

ISLE OF ANGLESEY COUNTY COUNCIL

COMMITTEE:	AUDIT COMMITTEE
DATE:	22 JULY 2014
TITLE OF REPORT:	PROGRESS REPORT ON INTERNAL AUDIT 01 APRIL 2014 – 30 JUNE 2014
PURPOSE OF REPORT:	FOR INFORMATION
REPORT BY:	AUDIT MANAGER
ACTION:	N/A

1. INTRODUCTION

- 1.1** The Operational Plan for 2014-15 was presented to and accepted by the Audit Committee at its meeting held on 10 April 2014. The Plan was produced in consultation with the External Auditor, the Section 151 Officer and various meetings and communications with Heads of Service.
- 1.2** The following report summarises the work of the Internal Audit Section up to the 30 June 2014 and gives a summary for each of the final reports issued since the last Audit Committee.
- 1.3** Final reports which result in a 'Red Assurance' opinion will be subject to a Follow Up review which will include an audit opinion on the progress of management in implementing the recommendations categorised as High and Medium within the original final report. The results of the Follow Up review will be presented to the next Audit Committee.
- 1.4** There was one review in the previous period which resulted in a 'Red Assurance' opinion. This was the review of the Creditors system which has subsequently been the subject of a Follow Up review by Internal Audit the results of which are included in this report.
- 1.5** There is one review from this period which resulted in a Red audit assurance opinion. This report relates to the management of Agency Staff. The results of the review are summarised at section 2.1.8 and a more detailed summary is to be presented to the Audit Committee to be held on 22 July 2014.
- 1.6** The Internal Audit Service uses a Risk Based approach wherever possible but may use System Based, Key Controls, Establishment or Advisory reviews if these approaches are more appropriate.
- 1.7** The individual final reports are available to members of this Committee, in confidence, on request to the Audit Manager.

2. REPORTS ISSUED SINCE LAST UPDATE REPORT

Listed below are the Final Internal Audit Reports issued since the last progress report to Committee along with a summary of the results of each review.

2.1.1 Creditors 2013-14 – Follow Up Review

A review of the Creditors system was undertaken in Quarter 3 2013-14 and resulted in a Red Assurance Internal Audit opinion. The review was the first of this area undertaken since the implementation of the CIVICA ledger system in April 2013. The final report from this initial review was issued in November 2013 and included six recommendations categorised as 'High'; eleven as 'Medium' and six as 'Low' category. All recommendations made in the initial Creditors report were followed up as part of this review.

Staff members responsible for the implementation of recommendations were interviewed to determine the status of agreed actions. Where appropriate, audit testing was completed to assess the level of compliance with this status and the controls in place.

Opinion: An overall RED – AMBER audit opinion resulted from the review with two High; six Medium and four Low category recommendations either being implemented or not implemented at the time of the follow up.

Management has provided agreed implementation dates for the outstanding recommendations.

2.1.2 Efficiency Savings Process 2014-15 Budget

An audit the Efficiency Savings Process 2014-15 Budget was undertaken as part of the approved internal audit periodic plan for 2013/14. Internal Audit was asked to carry out a review to provide assurance over the robustness of challenge made to the proposed efficiency savings bids submitted by Services.

It must be stressed that the review concerned the efficiency savings process for the budget 2014-15 and did not aim to provide assurance over the achievability of any of the individual proposals made. However, we have made reference in feedback to the Finance Service during the review as to where we consider there to be a lack of evidence to support such assurance over achievability and made recommendation that further assurance is sought on these proposals.

It should also be stressed that the efficiency savings proposals are owned by the Services and it is the Services who have ultimate responsibility for ensuring that the proposals put forward are realistic and achievable within the timescales identified. Services would therefore be expected to have in place procedures and processes that provide the relevant Head of Service and / or budget holder with adequate assurances that the proposals will be achieved. It should be noted that such procedure and process was not included within the scope of this review.

Advisory Review Conclusion - Our review identified some areas of good practice in relation to the process adopted for the efficiency savings proposals for the 2014-15 budget and also found evidence of challenges to Services having been undertaken by Service Accountants within Finance.

However, the process itself and the level of evidence to support the achievability of savings and the relevance, accuracy and completeness of the calculations, assumptions, forecasts and timescales used when determining the amount of savings was not formally documented. In consequence the actual evidence available on which to base any assurance for a significant amount of the total savings proposed was not available within Finance at the time of this review.

