under the Public Law Outline 2016/17				
Testing confirmed that Support Workers had not conducted visits in accordance with the care plan during court proceedings. This results in children not being seen and supported for a longer period than is assessed to be necessary according to the risk identified. There is a risk of emotional and / or physical harm to the child.	31/01/17	31/03/17 Extended to 31/01/18	Support Service Manager, Children's Services	All Support Worker visits comply with all care plans. Failure to comply could lead to disciplinary proceedings being followed against the member of staff. <i>While we accept that visits are likely to have been undertaken, details were not always recorded on the system. Due to the rare incidence of these cases, we will delay the follow up until there is sufficient data to test for compliance.</i>
Corporate Procurement Framework - Adult Services 2016/17				
Heads of Service should review current services provided by external providers to ensure that procurement rules and regulations have been followed with fit for purpose contracts in place and issues such as	12/06/17	31/03/18	Head of Adult Services	Social services are currently developing a work plan to address the issues above with a wider contract work plan for both Children and Adults Services. We are currently working with both head of services in order to prioritise this plan and agree timescales. As a department, we are currently working with other North Wales local authorities in joint tenders and

Issue/Risk	Date Raised	Agreed Target Date	Responsible Officer	Management Comments / <i>Internal Audit Comments</i>
<p>safeguarding and safety have been addressed.</p> <p>There is a risk that the Council does not have assurance that all its expenditure has been properly procured and it is possible that the Council has incurred expenditure where no formal competitive procurement exercise has been undertaken. Consequently, fit for purpose contracts are not in place and issues such as safeguarding, safety and value for money have not been considered.</p>				<p>frameworks. We will be reviewing our safeguarding clauses and making improvement in relation to DBS following recommendations from the Corporate Safeguarding Group and we are currently rolling this out. A report on the current situation will be presented to the Heads of Services for both adults and children services in October 2017 with a work plan to address these issues. Once this plan has been agreed we will share.</p>
Corporate Procurement Framework - Children's Services 2016/17				
<p>As above - a review of contracts within Children's Services</p>	12/06/17	31/03/18	Head of Children's Services	As above
Corporate Procurement Framework - Housing Services 2016/17				
<p>As above - a review of contracts within the Housing Service</p>	12/06/17	31/03/18	Head of Housing Services	

APPENDIX D PERFORMANCE MEASURES – COMPARISON AGAINST TARGET AND BENCHMARKED WITH WELSH CHIEF AUDITORS GROUP (WCAG)

Performance Indicator	Target ⁴	Actual Performance	WCAG Average	WCAG Rank	WCAG Quartile
Percentage of planned audits completed	80%	100%	86%	1/15	1
Number of audits	44	29	69	15/15	4
Percentage of clients responses at least 'satisfied'	100%	100%	98%	1/14	1
Percentage of Customer Questionnaires Returned	n/a	41	65	10/14	3
Percentage of recommendations accepted versus made	100%	100%	99%	1/15	1
Percentage of audits completed within planned time	80%	86%	73%	2/13	1
Percentage of directly chargeable time versus total available	65%	59%	67%	12/12	4
Average number of days from audit closing meeting to issue of draft report	6.5	6.8	6	8/14	3
Average number of days from response to draft report to issue of final report	2	1.6	3	6/13	2
Percentage of directly chargeable time, actual versus planned	n/a	97%	86%	2/11	1
Average actual cost per directly chargeable audit day	£300	£306	£272	8/9	4
Number of staff	6	5	7	14/14	4
Percentage number of staff leaving during the financial year	0	33%	12%	13/14	4
Staff costs per 1,000 population	n/a	£3,332	£1,960	10/10	4
Population (000s)	n/a	70	151	10/10	4
Staffing costs per £m Gross Revenue Expenditure (GRE) including Housing Revenue Account (HRA)	n/a	£1,037	£691	9/9	4
GRE and HRA (£m)	n/a	£225m	£461m	9/9	4

⁴ As agreed in the Internal Audit Strategy 2017/18 approved by Audit and Governance Committee on 28 March 2017