

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>Report to:</b>	Audit and Governance Committee
<b>Date:</b>	1 September 2020
<b>Subject:</b>	An Update on the Internal Audit Strategy and Priorities for 2020-21
<b>Head of Service:</b>	Marc Jones Director of Resources and Section 151 Officer 01248 752601 <a href="mailto:MarcJones@ynysmon.gov.uk">MarcJones@ynysmon.gov.uk</a>
<b>Report Author:</b>	Marion Pryor Head of Audit and Risk 01248 752611 <a href="mailto:MarionPryor@ynysmon.gov.uk">MarionPryor@ynysmon.gov.uk</a>
<b>Nature and Reason for Reporting:</b> In accordance with the Council's 'Strategy for Committee Meetings', this report meets the requirements of the Local Government (Wales) Measure 2011, which sets out the legislative duties to be performed by a council's audit committee, specifically, to oversee the authority's internal audit arrangements.	

## INTRODUCTION

1. As a result of the current pandemic, the Council has had to prioritise its resources and the efforts of its workforce, so maintaining 'business as usual' has not been possible. However, although half of the Internal Audit team has been redeployed within the organisation, some significant 'internal audit' has continued and has been directed to the areas of greatest value and risk to the organisation.
2. We have therefore provided this brief update, as at 18 August 2020, on the work of internal audit since the last Audit and Governance Committee in February 2020 and our priorities for the short to medium term going forward.

## RECOMMENDATION

3. That the Audit and Governance Committee notes Internal Audit's assurance provision and priorities going forward.

## CONTEXT

4. Despite the profound challenges of working in an emergency, our mission remains to **‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight’**.
5. Profound challenge requires a value-based response from Internal Audit; we have strived to protect the Council’s ongoing service delivery, by providing real-time advice, insight and assurance, and performing real-time risk based work.
6. We also have a personal responsibility to operate in accordance with the UK Public Sector Internal Audit Standards (PSIAS). On 1 June 2020, the Internal Audit Standards Advisory Board (IASAB) produced guidance to internal auditors on maintaining conformance with the PSIAS during the coronavirus pandemic. CIPFA has endorsed the guidance, which also has the support of the other UK Relevant Internal Audit Standard Setters. The guidance can be found here:

<https://www.cipfa.org/services/networks/better-governance-forum/internal-audit-documentation/conformance-with-psias-during-the-pandemic>

7. The aim of the guidance is to support internal auditors as they adapt their operations and plans for internal auditing and support their organisations in the implementation of the emergency response to the pandemic. The guidance is also important for those with a role in the oversight and governance of internal audit, including audit committees and leadership teams.

## ASSURANCE WORK COMPLETED FOR 2019/20

8. We completed work on three audits before the end of the financial year and included the results as part of our overall Internal Audit Annual Report for 2019/20, which the Committee received at its meeting in July:
  - IT Resilience – Limited Assurance
  - Financial Resilience – Reasonable Assurance
  - Managing the Risk of Fraud – Reasonable Assurance
9. Due to services being heavily involved in responding to the emergency, we suspended our work on four audits that were at different stages at that time:
  - Recovering Council Debts (Resources) – fieldwork
  - Welfare Reform – Homelessness (Housing) – fieldwork
  - Leavers' Process (Resources and HR) – draft report issued
  - Management of School Unofficial Funds (Learning) – draft report issued
10. Once staff return from their redeployments, we will restart these pieces of work.

## ASSURANCE WORK COMPLETED TO DATE IN 2020/21

### Review of COVID–19 Emergency Response (Self-Assessment)

11. Early on in the emergency, the Deputy Chief Executive, on behalf of the Emergency Management Response Team (EMRT), commissioned Internal Audit to provide assurance that the Council’s emergency response arrangements were safe, robust, effective and fit for purpose.
12. We reported the outcome of our work in two parts, giving ‘**Reasonable Assurance**’ for each and raising six ‘Issues/Risks’, to be addressed by the EMRT. We reviewed these ‘Issues/Risks’ a month later and were able to report that all had been addressed.
13. We have separately issued members of the Audit and Governance Committee and the Portfolio Holder for Finance with copies of the reports.

## OVERDUE ACTIONS

14. Due to services being heavily involved in responding to the emergency, we suspended our work following up on actions to address the ‘Issues/Risks’ we had previously raised in our reports.
15. This resulted in a number of actions becoming overdue and we have tentatively restarted our work in this area. Following the completion of the work on the draft statement of accounts, we have focused our work in Resources, as this is where the majority of the overdue actions sit.
16. The 4action dashboard at [Appendix 1](#) provides the situation as at 18 August 2020. However, we will share a ‘real-time’ dashboard during the meeting.

