

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>Report to:</b>	Audit and Governance Committee
<b>Date:</b>	4 December 2018
<b>Subject:</b>	Internal Audit Update
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<b>Nature and Reason for Reporting:</b> This report provides information on work carried out by Internal Audit since the last Committee meeting. It allows the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee can receive assurance on Council services and corporate areas.	

## 1. Introduction

1.1. The report provides an update as at 9 November 2018 on:

- Internal Audit reports [issued](#) since 31 August 2018
- [Follow up](#) of internal audit reports
- Implementation of [management actions](#)
- Progress in delivering the [Internal Audit Operational Plan 2018/19](#)
- [Risk Management](#)
- [National Fraud Initiative](#)

## 2. Recommendation

2.1. That the Audit and Governance Committee notes Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement and decides whether it needs any further assurance on audit reports.



CYNGOR SIR  
YNYS MÔN  
ISLE OF ANGLESEY  
COUNTY COUNCIL

# Internal Audit Update

December 2018

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**Marion Pryor BA MA CMIIA CPFA**  
**Head of Audit & Risk**

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## Internal Audit reports recently issued

1. This section provides an overview of Internal Audit reports finalised since the last meeting, including the overall Assurance Rating and the number of Issues / Risks raised in the report's action plan.
2. We have finalised **two** reports in the period, summarised below:

Title	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
School Income Collection Arrangements	Limited	0	2	1	0	3
Concessionary Travel Fraud	Reasonable	0	0	0	0	0

### School Income Collection Arrangements

3. *In accordance with the Audit and Governance Committee's resolution with regards 'Limited Assurance' reports, I have provided a copy of the full report to the members separately.*
4. We included this audit within the audit plan following a request by the previous Head of Learning. Various concerns were raised about income collection processes within schools and further concerns were raised during the consultation we provided on the new IT system for collecting income within schools. Three primary schools were visited as part of the audit.
5. We identified that:
  - policies and procedures in relation to income are outdated
  - there are inconsistencies in accounting for income
  - there is a lack of corporate monitoring
  - monitoring of debt is variable between schools
  - governance of school funds is weak and
  - there are inappropriate system access controls.
6. Most of the weaknesses found within the income collection processes adopted by schools were due to a lack of knowledge and training, i.e. the Learning Service has not issued schools with up to date policies, supported by procedures and training. In addition, there is a lack of corporate compliance monitoring by the Learning Service to identify problems, leaving the Council exposed to risks.
7. The Schools Business Support Officer, who is new in post, confirmed that the Service had arranged further training for the School Comms system in October 2018. She also

stated that some schools have different packages for the School Comms system and are therefore not all able to undertake the same tasks. This is something that the Learning Service will review.

8. However, based on the weaknesses in the current system, we were only able to provide '**Limited Assurance**' of the risk management, governance and internal control arrangements.

## Concessionary Travel Fraud

9. Reports of fraud against Gwynedd Council have recently been in the press following the conviction of the owners of two bus companies for offences including conspiracy to commit fraud by false representation. The company had used lost or stolen concessionary bus passes, which allow free travel for the over 60s and others with certain disabilities, to claim for bus journeys never made. The company had used one card 23,000 times even though its holder had been issued with a replacement card and used one pensioner's bus pass thousands of times after he had died. The company submitted claims to Gwynedd Council, which the Council paid and then claimed back from the Welsh Government under the all-Wales Concessionary Travel Scheme.
10. We conducted enquiries with Gwynedd Council and the Council's Transport Service to ensure that the Council is not exposed to this fraud. One of the companies had operated two contracts for which the Council reimbursed concessionary fares but were not successful when the Council re-tendered the contracts in 2015. The other had not received any payments since June 2014.
11. Flintshire County Council, on behalf of all the north Wales Councils, provides summary reports directly from the Wayfarer system to support reimbursement claims for concessionary fares, so contractors cannot tamper with them. The Council's Transport Service checks all claims for concessionary fares submitted by the bus operator against the reports minimising the risk of losses due to fraudulent claims.
12. From July 2016, the Welsh Government introduced monthly detailed system reports to allow Councils to monitor smart card activity. The Council reviews the reports to identify any duplicate / high use of a card and any unusual activity so they can query with the bus operator. Reports highlight manual system over-rides and, within a tolerance level of 2%, the Transport Service investigates. The new reporting system means that the Council can identify and investigate anomalies and so there is a reduced risk of losses due to inflated or fraudulent claims for reimbursement of concessionary fares.
13. The Council participates in the Tell Us Once scheme and cancels cards when informed of deaths. The Council retains damaged cards and any card reported lost is de-activated. This ensures that the risk of financial loss due to fraudulent use of cards is minimised.
14. Based on the above conclusions, reasonable controls are in place to ensure the Council's exposure to risk in the reimbursement of concessionary fares is minimised.

