

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>Report to:</b>	Governance and Audit Committee
<b>Date:</b>	28 September 2022
<b>Subject:</b>	Internal Audit Update
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<b>Natur a Rheswm dros Adrodd / 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.	

## 1. INTRODUCTION

1.1 This report updates the Committee, as at 31 August 2022, on the audits completed since the last update as at 29 June 2022, the current workload of internal audit and our priorities for the short to medium term going forward.

## 2. RECOMMENDATION

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



# INTERNAL AUDIT UPDATE SEPTEMBER 2022

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## ASSURANCE WORK COMPLETED SINCE THE LAST UPDATE

1. This section provides an overview of internal audit reports finalised since the meeting in June 2022, including the overall assurance rating and the number of issues/risks raised.
2. We have finalised **four** pieces of assurance work in the period, summarised below:

Title	Strategic Risk Register Ref.	Date Final Report	Assurance Level	Critical	Major	Moderate	Total
Managing the risk of fraud and corruption in procurement	n/a	July 2022	Reasonable	0	0	6	6
Direct Payments	n/a	August 2022	Reasonable	0	0	5	5
IT Vulnerability Management	YM4	August 2022	Limited	0	4	1	5
IT Service Continuity (Phishing) - First Follow Up	YM4	August 2022	Reasonable	0	1	2	3

### Managing the risk of fraud and corruption in procurement

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
6	Moderate	

3. Our review sought to answer the following key question:

**Does the Council have adequate arrangements in place to safeguard against the risk of fraud and corruption in its procurement activities?**

4. Our review concluded that although reasonable arrangements exist in terms of policies and procedures to safeguard against the risk of fraud and corruption in the Council's procurement activities, there are opportunities to improve the arrangements by updating documents, creating a risk-aware culture within the workforce and developing proactive counter fraud measures within the procurement function.

5. We raised six moderate issues/risks that require management attention, which when addressed will help to strengthen the Council's existing procurement counter fraud arrangements. Overall, however, we are able to provide **reasonable** assurance of the governance, risk management, and control of this area and have agreed an action plan with management.

## Direct Payments

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
5	Moderate	

6. Our review sought to answer the following key question:

**Does the Council effectively encourage, manage, and support people to use direct payments?**

7. Our review concluded that the Council's arrangements for managing risks relating to Direct Payments are reasonable, although we have identified some issues the Council needs to resolve. An acceptable control environment is in operation, but improvements can be made.
8. While we have raised five issues/risks, which require management attention of moderate to low impact at service level, the outcome of our review is mostly positive and we have agreed an action plan with management. Therefore, within the scope of our review, we are able to provide **reasonable** assurance of the governance, risk management, and control of this area.

## IT Vulnerability Management

Limited Assurance	Issues/Risks	
	0	Critical
	4	Major
1	Moderate	

9. Our review sought to answer the following key question:

**Does the Council have appropriate controls in place to minimise keys risks associated with IT vulnerabilities across its IT infrastructure?**

10. Our review concluded that although the IT unit operates some good controls in respect of vulnerability management, a lack of formal policies, procedures and change control processes, and insufficient evidence of remote user device updates, exposes the Council to risk in this area. We acknowledge that the IT unit are in the process of implementing a solution - Microsoft Endpoint, to improve visibility and control in this area. However, the absence of a structured rollout of the system means that progress to date has been slow and significant risks exist in the interim.

11. We are therefore only able to provide a **limited** level of assurance of the governance, risk management, and control arrangements at this time. The review has identified five issues/risks that require management attention, four of which are classed as 'major'. We have agreed an action plan with management, which we have detailed in a separate document and provided under separate cover to the members of the Committee.

## IT Service Continuity (Phishing) – First Follow Up

Reasonable Assurance	Issues/Risks	
	0	Critical
	1	Major
2	Moderate	

12. Our review sought to determine:

**Has management addressed the outstanding 'issues/risks' originally raised in our Limited Assurance report on IT Service Continuity (Phishing) in May 2021?**

13. Our follow-up review concluded that the Council is in the process of strengthening its controls in this area and has made several technical and procedural improvements, which help to mitigate the risk of a successful phishing attack.
14. The most recent phishing test results also show an overall improvement in staff cyber-awareness since our original review and we are satisfied that arrangements to manage the risks associated with phishing have improved since our initial review. We have therefore increased the assurance provided to '**Reasonable**'.
15. However, due to the severity and size of the risk posed in this area, further work to maintain and improve staff awareness of phishing and cyber security is essential. In light of the potential impact of the risk faced by the Council in this area, we have agreed to carry out a further follow up review in February 2023 to ensure the remaining actions are implemented and embedded effectively.

