

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Audit and Governance Committee
Date:	21 July 2020
Subject:	Internal Audit Annual Report 2019-20
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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.
- 1.2. This report provides the Committee with the Internal Audit Annual Report for 2019-20, 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.
- 1.3. It was written in April 2020 to 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 2019-20

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April 2020

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TABLE OF CONTENTS

INTRODUCTION	1
INTERNAL AUDIT OPINION	2
Head of Internal Audit Opinion 2019-20	2
BASIS OF MY OPINION	3
Scope	3
Assurances and 'Issues/Risks' Raised	3
OUTSTANDING ISSUES/RISKS	6
ISSUES RELEVANT TO THE PREPARATION OF THE ANNUAL GOVERNANCE STATEMENT	9
OUR PERFORMANCE	10
Adding Value	10
Performance Measures	10
Benchmarking	10
TRAINING AND DEVELOPMENT	11
CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS	12
CHALLENGES AND OPPORTUNITIES GOING FORWARDS	13
Appendix A: Summary of Internal Audit Work of Red and Amber Residual Risks in the Corporate Risk Register	14
Appendix B: Other Internal Audit Work in 2019-20	16
Appendix C: Definition of Assurance Ratings 2019-20	17
Appendix D: Performance Measures - comparison against target and benchmarked with Welsh Chief Auditors Group (WCAG)	18

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 2019-20

For the 12 months ended 31 March 2020, 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. 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.

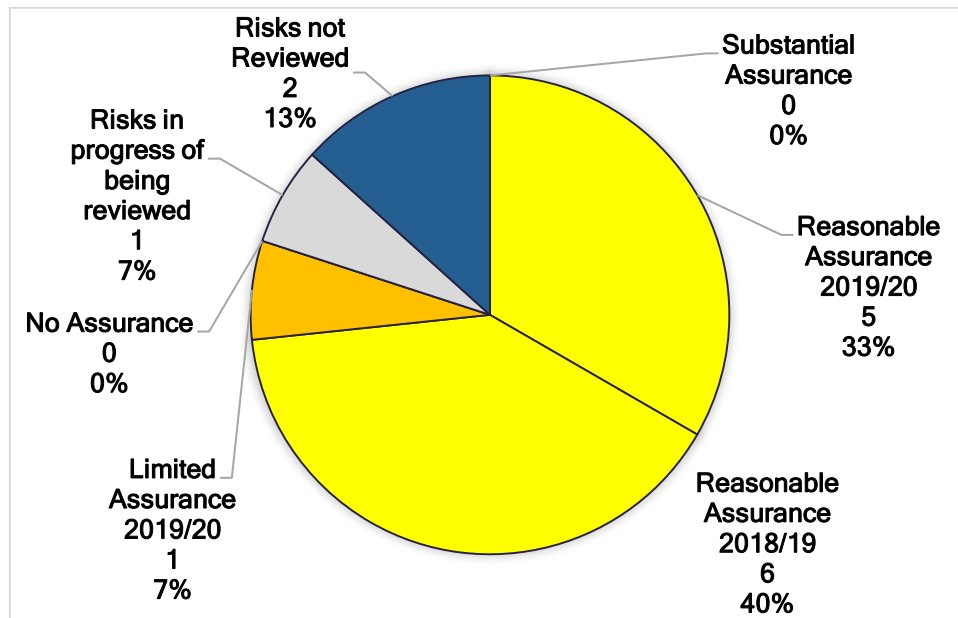
The matters raised in this report are only those that came to our attention during the course of our work and activities within the Council. They are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Neither this report, nor our work, should 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.

Assurances and 'Issues/Risks' Raised

During 2019-20, we reviewed 50% of the risks in the corporate risk register with a red or amber residual risk rating (83% over a 17-month rolling period) ([Appendix A](#) refers). One audit was still in progress at the end of the year and is postponed until the COVID-19 emergency response settles down, as it involves a front-line service.

We were able to provide '**Reasonable**' assurance that the Council was effectively managing all but one of the risks we reviewed, demonstrated in the chart below. We were only able to provide '**Limited**' assurance for IT Resilience. We finalised the audit towards the end of 2019-20, and it received attention from the Senior Leadership Team to address the 'issues/risks' we raised.

Proportion of the Red and Amber residual risks audited between November 2018 and April 2020



We also reviewed other key areas of the Council's activities, including where concerns had been raised by the Section 151 officer and grants, where there was a requirement to audit under the terms and conditions ([Appendix B](#) refers).