## Follow up of Internal Audit reports

15. Currently, we follow up all reports with an assurance rating of 'Limited' or below. We have finalised **three** follow up reviews in this period, with the following outcomes:

Title of Audit	Review	Follow Up Concluded	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Sundry Debtors	First Follow Up	Nov-18	Limited	0	4	7	2	13
Corporate Procurement Framework	Second Follow Up	Nov-18	Reasonable	0	2	4	0	6
Council's Preparation for GDPR	First Follow Up	Oct-18	Reasonable	0	2	0	0	2

### Sundry Debtors – First Follow Up

16. *In accordance with the Audit and Governance Committee's resolution with regards 'Limited Assurance' reports, I have provided a copy of the full report to the members separately.*
17. Over the last two years, the Resources Service has embarked on large-scale investment in systems, including Debtors, Cash Collection and Accounting, Council Tax and Housing Benefits. The Debtors Team suffered historically from a lack of investment, both in terms of staffing and in systems. The introduction of the Civica Debtors system improved the situation, but at the time of our last audit and prior to the restructure, the Team did not have the capacity to develop the system and modernise processes.
18. This has been a challenging time; while maintaining the daily workload, staff have implemented major changes to systems but there have been a number of IT system implementation problems. There is evidence that the team has undertaken significant work to address the issues / risks raised during our original review, but our follow up review found that in many cases it has been insufficient to fully address the risk and therefore remains as '**Limited Assurance**'.
19. Of the 19 issues / risks raised during the initial audit review, the Revenues and Benefits Service Manager has tolerated one 'Minor' risk around refunds and the risk of fraud, five have been addressed, 11 are in the process of being addressed and work is yet to start on two. Where work has commenced and this has reduced the likelihood of the risk occurring, we have reflected this in the risk rating.
20. We will revisit in July 2019 to monitor the progress of addressing the risks.

## Corporate Procurement Framework – Second Follow Up

21. We undertook an audit of the corporate procurement framework and published a report in September 2017. The review resulted in a 'Limited Assurance' rating.
22. We conducted a follow-up review and published our report in January 2018. We concluded that although the Council had demonstrated 'Reasonable Progress' in addressing the Issues / Risks raised, the assurance level of the report should remain as a 'Limited Assurance' level due to the priority level of the remainder of the issues raised which were yet to reach their target implementation date.
23. This second follow up review concluded that of the 20 Issues / Risks raised during the original review in September 2017, six remain unaddressed. The Corporate Procurement Manager has extended the deadline dates for addressing these remaining risks, with the latest being in August 2019.
24. We raised one red Issue/Risk within the original report, which related to the Council's lack of assurance that all its procurement activity was compliant with procedures and regulations and the possibility that the Council had incurred expenditure where no formal competitive procurement exercise had been undertaken. There was a risk that fit for purpose contracts were not in place and services had not considered issues such as safeguarding, safety and value for money. Services agreed to undertake a review of current services provided by external providers to ensure that they had complied with procurement regulations and fit for purpose contracts were in place. Not all services had completed this review at the time of audit testing but they were making good progress towards gaining this assurance.
25. In addition, we undertook an exercise as part of our review to identify all expenditure with individual suppliers over £150k in the period 2017/18 to confirm that a contract is in place for the goods or service provided. We found that for this level of expenditure, the Council consistently has contracts in place and services were making use of national and regional procurement frameworks to derive savings.
26. Due to the work carried out by services and the results of our testing, we reduced the likelihood of the non-compliance of contracts to 'Unlikely', reducing the risk rating to 'Major' (Amber).
27. We therefore concluded that the Council has demonstrated 'good progress' in addressing the Issues/Risks raised and we are therefore now able to provide '**Reasonable Assurance**' that the Council manages its procurement activity effectively.