There is evidence of considerable work having been undertaken in the challenge process; however there is insufficient documentary evidence available for Internal

Audit to provide assurance that in all cases proposals are realistic and achievable and that related calculations, assumptions, forecasts and timescales are complete, accurate and relevant in all cases.

The review resulted in seven uncategorised recommendations for improvements being agreed with management in an agreed Action Plan.

2.1.3 Housing Benefit – 2013-14

An audit of Housing Benefit - Key Controls was undertaken as part of the approved internal audit periodic plan for 2013/14.

The total amount of Housing Benefit paid in 2013/14 from 01-04-2013 to 31-03-2014 in respect of private tenants was approx. £10.5m and for Local Authority tenants £8m. The total amount of Council Tax Reduction awarded was approx. £5m.

Taking account of the issues identified, the Council can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.

Opinion: An overall GREEN/AMBER audit opinion resulted from the review with five Medium and six Low category recommendations being agreed with management.

2.1.4 Payroll – 2013-14

An audit of Payroll was undertaken as part of the approved internal audit periodic plan for 2013/14.

The Payroll system currently in use is 'Resourcelink' provided by Northgate and is an integrated Human Resources and Payroll system. The Council has an internal Team of five staff involved with Payroll functions. Staff within Human Resources are also involved with the initial set up of new starters on the integrated system. We were informed that normal practice is that educational staff and staff working for the provider unit are set up by Payroll and the remaining staff by central Human Resources.

There were 264 new starters on the Payroll and 407 leavers processed from April 2013 up to October 2013. The number of live Payroll records currently is 3971.

The key findings from this review were:

- The Senior Payroll Officer has system administration rights giving access to establishment and payroll functions;
- There is currently no procedure for the regular verification of establishment to Payroll by Budget Holders confirming on at least an annual basis that a review of the current staff structure and pay grades has been undertaken to verify the accuracy and completeness of the information held on the integrated HR and Payroll system.
- Segregation of duties in relation to the creation of new employee records was not maintained as appropriate in all cases; Payroll staff create new employee records if, at the pay run deadline, HR has not created the new record as appropriate. Payroll is required to set up establishment details of some staff on behalf of Social Services and HR Education.

- Pension contribution deductions relating to childcare vouchers have been incorrectly applied and have not been amended and corrected since informed in November 2013.
- A follow up of recommendations from the last Payroll report found that recovery of overpayments are still outstanding.

Opinion: An overall GREEN/AMBER audit opinion resulted from the review with six Medium and five Low category recommendations being agreed with management.

2.1.5 Treasury Management – 2013-14

An audit of Treasury Management was undertaken as part of the approved internal audit periodic plan for 2013/14. The Treasury Management function operates within the approved Treasury Management Strategy and the Annual Investment Strategy which are both approved by the Audit Committee each year. The Current Treasury Management position (for quarter 3) was reported to the Audit Committee in February 2014.

Opinion: An overall GREEN audit opinion resulted from the review with three Medium category recommendations being agreed with management.

2.1.6 VAT – 2013-14

An audit of VAT - Systems was undertaken as part of the approved internal audit periodic plan for 2013/14. This review was based upon the CIPFA Local Authorities and Similar Bodies VAT guidance on auditing (June 2013) which provides best practice for the accounting for and recording of VAT by local authorities.

Under Section 33 of VAT Act 1994 specified bodies, including local authorities, are entitled to recover VAT incurred on supplies made to them which relate to their non-business activities. The total VAT recovered by Ynys Môn – Isle of Anglesey County Council for the financial year 2012/13 amounted to £9,451,112.91.

Advisory Review Conclusion - Taking account of the issues identified, whilst the Council can take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, some areas of weakness have been identified which management needs to address to ensure that this risk continues to be managed.

The review resulted in one Medium and eleven Low category recommendations being agreed with management.

2.1.7 Complaints Procedure – 2014-15

An audit of the Corporate Complaints Procedure was undertaken as part of the approved internal audit periodic plan for 2014/15. The Council has adopted a Concerns and Complaints Policy which is based upon best practice from the Public Services Ombudsman for Wales. The policy was approved by the Executive Committee on 19 November 2012 and by the Council on 05 March 2013 and implemented from 01 April 2013. During the period April 2013 to March 2014 the Council recorded 62 processed and reported complaints.

The policy does not apply to complaints relating to Social Services or against schools, both of which have their own complaints policy and procedures. The procedures relating to complaints relating to Social Services and to schools were not included in this review.