Of the 21 audits in total we finalised during 2019-20, we gave six '**Substantial**' assurance² for the arrangements for governance, risk management and internal control and found no significant or material 'risks/issues', compared to three in 2018-19. We gave 13 '**Reasonable**' assurance (14 in 2018-19).

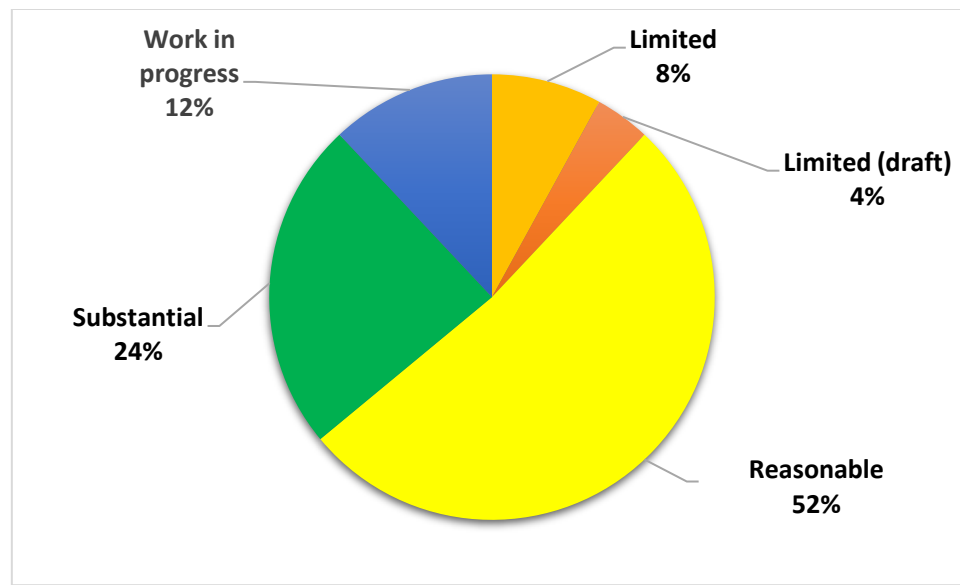
Two audits received '**Limited**' assurance during the year³, compared to two in 2018-19. In addition, two reports remain with '**Limited**' assurance after we revisited the outstanding 'issues/risks'. Follow up reviews will continue to take place to monitor the implementation of the risks raised within these audits.

² The definition of assurance ratings used at the time are at [Appendix C](#).

³ A further audit received 'Limited' assurance but it had not been finalised by the end of the year.

No audits received 'No' assurance and no 'Critical' (red) 'issues/risks' were raised during the year.

Assurance ratings provided during 2019-20



Where we identified 'issues/risks', management accepted them all. In accordance with our protocol, we formally revisited all the 'issues/risks/ raised in all the reports with a 'Limited' assurance, to ensure they were effectively addressed. We formally revisited six reports, three of which had a 'Limited' assurance rating. We also revisited one report which had a 'Reasonable' assurance rating, but where it was recognised as a risk in the corporate risk register (Corporate Safeguarding) and two others; one which had been the subject of an investigation and one which was the subject of an external review.

The remaining 'issues/risks' were monitored by recording in our action tracking system and, which is discussed in further detail in the following [section](#).

OUTSTANDING ISSUES/RISKS

This year has seen the implementation of a new and upgraded version of the Council's action tracking system 4action. Therefore, reporting on the performance of the Council in addressing outstanding 'issues/risks' can be divided into two distinct timeframes, before and after the system upgrade.

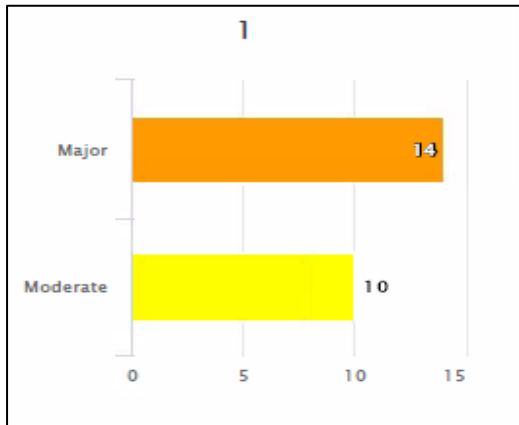
It should be noted that no '**Critical**' (red) 'issues/risks' were raised during the year and there are no red 'issues/risks' currently outstanding. In addition, we have reported at each meeting over the last couple of years a continued improvement in the performance of the Council in addressing outstanding 'issues/risks', with the overall implementation percentage for red and amber 'issues/risks' of 94% as at December 2019.