## OUTSTANDING LIMITED ASSURANCE REPORTS

17. There are three ‘Limited Assurance’ reports that require following up, albeit only two in this financial year:

Audit Report	Service	Follow Up Visit	Scheduled Date for Follow Up
System Controls – Logical Access and Segregation of Duties	Resources	Fourth Follow Up	April 2020
Primary Schools – Income Collection	Learning	Second Follow Up	September 2020
IT Resilience	Transformation & HR	First Follow Up	April 2021

18. Also, although given a 'Reasonable Assurance', due to the significance of the 'Issues/Risks' raised, we also have one further audit in our 'follow up' schedule:

Audit Report	Service	Follow Up Visit	Scheduled Date for Follow Up
Sundry Debtors	Resources	Third Follow Up	July 2020

## CORPORATE RISK REGISTER PRIORITIES

19. In February 2020, we gave the Audit and Governance Committee a commitment to audit 80% of the red and amber residual risks in the Corporate Risk Register during 2020/21. Clearly, this target is not achievable under the current circumstances.

20. In 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).

21. To capture the remaining risks, so that all red and amber risks are reviewed over a 24-month rolling period, we would need to review:

- YM32 – The risk of the Council being unable to provide the necessary **investment in leisure facilities** to maintain the current level of provision.
- YM15 – 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.
- YM17 – Risk that the **Island's infrastructure** does not meet the needs of the public and businesses across the island.

22. In the current circumstances, these risks are low priority and therefore will be 'parked' until we have capacity to review.

## COVID-19 RISK REGISTER

23. The EMRT has developed a risk register to capture the risks associated with the pandemic. It contains 35<sup>1</sup> risks, and details the mitigation in place to minimise the risks from crystalizing. These risks are priority, and we will ensure our work focuses on providing assurance that these risks are being effectively managed.

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<sup>1</sup> Five risks have now been 'closed'

## OTHER PRIORITIES

### Post-event Assurance

24. It is inevitable that processes and consequently controls will have been relaxed during the emergency response, therefore increasing the risk of error, waste and fraud. We will work with heads of service to undertake this piece of work to assess the risks associated with the relaxing of policies and processes and enable us to focus our work on the areas of greatest risk.

### NDR Fiscal Stimulus (Business grants) – post-payment assurance

25. As part of the support for the economy, the Council has made available grants of £10,000 and £25,000 to around 2,500 businesses – about £28m of spend<sup>2</sup>.
26. There was a push from UK Government to get the cash paid as quickly as possible but to implement ‘upfront low-friction controls’ where possible. We provided advice on these controls and have regularly provided fraud alerts published by the National Anti Fraud Network.
27. As at 19 June 2020, 63 local authorities across England, Scotland and Wales have reported attempted and successful fraud relating to claims for COVID-19 Business Grants. This included 346 attempts of corporate impersonation fraud with a total value of almost £5.7m. The table at [Appendix 2](#) identifies the known businesses impersonated, reported losses and prevented fraud.
28. There is an expectation from the UK Government that we will provide targeted post event assurance, to provide assurance that we have paid the correct organisation, and that the funding is used for its intended purpose. We therefore plan to use data analytics to review the payments and sample check high-risk grant awards for fraud.

### National Fraud Initiative

29. The biennial National Fraud Initiative exercise is scheduled for October 2020. We will be involved with data extraction, which is mandatory, and reviewing matches (potential frauds).
30. In addition, the National Fraud Initiative will be undertaking an exercise in the summer specifically on the payment of the business grants.

### Managing the Risk of Fraud

31. A self-assessment conducted at the end of 2019 highlighted that our counter fraud measures were significantly out of date and needed refreshing. A similar exercise performed by Audit Wales as part of a National Study early in 2020 echoed these conclusions.
32. In addition, a lack of any recent counter fraud awareness training coupled with the increased risk of fraud presented by the current climate, gives this work an

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<sup>2</sup> As at 18/08/2020, the Council has provided 1,950 grants totalling £21.83m

added imperative. During the lockdown period, two frauds have been attempted against the Council.

33. Both were 'malicious redirection'<sup>3</sup> frauds. The first involved a supplier's email system being hacked. The Council received an apparently genuine request from the supplier, via email, for its bank details to be changed. The Council changed the bank details and paid two invoices using the fraudulent bank details. Fortunately, the recipient bank's fraud team identified the account as fraudulent and notified the Council's bank, and the majority of the payment was successfully seized.
34. The bank provided two counter fraud training sessions for Council staff to raise awareness of fraud and what to look out for, particularly during the emergency, in their personal lives and at work.
35. This training was timely as shortly afterwards a Payroll Officer received an email from a member of staff asking for their bank account details to be changed. Having been alerted to this type of fraud, the Payroll Officer queried the request and it was discovered that the email address had been 'spoofed'<sup>4</sup>, thus averting the fraud.
36. As a result of these attempted frauds, a number of audits are planned of the Creditors and Payroll systems, with the first audit of supplier maintenance currently underway.