# INVESTIGATION

## Duplicate Payment

16. On 1 April 2022, the Payments Officer discovered that the Council had made a duplicate payment of £194k to a contractor - the first payment on 15/03/2022 and the second on 22/03/2022.
17. The Director of Function (Resources) and Section 151 Officer requested an investigation to determine how this issue had occurred.
18. Our review concluded that issues with the system and the scanner, and a lack of contract financial monitoring were the root cause of this issue occurring. In addition, the Payments Section continues to receive a large number of duplicate invoices, both directly from suppliers, and services. This increases the risk of the Council paying invoices more than once.
19. To resolve these issues, the Director of Function (Resources) and Section 151 Officer has committed to:
  - developing and implementing a Contracts Register within the Payments Team, where all contract payments will be recorded and monitored
  - commissioning Civica to undertake a 'health check' of the system and the processes used by the Payments Team to ensure the Council is getting the best use out of the system.
20. In addition, issues/risks identified during previous internal audit reports remain outstanding, and the newly appointed Business Manager will be working to resolve these with the Payments Team.

## WORK IN PROGRESS

21. The following pieces of work are currently in progress:

Audit Area	Strategic Risk Register Ref	Service	Reason for Audit	Stage
Climate Change Health Check (Zurich Municipal)	YM13	Corporate	Strategic Risk Register	Draft Report
Council Tax and NNDR Refunds	n/a	Resources	Concerns raised during Duplicate Payments audit	Fieldwork
Cash Handling at Cyswilt Môn	n/a	Corporate	Concerns raised during Council Tax and NNDR Refunds audit	Fieldwork
Financial Resilience	YM1	Resources	Strategic Risk Register	Scope agreed
Local Government Pension Scheme	n/a	Resources	Concerns raised during Teachers' Pensions audit	Scope agreed



## OUTSTANDING ACTIONS

22. Work is progressing to support services with implementing all outstanding actions. The 4action dashboard at [Appendix 1](#) provides an overview of the status of actions as at 31 August 2022.
23. There are currently two overdue actions (0 Major; 2 Moderate), which both fall within the Resources service and are related to 'Issues/Risks' raised in one audit:
  - Leavers' Process
24. We are working with the service to provide support with implementing the actions.
25. A more detailed report on all outstanding actions is also submitted to this meeting.

# PRIORITIES FOR 2022-23 AND BEYOND

## Current Capacity

26. We are currently carrying two vacant posts at Senior Auditor level - one due to long-term secondment and one due to resignation. We are currently on the third attempt of recruiting one of the posts.
27. We are utilising the budget savings to commission additional external support, including technical IT audit from the IT Audit Team at Salford Council.

## Short/Medium Term Priorities

28. We are continuing to deliver the Annual Internal Audit Strategy for 2022-23 approved by the Governance and Audit Committee in June 2022. Our priority is to review the 'red' and 'amber' residual risks<sup>1</sup> we have not yet reviewed, or not reviewed in the last two years, whilst remaining agile to respond to requests for assistance and assurance from services, and reacting to investigations.
29. We will continue to actively promote and monitor the addressing of outstanding internal audit issues/risks.
30. We are currently undertaking a self-assessment with members of the Committee to determine training and development needs for the new elected and lay members.
31. We have undertaken an External Quality Assessment of compliance with the Public Sector Internal Audit Standards at Ceredigion County Council and will be presenting our report to their Governance and Audit Committee on 21 September 2022.
32. We are also currently subject to an External Quality Assessment, which is being undertaken by Flintshire County Council.

## Longer Term Priorities

- The delivery of the Counter Fraud, Bribery and Corruption Strategy 2021-24, including continuing to address the Audit Wales recommendations included in its report 'Raising Our Game - Tackling Fraud in Wales'.
- Work with colleagues in the Performance Team to improve assurance mapping across the Council and contribute to the development of the Performance Review Group.

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<sup>1</sup> The Strategic Risk Management update, submitted to Part II of this Committee, details the 'red' and 'amber' residual risks and the associated assurance we have provided.

# APPENDIX 1 – OUTSTANDING ACTIONS AS AT 31 AUGUST 2022 (4ACTION DASHBOARD)