Between December 2019 and January 2020, we carried out a large-scale data cleansing exercise of over 200 historic records in preparation for migrating the remaining data into the new system. We worked with our software supplier to configure the new system and write a suite of performance reports that will assist us, and managers, to monitor outstanding 'issues/risks'. This was a significant piece of work for the team; however, we considered it worthwhile to invest sufficient time to ensure we took full advantage of the extra functionality the upgraded system provided.

We developed a dashboard, which displays a real-time snapshot of current performance in addressing outstanding 'issues/risks' and facilitates effective tracking and reporting of this information. There is further scope to develop bespoke dashboards for managers to assist them in monitoring and updating their 'issues/risks'. We will continue this work with management in 2020-21.

Unfortunately, the roll out of the new system has fallen during the COVID-19 emergency, which has inevitably led to a delay in obtaining year-end updates on outstanding 'issues/risks' from some front-line services, as they are busy responding to the crisis.

The following graphs show the position of outstanding 'issues/risks' as at 31 March 2020:

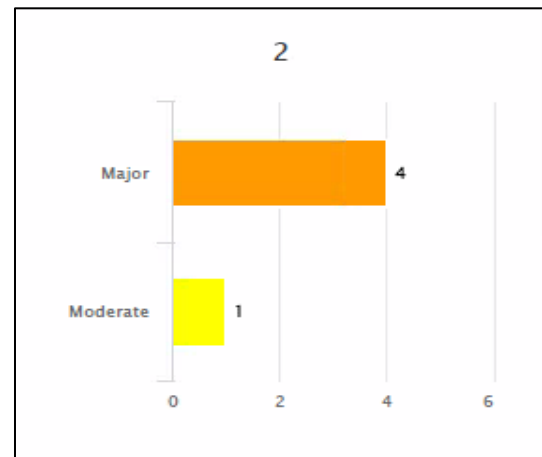


1 – 'Issues/Risks' raised in 2019-20

As a result of our internal audit work in 2019-20, we raised a total of 24 'issues/risks' that required management attention. Of these, we classified 14 as major and 10 as moderate.

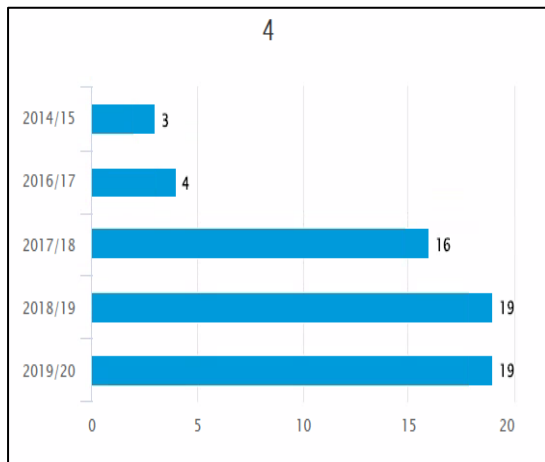
2 – 'Issues/Risks' raised, due and addressed in 2019-20

Of the 'issues/risks' that were raised and subsequently became due for completion in 2019-20, management had addressed four major issues/risks and one moderate issue/risk before 31 March 2020. It should be noted that the majority of 'issues/risks' raised during 2019-20 did not become due for completion before the end of the financial year.



3 – Status of 'Issues/Risks' raised, due and complete in 2019-20

We were able to verify 100% of 'issues/risks' that were raised, became due and closed by management within 2019-20. The audit verification role is crucial to ensure we only close actions within the system when the 'issue/risk' is fully addressed.



4 – All outstanding 'Issues/Risks' by year

Following the data cleanse and system upgrade, there are a total of 61 outstanding 'issues/risks' now open in 4action which have yet to be fully addressed. These are spread between 2014/15 and 2019/20.