The review found that there were adequate procedures in place to ensure compliance with the Policy both within Services and Corporately. The two control weaknesses identified related to the training of staff in relation to the Concerns and Complaints Policy and the production of an annual report to provide an analysis of complaint patterns and lessons to be learnt from the previous year. Both of these weaknesses relate to non compliance with stated controls within the Policy.

We found that of the 62 formal complaints received and processed during April 2013 to March 2014 only two complaints had been referred to the Ombudsman. This equates to 3.3% of all complaints processed which is considered to be low in terms of overall referrals. Of the complaints referred to the Public Service Ombudsman for Wales neither was subsequently upheld as representing maladministration by the Council. The figures provide assurance that the Concerns and Complaints Policy is being consistently applied within Services and corporately and that it is effective.

Opinion: An overall GREEN audit opinion resulted from the review with two Medium category recommendations being agreed with management.

2.1.8 Agency Staff – 2014-15

A review of the procurement and use of Agency staff was undertaken at the request of the Audit Committee. The Audit Committee held on 04 February 2014 resolved that: *the Audit Manager to provide the Committee with an analysis of the number of agency / contract / self-employed staff engaged by the Council, the reasons for the engagement and costs thereof along with alternative approaches as taken by other organisations / bodies.*

The review found that there was a lack of awareness amongst relevant staff of the Council's Policy on the procurement and monitoring of Agency staff and an associated lack of compliance. The Audit Committee will be provided with a separate copy of this report for information.

Opinion: An overall RED audit opinion resulted from the review with three High and six Medium category recommendations being agreed with management.

2.1.9 Further Reports

At the instruction of the Section 151 Officer a further four in depth reviews outside of the 2013-14 and 2014-15 Internal Audit Operational Plans were also completed to Final report and issued in the period. These reports related to:

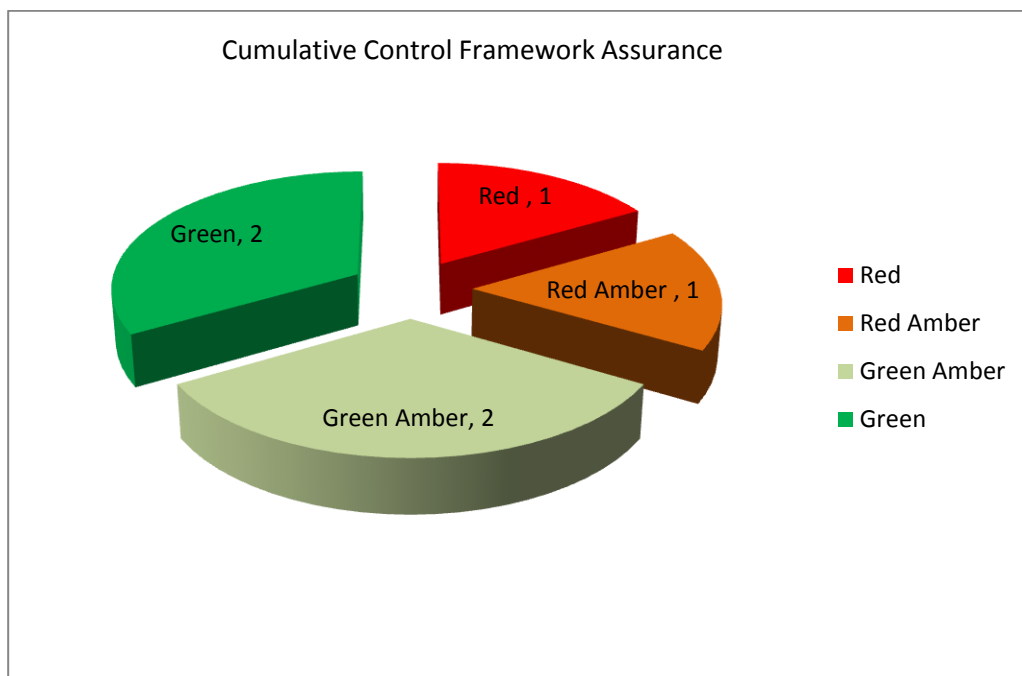
- HSBC Bank Contract Renewal;
- Cheque Stocks – Signatures;
- 2013-14 Efficiencies; and
- Debit on Service Reserve Contingency.

These reports were mainly historical and advisory in nature and did not result in any formal audit opinion.

