

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	23 April 2019
Subject:	Internal Audit Annual Report 2018-19
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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 2018-19, 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 2018-19

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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 2018/19

For the 12 months ended 31 March 2019, 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 2018-19, 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

Four audits during the year have received 'Limited' assurance, with the remainder awarded 'Substantial' (3) or 'Reasonable' (14) Assurance ratings.

- Direct Payments
- School Income Collection Arrangements
- Sundry Debtors Follow Up
- System Controls - Logical Access and Segregation of Duties Follow Up

Follow up reviews are taking place to monitor the implementation of the risks raised within these audits. No audits have received 'Minimal' assurance ratings. The definition of assurance ratings used at the time are at [Appendix B](#). These ratings have been revised for 2019-20; the new definitions better reflect the judgements made by auditors at the conclusion of each audit.

Outstanding Issues/Risks

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

Management has addressed all of the outstanding 'Red' Issues/Risks, which confirms that management is responsive to our work.

No 'Red' Issues/Risks were raised during the year.

ISSUES RELEVANT TO THE PREPARATION OF THE ANNUAL GOVERNANCE STATEMENT

There are no issues which are of a significantly high risk or impact that warrant inclusion in 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,
- shared areas of emerging risk
- worked with partners to consider joint assurance provision
- 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 2018-19, which can be seen at [Appendix C](#).

We have performed well against our targets, with four out of seven indicators meeting or surpassing their target. We have performed less well in terms of the percentage of the amber residual risks reviewed and our productivity. This is mainly attributable to the long-term absence of a member of staff during 2018-19 and two vacancies not filled for the first half of the year.

Our Strategy for 2019-20 is more realistic and achievable, although we continue to have resource pressures due to absence (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 22 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.

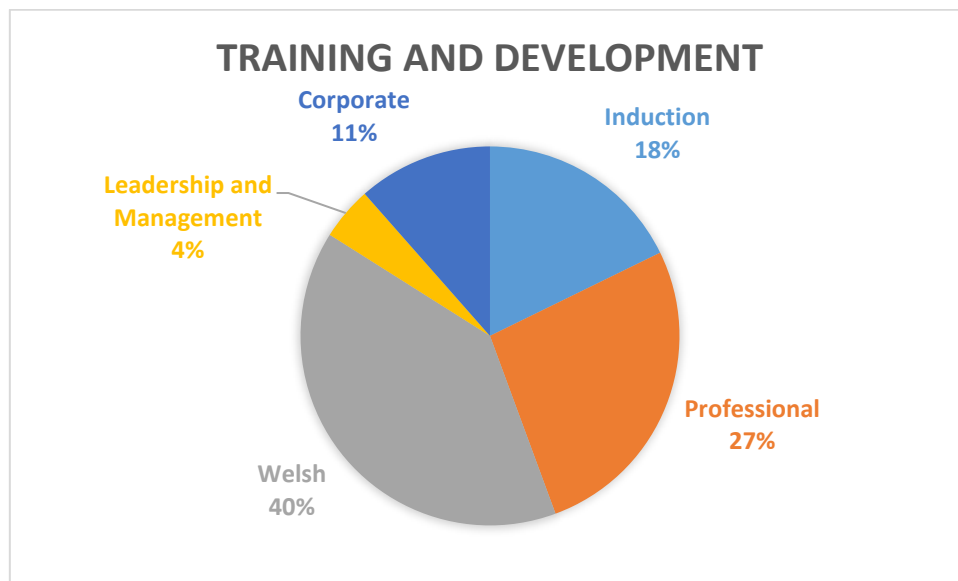
However, **we have achieved top quartile performance for:**

- completing audits within planned time
- having satisfied clients,
- promptness of issuing draft reports,
- promptness of issuing final reports.

TRAINING AND DEVELOPMENT

All 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 114 days in training and development during 2018-19, 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 all seven areas for improvement.

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 2019-20, one long-term absence will reduce the resource available to deliver the internal audit activity going forwards.

However, it will be the second year 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, new risk management software and upgraded action tracking 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

Service / Section	Title	Source	Corporate Risk Rating (Residual)	Proposed Days	Actual Days as at 31/03/19	Assurance Rating	Target / Actual Date of Reporting to Committee
CORPORATE-WIDE							
Corporate	Welfare Reform	Corporate Risk Register	C2 YM10	10	10	Work in Progress	July 2019
Corporate	Corporate Safeguarding	Corporate Risk Register	D2 ³ YM11	7	7	Reasonable Assurance	December 2018
Corporate	CONTEST (Countering Terrorism and Preventing Radicalisation)	Corporate Risk Register	E1 YM27	10	8	Work in Progress	July 2019
Corporate	Payment Card Industry Data Security Standards (PCIDSS)	Corporate Risk Register	D1 YM34	15	10	Work in Progress	July 2019
Corporate	General Data Protection Regulations (GDPR)	Corporate Risk Register	C2 YM31	8	8	Reasonable Assurance	December 2018
Corporate	Corporate Procurement	Corporate Risk Register	D2 - YM20 D2 - YM22	18	18	Reasonable Assurance	December 2018
Corporate	Risk Management	New process implemented October 2017. New 4Risk software rolled out September 2018.	n/a	n/a	n/a	Level 3 'Managed' ⁴	February 2019