## Council's Preparation for General Data Protection Regulations – First Follow Up

28. We have undertaken two audits over the last year tracking the Council's preparation for GDPR. The first was an interim review in November 2017 to assess progress as at that date, which we then followed by a full audit in May 2018 to determine whether the Council was in a position of compliance with GDPR by the 25 May 2018 deadline.

29. While the interim update provided '**Reasonable Assurance**' that the Council was on track to achieve compliance with GDPR by May 2018, our subsequent review found that several services had not implemented the GDPR Action Plan in line with the agreed target dates. Due to the imminent implementation of the GDPR legislation and the potential consequences for the Council of non-compliance, we were only able to provide a '**Limited Assurance**' rating at this time, and we raised eight issues / risks for management attention.
30. The Council has undertaken much work within a relatively short period to address the issues / risks raised during our last review. Our follow up review confirms that the Council is now in a stronger position to demonstrate to the Information Commissioner's Office (ICO) that it has taken reasonable steps towards GDPR compliance. A more robust framework now exists within the Council to facilitate full compliance with GDPR over the next two years.
31. Of the eight risks / issues raised during the full review in May 2018, the Council has addressed six with two still in progress.
32. The Council has yet to appoint a School Data Protection Officer, to assist and advise schools on Data Protection and GDPR compliance; however, at the time of our review the recruitment process for this post was underway.
33. In addition, further work is required to ensure that all staff are sufficiently trained with regards GDPR. While the Council has rolled out a GDPR e-learning module, which is compulsory for all staff, recent completion statistics demonstrate that more than 50% of staff are yet to complete the training. There is therefore still a risk posed by staff not being fully aware of their individual and the Council's overall responsibilities with regards Data Protection.
34. Nevertheless, the Council has made good progress in addressing the issues / risks identified during our original review. We are also able to gain further assurance of how well the Council manages its information governance (IG) risks, from the annual SIRO (Senior Information Risk Officer) report presented to the Council's Audit and Governance Committee in September 2018. This report concluded that the Council's arrangements for information governance and data protection compliance are reasonably effective; it has successfully implemented the new data protection legislation, operating in a compliant way; and processes exist within the Council to demonstrate compliance to the ICO.
35. Taking consideration of the results of our follow up review, as well as the assurances provided by the annual SIRO report, we are now able to re-score our assurance rating and provide a **reasonable level of assurance** with regards to the Council's compliance with GDPR.