## RESOURCING OF INTERNAL AUDIT & RISK MANAGEMENT

37. The Internal Audit section normally consists of five FTE (full time equivalent) staff. For various reasons, both related and unrelated to the emergency, we currently only have two and a half FTE staff undertaking internal audit work.
38. Just before lockdown, two members of part-time staff were recruited, one internal and one external, being the only applicants who applied for two full-time vacancies. The vacancies occurred due to a promotion to Accounts and a six-month secondment to Accounts, which has now been extended until May 2021.
39. The internal appointment (0.8 FTE) came from Risk Management, which has left that section with a vacancy. They are currently training as they have no

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<sup>3</sup> In a malicious redirection or mandate fraud, the victim attempts to pay an invoice to a legitimate payee, but the criminal intervenes to convince the victim to redirect the payment to an account they control. It includes criminals targeting consumers posing as conveyancing solicitors, builders and other tradespeople, or targeting businesses posing as a supplier, and claiming that the bank account details have changed. This type of fraud often involves the criminal either intercepting emails or compromising an email account.

<sup>4</sup> Email spoofing is the forgery of an email header so that the message appears to have originated from someone or somewhere other than the actual source. Email spoofing is a popular tactic used in phishing and spam campaigns because people are more likely to open an email when they think it has been sent by a legitimate or familiar source.

previous internal audit experience, but are also seconded to the 'Test, Track, Protect' programme.

40. The external appointment (0.5 FTE) was due to start on 1 April but this was postponed due to the emergency. They started on 1 August 2020 and following a brief induction, have commenced auditing.
41. The remaining member of Internal Audit is seconded to the Business Grants team and is assisting with checking eligibility of the self-catering businesses. It is unclear when this work will finish.

## **PRIORITIES**

42. These absences have left the Internal Audit and Risk Management team exposed and vulnerable to further loss. It is also challenging to make firm plans for the rest of the year, while remaining agile to meet any future emergencies or incidents.
43. Therefore, taking account of the availability of staff within other services and the resources available in Internal Audit, work will be prioritised in the following order to enable the Head of Audit and Risk to provide an annual internal audit opinion for 2020/21:

## High Priority

- Overdue actions
- Outstanding Limited Assurance reports:
  - System Controls – Logical Access and Segregation of Duties (Resources)
  - Sundry Debtors (Resources) (Reasonable Assurance)
- COVID-19 Risk Register
- Post-event Assurance
- NDR Fiscal Stimulus (Business grants) – post-payment assurance
- Managing the Risk of Fraud – Payments (Supplier Maintenance and Payments)
- National Fraud Initiative
- Requests from Senior Leadership Team