2.2 Summary of Outcomes of Reports Issued to Date – since the 01 April 2014 we have issued six final reports from the Internal Audit Operational Plan 2013-14; two from the 2014-15 plan, four further reports as instructed by the S 151

Officer and three referral reports. To date therefore a total of eleven final reports have been issued in 2014-15.

A summary of the grades given for the final reports issued with RAG opinions is shown in the pie chart below:



This pie chart will be updated cumulatively in each subsequent Internal Audit Progress Report and will therefore provide an indicator of the audit opinion of the overall control framework which will be reported in the Annual Report of the Chief Audit Executive.

3 INTERNAL AUDIT FORWARD WORK PROGRAMME

Scheduled Review Title	Service Area	Current Status
Housing Rents 2013-14	Housing	Draft Report Issued
Homelessness	Housing	Work in Progress
Closure of Accounts - Processes	Finance	Draft Report Issued
Home Care Hours	Adult SS	Debriefed
Logical Access Controls - Compliance	Corporate	Work in Progress
School Financial Management – Budgets	Lifelong	Work in Progress
Ysgol Pentraeth	Lifelong	Work in Progress
Ysgol Henblas	Lifelong	Work in Progress
Penalty Charge Notices	Highways	Work in Progress
Sports Development	Economic	Work in Progress

Charitable Trust – Governance and Financial	Finance	To Start July 2014
Follow Up – Outstanding High Recommendations	Corporate	To Start July 2014

4. REFERRALS

- 4.1** During the course of the year the Internal Audit Section is required to carry out work on matters which come to light during the programmed audit work, or matters which are brought to its attention by other Departments, or work which other Departments request the Internal Audit Section to carry out. Work may also be requested by the External Auditor to provide information or to assist in the provision of information. Some of these referrals result in the issue of formal audit reports whilst others will be recorded in File Notes (e.g. where the allegation / information is found to be incorrect and therefore there is nothing to report, or the amount of work is not sufficient to warrant a full audit report or the matter is covered by an External Auditor's report).
- 4.2** A number of File Notes have been produced in the period to date in 2014/15. None of the work resulting in a File Note has identified any evidence of fraud or irregularity. One file note involved assisting an investigation being carried out by Betsi Cadwaladr, one related to the inappropriate use of the Council's Gas Certificate reference.
- 4.3** A report was also produced following an attempt to defraud the Council via a letter requesting the changing of an existing supplier's bank details which letter did not originate from the supplier. The matter has been reported to senior management and the Police and controls in this area have been strengthened as a result. Referral reports have also been issued in relation to referrals made concerning Maritime issues at Porth Amlwch and various issues relating to a school.
- 4.4** As previously reported at the last Audit Committee one referral from 2012/13 is being investigated by the Police. The Internal Audit Team received a visit from a police officer in June 2014 following up details of the referral made. The Committee will be informed of the outcome of this case in due course.

5. RECOMMENDATION TRACKING

- 5.1** For reporting to this Committee only recommendations made since 01-04-2012 have been included in the recommendation tracking analysis.
- 5.2** The performance in implementing all recommendations in the period is below target with 44% of all 'High' and 'Medium' recommendations having been recorded as implemented. The performance in relation to recommendations other than those in Education is 69% (Figures as at 30-06-14).
- 5.3** A graph showing the breakdown of recommendation implementation by Service is provided at Appendix A.

6. CURRENT AUDIT CONCERNS

- 6.1** These are concerns that have been identified from previous internal audit work that have not been addressed and those identified from work during this period.

- **Business Continuity** – Recommended actions to strengthen controls in this area have been collated from a number of assurance provider reports, including those of Internal Audit and have been included in a Corporate Information Management Action Plan. We understand that progress on arrangements are now being made on a North Wales basis.
- **Risk Management** – The Council is in the process of developing its Risk Management Framework and embedding risk management in the organisation. The Corporate Risk Register is still in development and a regular reporting regime to be implemented.
- **Information Management** – The Information Commissioner’s Office has also undertaken a review in this area and identified similar issues and control weaknesses to those identified by the WAO, PWC and Internal Audit in previous reports. A Programme Board has been established to implement the Action Plan from the Information Commission’s report. A number of actions have been implemented since the ICO’s report.
- **Governance** - Issues relating to non-compliance with key corporate policy and procedure were identified again in 2013-14, for example in relation to corporate procurement. The Council has stopped the use of its electronic policy compliance and sign off of policies system which recorded users as having read, understood and agreed to abide by policies. Without such record of sign off it is more difficult to show that the policies have been adequately disseminated to relevant staff. A report concerning these issues was issued in 2011-12, however a number of key recommendations remained unimplemented at the end of 2013-14.
- **Corporate Procurement Framework** – An Internal Audit report on the Corporate Procurement Frameworks was issued in December 2012 and identified a number of areas where the framework needed to be strengthened. During testing it was found that a majority of the officers contacted who had signed approval for large value invoices were unaware of whether a contract was in place or not and invariably suggested another contact within their Service who ‘might’ know. The review identified that the underlying problem was the lack of a robust corporate procurement framework within the Council. For example there was no requirement for Services to register high value contracts with the corporate centre and therefore no way of identifying where significant expenditure is undertaken without a required contract under CPRs.