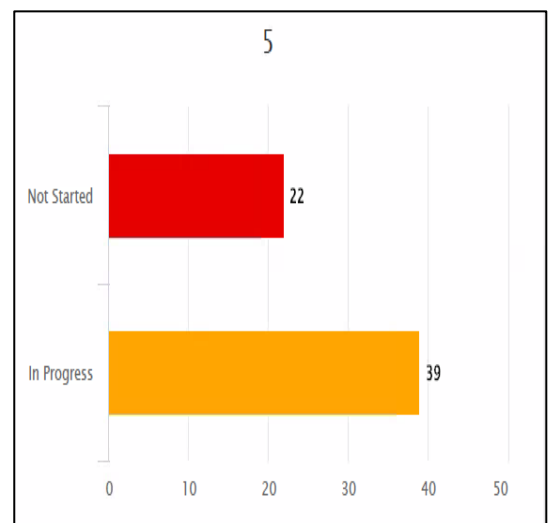
While the graph indicates the majority relate to the last two financial years, it does however highlight a small number of old 'issues/risks' that have yet to be fully addressed by management.

We will endeavour to pursue these to ensure completion.

5 – Status of all outstanding 'Issues/Risks' as at 31 March 2020

As at 31 March 2020, of the 61 open 'issues/risks' being tracked in 4action, 39 were in progress of being addressed, and 22 had not yet started.

This gives the status of all issues/risks within the system, irrespective of the date management agreed to address them by. Therefore, there will be several within the 'not started' category that are not yet due for completion. The impact of the COVID-19 emergency on some services' ability to update 4action may have also contributed to this number.



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.

During 2019-20, 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.

OUR PERFORMANCE

Adding Value

Throughout the year, we have strived to add value wherever possible. We have:

- shared practice and work programmes with other public sector internal audit teams and 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 2019-20, which can be seen at [Appendix D](#).

We have performed well against our targets, with three out of five indicators meeting or surpassing their target. We have performed less well in terms of the percentage of the red and amber residual risks reviewed and our staffing complement, losing staff again this year to promotion, secondment and long-term absence. However, we have been successful in recruiting two new members of staff, although the COVID-19 emergency has delayed their commencement with the team.

Benchmarking

We have also benchmarked our performance against the 22 members of the Welsh Chief Auditors Group, although only 19 participate. 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.

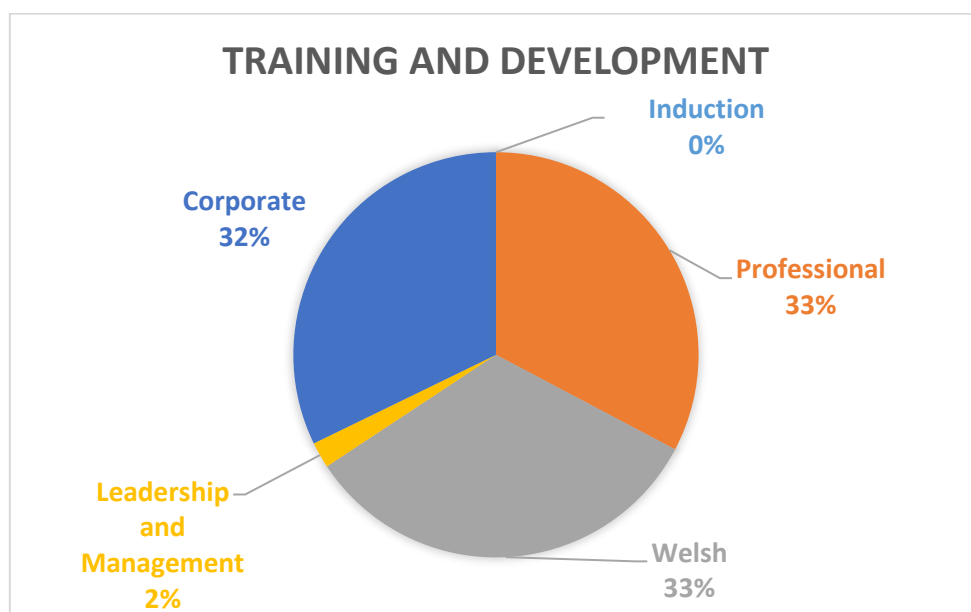
We have achieved top quartile performance for:

- completing audits within planned time
- having satisfied clients.

TRAINING AND DEVELOPMENT

All current 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 113 days in training and development during 2019-20 (114 days in 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’⁴ with the Standards, which is the top assessment available to the assessor.

The next assessment is due during 2021-22.