³ Residual Risk reduced from C1 (Red) to D2 (Amber)

⁴ Conclusion of an independent Health Check, conducted by Zurich Municipal based on their maturity model, which incorporates five levels of maturity

Service / Section	Title	Source	Corporate Risk Rating (Residual)	Proposed Days	Actual Days as at 31/03/19	Assurance Rating	Target / Actual Date of Reporting to Committee
RESOURCES							
Resources	Income – Sundry Debtors Follow Up	Key Financial System - external audit assurance	n/a	18	18	Limited Assurance	December 2018
TRANSFORMATION							
ICT	IT Audit - Cyber Security	Corporate Risk Register	C1 YM28	20	20	Reasonable Assurance	February 2019
HR	Recruitment & Retention	Corporate Risk Register	C2 YM5	15	15	Reasonable Assurance	April 2019
REGULATION & ECONOMIC DEVELOPMENT							
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes. Carried forward from 2017/18	n/a	15	24	Reasonable Assurance	April 2019
HIGHWAYS, WASTE & PROPERTY SERVICES							
Highways	Highways Contract Monitoring Arrangements	Head of Service request	n/a	10	10	Substantial Assurance	September 2018
HOUSING							
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2 YM29	10	14	Reasonable Assurance	April 2019
ADULT SERVICES							
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM25	9	9	Reasonable Assurance	July 2018
Adults	Direct Payments	Head of Service request (carried forward from 2017/18)	n/a	20	20	Limited Assurance	September 2018 April 2019

Service / Section	Title	Source	Corporate Risk Rating (Residual)	Proposed Days	Actual Days as at 31/03/19	Assurance Rating	Target / Actual Date of Reporting to Committee
LEARNING							
Learning	General Data Protection Regulations (GDPR) - Implementation within Schools	Corporate Risk Register. Will be the subject of an independent Health Check by our insurers.	C2 YM38	0	9	Work in Progress	April 2019 July 2019
Learning	Primary Schools Thematic Reviews - Schools Income Collection	Head of Service request	n/a	20	20	Limited Assurance	September 2018 December 2018
GRANT CERTIFICATION							
	Rent Smart Wales Grant	Grant requirement	n/a	10	10	Substantial Assurance	July 2018
	School Uniform Grant					Reasonable Assurance	September 2018
	Education Improvement Grant					Substantial Assurance	September 2018
	Pupil Development Grant					Substantial Assurance	September 2018
	TOTAL AUDIT DAYS			225	230		
CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)							
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4Action		70	75		
	National Fraud Initiative			10	13		
	General Counter Fraud Work, enquiries and referrals			50	46		
	Closure of Previous Year's Work			19	19		

Service / Section	Title	Source	Corporate Risk Rating (Residual)	Proposed Days	Actual Days as at 31/03/19	Assurance Rating	Target / Actual Date of Reporting to Committee
	Corporate consultancy			65	74		
	Audit & Governance Committee, including training for members			40	33		
	Management Review			25	23		
	TOTAL			279	283		
NON CHARGEABLE DAYS (NON-PRODUCTIVE)							
	Risk & Insurance			20	19		
	General Administration			40	40		
	Personal Development & Review, 121 & Team Meetings			20	11		
	Management, including liaison with External Audit and audit plan preparation			39	39		
	Leave, including annual, statutory, special and sick leave			362	360		
	Training and Development for staff, including induction and Welsh lessons			111	114		
	TOTAL			592	583		
	TOTAL RESOURCE REQUIREMENT			1096	1096		

APPENDIX B: DEFINITION OF ASSURANCE RATINGS 2018-19⁵

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>

⁵ These definitions have been revised for 2019-20

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

PERFORMANCE MEASURE	WCAG AVERAGE 2017/18	TARGET 2017/18	ACTUAL 2017/18	TARGET 2018/19	ACTUAL 2018/19
Percentage of internal audit Issues / Risks implemented within the agreed timescale (Critical, Major and Moderate priority)	n/a	90%	91%	90%	89%
Percentage of audits completed within the planned time	73%	80%	86%	90%	92%
Percentage of clients' responses expressing at least 'satisfaction' with the conduct of audit assignments	98%	100%	100%	100%	100%
Percentage of directly chargeable time against total available (productivity indicator)	67%	65%	59%	65%	47%
Average actual number of days between the closing meeting and the issue of the draft report	6 days	6.5 days	6.8	6.5 days	3.7 days
Average actual number of days between receipt of the response to the draft report and issue of final report	3 days	2 days	1.6	2 days	2.8 days
The percentage of corporate risks (red and amber residual risks) reviewed by Internal Audit	n/a	New	New	80%	58%