## Medium Priority

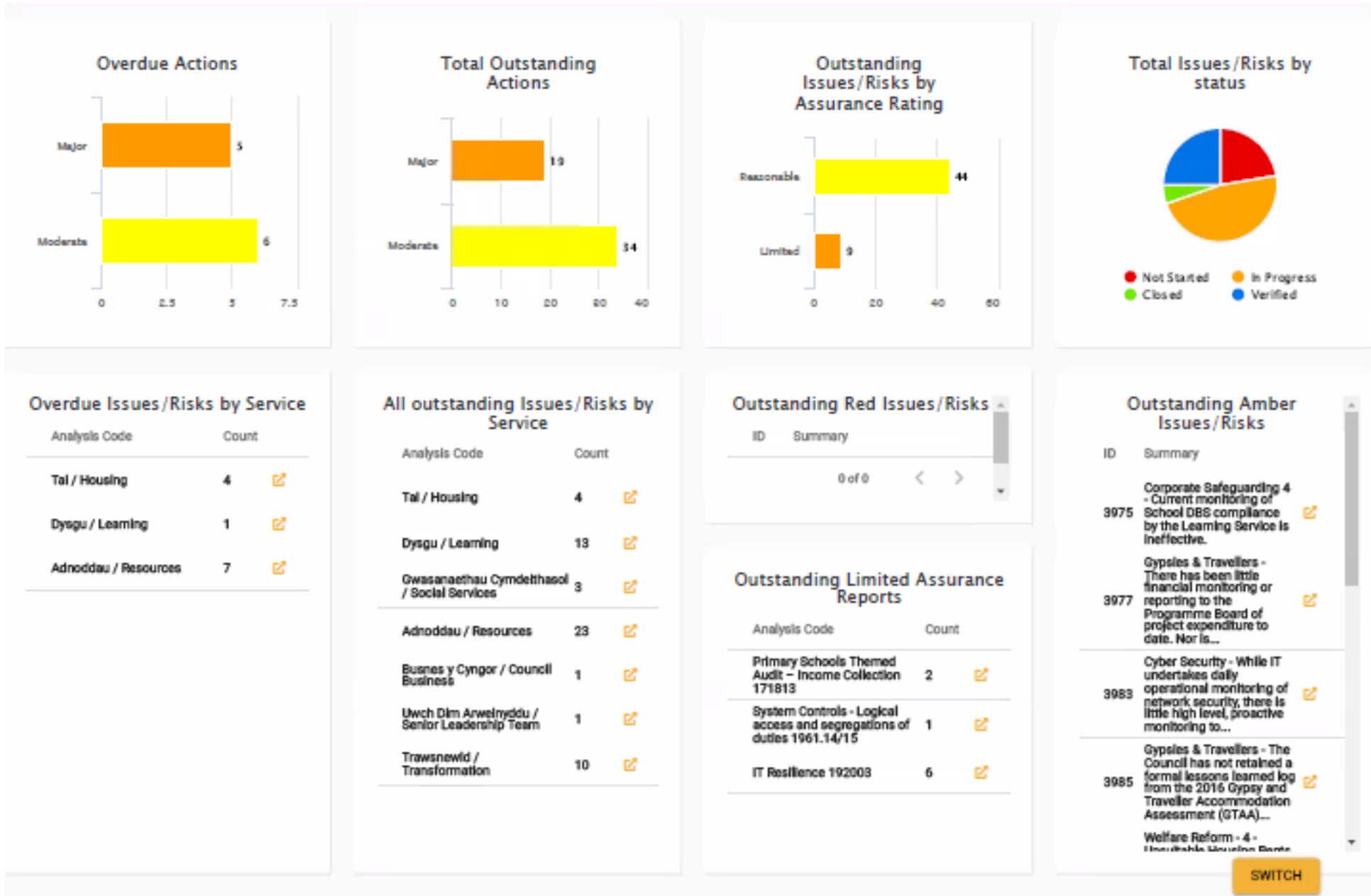
- Outstanding audits from 2019/20:
  - Recovering Council Debts (Resources)
  - Welfare Reform – Homelessness (Housing)
  - Leavers' Process (Resources and HR)
  - Management of School Unofficial Funds (Learning)

## Low Priority

- Corporate Risk Register
  - YM32 – Investment in Leisure Facilities
  - YM15 – Schools modernisation project
  - YM17 – Island infrastructure



# APPENDIX 1 - OVERDUE ACTIONS (4ACTION DASHBOARD)



## APPENDIX 2 – COVID-19 BUSINESS GRANT FRAUD

(Source: National Anti Fraud Network)

### Regional Breakdown

Region	Councils	Incidents	£ Attempted Fraud
East Midlands	5	20	305,000
Eastern England	8	38	470,000
London	4	11	200,000
North East	4	17	305,000
North West	13	67	985,000
Scotland	4	24	465,000
South East	8	26	355,000
South West	4	6	90,000
Wales	2	10	100,000
West Midlands	8	88	1,615,000
Yorkshire	3	39	780,000

### Known businesses impersonated, reported losses and prevented fraud

Business Names Impersonated	Attempted Fraud		Fraud Losses				Prevented £ Fraud
	Incidents	£ Value	Councils	Incidents	£ Paid	£ Recovered	
Lloyds Pharmacy	43	580,000	0	0	0	0	580,000
Greggs PLC	136	2,715,000	19	96	1,925,000	815,000	790,000
Boots	43	625,000	0	0	0	0	625,000
Caffe Nero	6	120,000	3	3	75,000	0	45,000
Superdrug Stores	13	190,000	0	0	0	0	190,000
Marstons PLC	17	185,000	0	0	0	0	185,000
JD Wetherspoon	13	205,000	0	0	0	0	205,000
Enterprise UK	1	10,000	0	0	0	0	10,000
Barden Global Ltd	2	50,000	0	0	0	0	50,000
Toolstation	3	75,000	1	1	50,000	0	25,000
Other Businesses*	69	915,000	0	54	765,000	10,000	150,000
<b>TOTAL</b>	<b>346</b>	<b>5,670,000</b>	<b>23</b>	<b>154</b>	<b>2,815,000</b>	<b>825,000</b>	<b>2,855,000</b>

\* This data relates to local (small) businesses which have also been a victim of impersonation fraud