⁴ ‘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 AND OPPORTUNITIES GOING FORWARDS

Before 2020-21 could even get started, the COVID-19 emergency rendered the 2020-21 Internal Audit Strategy out of date. Most of the Internal Audit and Risk Management team are deployed to priority parts of the business to support the Council's emergency response. Those remaining have worked with the Emergency Management Response Team (EMRT) to provide assurance that its arrangements for responding to the emergency are fit for purpose. Although not in the Audit Plan, it is critical assurance work.

We are also supporting the EMRT to utilise the upgraded 4action system during the emergency. It is proving to be a fundamental tool in supporting the EMRT in managing and tracking actions required in responding to the ongoing crisis. The system has been so successful to date that senior management hope to roll it out further across the Council to help manage their 'business as usual' actions once the COVID-19 emergency has passed.

We are confident that the time invested this year in the 4action system upgrade will pay dividends in our ability to effectively monitor and track outstanding 'issues/risks'. It will also provide the Audit and Governance Committee with the information they need to hold Internal Audit to account on its effectiveness in tracking the 'issues/risks'. The ease of use and usefulness of the new system will compel managers to better engage with the process of providing updates on outstanding 'issues/risks'. This should in turn reduce the burden on the Internal Audit team going forward in chasing management for this information.

It will be the third year of operating the new audit methodology. The experience from last year and during the emergency 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 OF RED AND AMBER RESIDUAL RISKS IN THE CORPORATE RISK REGISTER

Risk Ref	Risk	Residual Risk Priority	Audit	Date	Audit Year	Assurance
YM 41	The risk that the real term reduction in the Council's funding continues and leads to statutory services being curtailed, priorities not being achieved, investments not being made, and increased staffing pressures	E / I = 4 T / L = 4 B2 (16)	Financial Resilience	April 2020	2019/20	Reasonable
YM 9	Risk that the Council cannot provide key services following a major event (e.g. civil emergency, major flooding, Covid-19, foot and mouth, major contractor ceasing to trade etc.)	E / I = 5 T / L = 3 C1 (15)	Business Continuity	February 2020	2019/20	Reasonable
YM 28	The risk of a cyber-attack having a significant impact on the Council's ability to deliver front line and support services.	E / I = 5 T / L = 3 C1 (15)	IT Audit - Cyber Security	February 2019	2018/19	Reasonable
YM 38	The risk that IT failure significantly impacts service delivery	E / I = 5 T / L = 3 C1 (15)	IT Audit - IT Resilience	April 2020	2019/20	Limited
YM 5	Risk that the Council is unable to recruit, retain and develop suitable staff to deliver efficient and effective services.	E / I = 4 T / L = 3 C2 (12)	Recruitment and Retention	April 2019	2018/19	Reasonable
YM 10	The risk that the implications of welfare reforms may increase demand for related services and impact on the Council's ability to collect its own income.	E / I = 4 T / L = 3 C2 (12)	Welfare Reform - Universal Credit and Housing Rent Income	April 2019	2018/19	Reasonable
			Welfare Reform - Homelessness	Work in progress ⁵	2019/20	
YM 29	The risk that the Council cannot agree on a suitable, cost effective site that meets the needs of those identified in the	E / I = 4 T / L = 3 C2 (12)	Gypsies and Travellers (Requirements of the Housing Act 2014)	April 2019	2018/19	Reasonable

⁵ Audit postponed during the Covid-19 emergency due to being a front-line service

Risk Ref	Risk	Residual Risk Priority	Audit	Date	Audit Year	Assurance
	Gypsies and Traveller Accommodation Needs Assessment 2016					
YM 40	Risk that the UK's withdrawal from the EU (Brexit) will negatively impact the Isle of Anglesey	E / I = 4 T / L = 3 C2 (12)	Managing the Risks of Brexit	January 2020	2019/20	Reasonable
YM 32	The risk of the Council being unable to provide the necessary investment in leisure facilities to maintain the current level of provision.	E / I = 3 T / L = 4 B3 (12)				
YM 11	Risk that a serious safeguarding error results in or contributes towards serious harm to those vulnerable individuals who the Council has a responsibility for	E / I = 5 T / L = 2 D1 (10)	Corporate Safeguarding (YM11)	September 2019	2019/20	Reasonable
			CONTEST (Countering Terrorism and Preventing Radicalisation) (YM27)	April 2019	2018/19	Reasonable
YM 15	Risk that the schools modernisation project is not fully implemented and impacts on standards and the ability to reduce surplus school places and the lack of school places.	E / I = 4 T / L = 2 D2 (8)	Head of Service requested postponement to audit due to temporary postponement of programme			
YM 17	Risk that the Island's infrastructure does not meet the needs of the public and businesses across the island	E / I = 4 T / L = 2 D2 (8)				
YM 22	The risk of the Council entering into contracts which impose an unnecessary financial / resource burden on the Council	E / I = 4 T / L = 2 D2 (8)		November 2018	2018/19	Reasonable