The fact that so many Authorised Signatories were certifying high value payments without knowing if an appropriate contract was in place in compliance with CPRs, or, if such a contract was in existence, what rates should be charged, was a significant finding in itself with regards to the effectiveness of the existing procurement framework.

A KPMG Procurement Fitness Check for the Isle of Anglesey issued in 2014 reinforced the Internal Audit findings and included a more in depth review of the weaknesses of the current arrangements. A Project Board has been assigned to implement the recommendations made in this report to strengthen the Corporate Procurement Framework.

In the current economic position it is considered vital that corporate procurement framework supports the efficiency savings being made throughout the Council by realising real savings from new or renewed high

value contracts. The weaknesses identified in these reviews need to be addressed if this support is to be provided.

- **Partnerships Framework** - The Council does not have a formal Partnership Framework in place to provide assurance that all partnerships have adequate governance, management and performance arrangements in place to meet their stated objectives and that they provide value for money in relation to the Council's financial and other resources invested in them.

The Council does not have a central register of partnerships detailing the purpose, resources invested, expected target outcomes, responsibilities or reporting lines of significant partnerships.

Current arrangements do not provide the necessary assurances that the stated benefits of partnership are being achieved or that the negative risks of partnership working identified by the Audit Commission and others are not being realised within existing Council partnerships.

- **Schools Recommendation Implementation** – There is a continuing issue with regards to schools implementing internal audit recommendations. These recommendations relate to financial and governance issues within schools which should be of concern to Head Teachers and to the Education Department.
- **Unimplemented High Category Recommendations** – High Category recommendations showing as status unimplemented are recorded in the following review areas:
 - **HR MyView 1866.13/14** – issued: July 2013 – Report Sponsors: HR Manager and Head of Function – Resources; Issue: lack of segregation of duties over some system areas between establishment and payroll; Current recorded status: Finance and HR are liaising on system administration and access groups on the Northgate system to provide an adequate separation between access to amend establishment records and access to amend payroll details.
 - **Corporate Procurement 1825.12/13** – Issued: December 2012 – Report Sponsor – the then Head of Service Finance - Issue: lack of an adequate framework; need to update Contract Procedure Rules (CPRs) and Financial Procedure Rules (FPRs); Need for training for all Authorised Signatories on new CPRs and FPRs; Current recorded status: - Revised Contract Procedures Rules are still in development.
 - **Business Continuity 1812.12/13** – issued: September 2012: Report Sponsors: Head of Planning and ICT Manager; Issues: lack of an ICT Disaster Recovery Policy in line with ISO 27002 standards for Information Security and need for roles and responsibilities for Business Continuity to be defined; Current recorded status: There is a draft ICT DR Plan which is being integrated into the developing Business Continuity arrangements. A group has been set up to look formally at Business Continuity corporately.
 - **Direct Payments 1883.13/14:** Issued: July 2013 – Report Sponsor: Head of Service – Adult Services; Issues: Evidence of CRB checks to be provided for staff employed as carers by Service Users; Current recorded status: Following receipt of legal advice procedures have been amended to ensure that CRB checks are obtained where appropriate.

AUDIT MANAGER

14 JULY 2014

APPENDIX A

Recommendation Tracking Table –Non Education High & Medium Recommendations Created Since 01-04-2012 **Progress Table:** % implemented / non implemented of high and medium category recommendations by service where over 10 recommendations made But excluding Education; which total at the end of the period was **69%** of all such recommendations.

In our opinion therefore based on the self assessed data in the Progress Table above the Council has made **'adequate progress'** in the period in implementing High and Medium categorised Internal Audit recommendations.