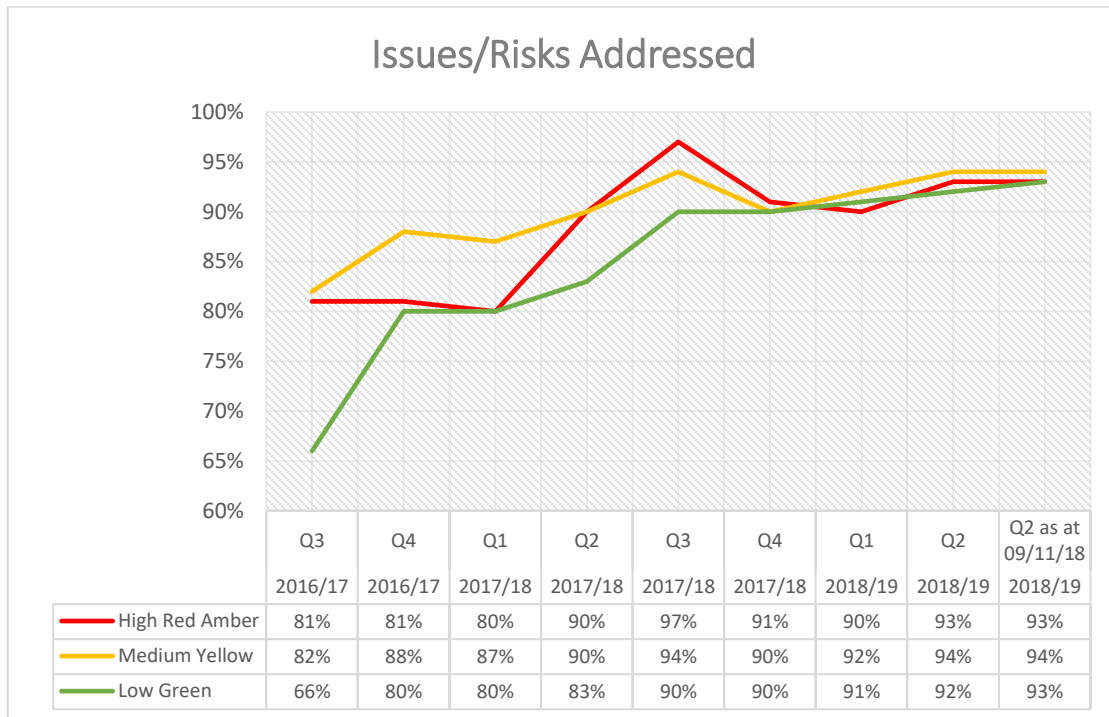
## Follow Ups Scheduled and In Progress

36. We have **three** reports with a ‘Limited Assurance’ rating scheduled for a follow up review before the end of this financial year. All **three** follow-up reviews are currently in progress:

Title of Audit	Reason for Review	Date of Follow Up	Assurance Level	Catastrophic	Major	Moderate	Minor	Total
Child Care Court Orders Under the Public Law Outline	Second Follow Up	Jul-18	Limited	1	3	3	1	8
Payment Card Industry Data Security Standard Compliance	Second Follow Up	Oct-18	Limited	0	6	4	1	11
System Controls - Logical Access and Segregation of Duties	Third Follow Up	Dec-18	Limited	0	3	2	0	5

## Implementation of Management Actions

37. The graph below highlights management's performance in addressing Issues/Risks raised during our audits:



38. The Council steadily improved its performance during 2017/18 and has continued to maintain good performance over the first two quarters of 2018/19.

39. A more detailed report of all outstanding recommendations and Issues/Risks is made twice a year, with the next due in February 2019.

40. However, a recent exercise to examine the historical data included in the action tracking system has highlighted an overly administrative configuration and items inconsistent with our risk-based approach to auditing. A new and upgraded version of the action tracking system will shortly be available, which provides extra functionality and reduces the administrative burden. Therefore, we will undertake an exercise next year to cleanse the historical data and review the system configuration.

## Progress in delivering the Internal Audit Operational Plan 2018/19

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41. The current Plan is attached at [Appendix A](#). Since the appointment of the two new Senior Auditors, work has progressed well. However, going forward, along with the length of these vacancies, protracted investigations, significant follow up work and the maternity leave of the third Senior Auditor, which started unexpectedly in October 2018, our target for undertaking 80% of the red and amber residual risks in the corporate risk register will be difficult to achieve.
42. Although we have only covered **29%** of the red and amber residual risks in the corporate risk register, work is currently ongoing in **seven** areas:
- Cyber Security (red risk)
  - Gypsies and Travellers (Requirements of the Housing (Wales) Act 2014)
  - Counter Terrorism and the Prevent Duty
  - Recruitment and Retention
  - Business Continuity (two red risks)
  - Direct Payments
  - Leisure Services – Governance Arrangements
43. We are also involved in two ongoing investigations, which are both nearing their conclusion.