APPENDIX B: OTHER INTERNAL AUDIT WORK IN 2019-20

Audit	Reason for Review	Date	Audit Year	Assurance Level
Payment Card Industry Data Security Standards (PCIDSS) (YM34)	In the Corporate Risk Register at the time	June 2019	2019/20	Reasonable
Leavers' Process	Concerns raised	Work in progress ⁶	2019/20	
Managing the Risk of Fraud	Public Sector Internal Audit Standards requirement	April 2020	2019/20	Reasonable
Recovering Council Debts	Key Financial System - Section 151 concerns	Work in progress ⁷	2019/20	
Management of School Unofficial Funds	Concerns raised	March 2020	2019/20	Limited (draft)
Rent Smart Wales	Grant requirement	August 2019	2019/20	Substantial
Pupil Development Grant	Grant requirement	August 2019	2019/20	Substantial
Pupil Development Grant - Looked After Children Allocation	Grant requirement	October 2019	2019/20	Substantial
Teachers Pay Award & Cost Pressures	Grant requirement	November 2019	2019/20	Substantial
Pupil Development Grant - Access	Grant requirement	November 2019	2019/20	Substantial
Ethnic Minority & Gypsy Roma Traveller Learners	Grant requirement	November 2019	2019/20	Substantial
Additional Free School Meals Costs due to rollout of Universal Credit	Grant requirement	November 2019	2019/20	Reasonable
Corporate Safeguarding Arrangements	Third Follow Up	April 2019	2019/20	Reasonable
Primary Schools Themed Audit - Income Collection	First Follow Up	June 2019	2019/20	Limited
Sundry Debtors	Second Follow Up	July 2019	2019/20	Reasonable
Direct Payments	First Follow Up	September 2019	2019/20	Reasonable
Schools Information Governance Health Check	First Follow Up	October 2019	2019/20	Reasonable
Ysgol Kingsland	First Follow Up	October 2019	2019/20	Reasonable

⁶ Postponed due to staff redeployment to Covid-19 emergency response

⁷ Postponed due to staff redeployment to Covid-19 emergency response

APPENDIX C: DEFINITION OF ASSURANCE RATINGS 2019-20

Level of Assurance	Definition
Substantial Assurance	<p>Arrangements for governance, risk management and internal control are good.</p> <p>We found no significant or material Risks/Issues.</p>
Reasonable Assurance	<p>Arrangements for governance, risk management and/or internal control are reasonable.</p> <p>There are minor weaknesses in the management of risks and/or controls but there are no risks to the achievement of objectives. Management and Heads of Service can address.</p>
Limited Assurance	<p>Arrangements for governance, risk management and internal control are limited.</p> <p>There are significant weaknesses in the management of risks and/or controls that put the achievement of objectives at risk. Heads of Service need to resolve and SLT may need to be informed.</p>
No Assurance	<p>Arrangements for governance, risk management and internal control are significantly flawed.</p> <p>There are fundamental weaknesses in the management of risks and/or controls that will lead to a failure to achieve objectives. The immediate attention of SLT is required, with possible Executive intervention.</p>

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

Performance Indicator	WCAG Average Performance 2018-19	Performance 2017-18	Performance 2018-19	Target 2019-20	Performance 2019-20	Target 2020-21
Red and Amber Residual Risks in the Corporate Risk Register audited	Not measured	Not measured	29%	80%	50%	80%
Audits completed within six months	Not measured	Not measured	Not measured	New	93%	100%
Clients responses at least 'satisfied'	99%	100%	100%	100%	100%	100%
Reported to Audit and Governance Committee within target	Not measured	76%	87%	80%	86%	100%
Audits completed within planned time	74%	86%	100%	90%	100%	100%
Number of staff	7.0 FTE	4.3 FTE	4.0 FTE	5.0 FTE	4.0 FTE	5.0 FTE