## Risk Management

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44. The migration of the risk registers into the new Risk Management software (4risk) is going well and work is continuing with services to quality assure their risks. There will be further work to embed and enhance the assurance mapping aspect of the system as part of the second phase of implementation.
45. We have undergone an independent Risk Management Health Check by our insurers, Zurich Municipal. The outcome is largely as expected, with a few opportunities for improvement. We will share the Strategic Risk Consultant's report with the Committee once it is finalised, along with our improvement action plan.

## National Fraud Initiative

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46. To support Welsh public bodies in their fight against fraud, the Auditor General runs the National Fraud Initiative (NFI) in Wales on a biennial basis under his statutory data matching powers set out in Part 3A of the Public Audit (Wales) Act 2004.
47. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. It has been run every two years since 1996 and, to date has been used to identify fraud and overpayments totalling £1.69 billion across the UK.
48. During this last quarter, we have been requesting, collating, reviewing and uploading all the required data for the 2018/19 NFI exercise, following strict data specifications. This involved working closely with colleagues in IT and across all services to extract the data for 12 data sets, and took eight days in total across the team.
49. The Wales Audit Office has just released the results of the previous NFI exercise (2016-18), which has been one of the most successful to date, already resulting in the identification of £5.4 million of fraud and overpayments in Wales, and £301 million across the UK. The Wales Audit Office's report includes a number of case studies which highlight the excellent work that participating organisations are doing to drive out fraud in public services and is available at <http://www.audit.wales/publication/national-fraud-initiative-wales>

## Appendix A – Internal Audit Operational Plan 2018/19<sup>1</sup>

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
<b>CORPORATE-WIDE</b>							
Corporate	Business Continuity	Corporate Risk Register	C2 - YM9 C1 - YM38	10	1.75		April 2019
Corporate	Welfare Reform	Corporate Risk Register	C2 YM10	10			April 2019
Corporate	Corporate Safeguarding	Corporate Risk Register	D2 <sup>2</sup> YM11	10	7	<b>Reasonable Assurance</b>	<b>December 2018</b>
Corporate	CONTEST (Countering Terrorism and Preventing Radicalisation)	Corporate Risk Register	E1 YM27	10	2.5		April 2019
Corporate	Payment Card Industry Data Security Standards (PCIDSS)	Corporate Risk Register	D1 YM34	10	0.75		February 2019
Corporate	General Data Protection Regulations (GDPR)	Corporate Risk Register	C2 YM31	0	8	<b>Reasonable Assurance</b>	<b>December 2018</b>
Corporate	Corporate Procurement	Corporate Risk Register	D2 - YM20 D2 - YM22	18	18	<b>Reasonable Assurance</b>	<b>December 2018</b>
Corporate	Risk Management	New process implemented October 2017. New 4Risk software rolled out September 2018. Will be the subject of an independent Health Check by our insurers.	n/a	n/a	n/a	Draft report received November 2018	February 2019
Corporate	Well-being of Future Generations Act	High-profile legislation that has a significant impact on	n/a	3			

<sup>1</sup> Corporate Risk Register approved by SLT 10/09/18

<sup>2</sup> Residual Risk reduced from C1 (Red) to D2 (Amber)

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
		the way the Council works. It is subject to specific review by WAO.					
Corporate	Social Services and Well-being Act - Part 9 requirements	High-profile legislation that has a significant impact on the way the Council works. Extension from WG to implement pooled budgets	n/a	2			
Corporate	Managing the Risk of Fraud	PSIAS requirement	n/a	5			
<b>RESOURCES</b>							
Resources	Recovery and Write-offs (Car Loans)	Key Financial System - S151 concerns	n/a	15			April 2019
Resources	Income – Sundry Debtors Follow Up	Key Financial System - external audit assurance	n/a	15	15	Limited Assurance	December 2018
Resources	Payroll	Key Financial System - external audit assurance	n/a	15			
<b>TRANSFORMATION</b>							
ICT	IT Audit - Cyber Security	Corporate Risk Register	C1 YM28	15	7.25		February 2019
HR	Recruitment & Retention	Corporate Risk Register	C2 YM5	15			April 2019
<b>REGULATION &amp; ECONOMIC DEVELOPMENT</b>							
Regulation & Economic Development	Energy Island Programme (including major schemes such as Wylfa Newydd)	Corporate Risk Register	C2 - YM13 C2 - YM16 D2 - YM17	10			
Regulation & Economic Development	Leisure Services – financial investment	Corporate Risk Register	B3 YM32	10			April 2019

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
Regulation & Economic Development	Leisure Services - Governance and Control	Head of Service Request - major structural changes. Carried forward from 2017/1	n/a	15		Waiting for restructure to be finalised	April 2019
<b>HIGHWAYS, WASTE &amp; PROPERTY SERVICES</b>							
Highways	Car Park Services – Enforcement	New pilot in place from 2017/18 with external organisation for car parking enforcement	n/a	15 0		Deleted – low priority	
Highways	Highways Contract Monitoring Arrangements	Head of Service request	n/a	15 10	10	<b>Substantial Assurance</b>	<b>September 2018</b>
<b>HOUSING</b>							
Housing	Gypsies and Travellers (Requirements of the Housing Act 2014)	Corporate Risk Register	C2 YM29	10	0.25		April 2019
<b>ADULT SERVICES</b>							
Adults	Deprivation of Liberty Safeguards	Corporate Risk Register	C2 YM25	15 9	9	<b>Reasonable Assurance</b>	<b>July 2018</b>
Adults	Direct Payments	Head of Service request (carried forward from 2017/18)	n/a	10	0.5		September 2018
<b>CHILDREN'S SERVICES</b>							
Children's	Integrated Service Delivery Board	Corporate Risk Register	C2 YM36	10			April 2019
<b>LEARNING</b>							
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	n/a	n/a		April 2019
Learning	Primary Schools Thematic Reviews - Schools Income Collection	Head of Service request		20	16	<b>Limited Assurance</b>	<del>September 2018</del> <b>December 2018</b>

Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
<b>GRANT CERTIFICATION</b>							
	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
	<b>TOTAL AUDIT DAYS</b>			<b>312</b>	<b>72</b>		
<b>CHARGEABLE NON PROGRAMMED DAYS (PRODUCTIVE)</b>							
	Follow Up Work	Several limited assurance reports requiring follow up, includes reporting and administering 4Action		50	46		
	National Fraud Initiative			8	8		
	General Counter Fraud Work, enquiries and referrals			52	33		
	Closure of Previous Year's Work			19	19		
	Corporate consultancy			60	34		
	Audit & Governance Committee, including training for members			40	27		
	Management Review			40	15		
	<b>TOTAL</b>			<b>269</b>	<b>182</b>		
<b>NON CHARGEABLE DAYS (NON-PRODUCTIVE)</b>							
	Risk & Insurance			20	10		
	General Administration			40	25		



Service / Section	Title	Reason for Inclusion	Corporate Risk Rating (Residual)	Revised Plan 2018/19	Actual Days as at 11/11/18	Notes / Assurance Rating	Target / Actual Date of Reporting to Committee
	Personal Development & Review, 121 & Team Meetings			30	8		
	Management, including liaison with External Audit and audit plan preparation			40	24		
	Leave, including annual, statutory, special and sick leave			357	173		
	Training and Development for staff, including induction and Welsh lessons			119	64		
	<b>TOTAL</b>			<b>606</b>	<b>303</b>		
	<b>TOTAL RESOURCE REQUIREMENT</b>			<b>1187</b>			
	<b>RESOURCE AVAILABLE</b>			<b>1096</b>			
	<b>RESOURCE SHORTFALL</b>			<b>-91</b>			
	<b>PRODUCTIVITY</b>			<b>49%</b>			