

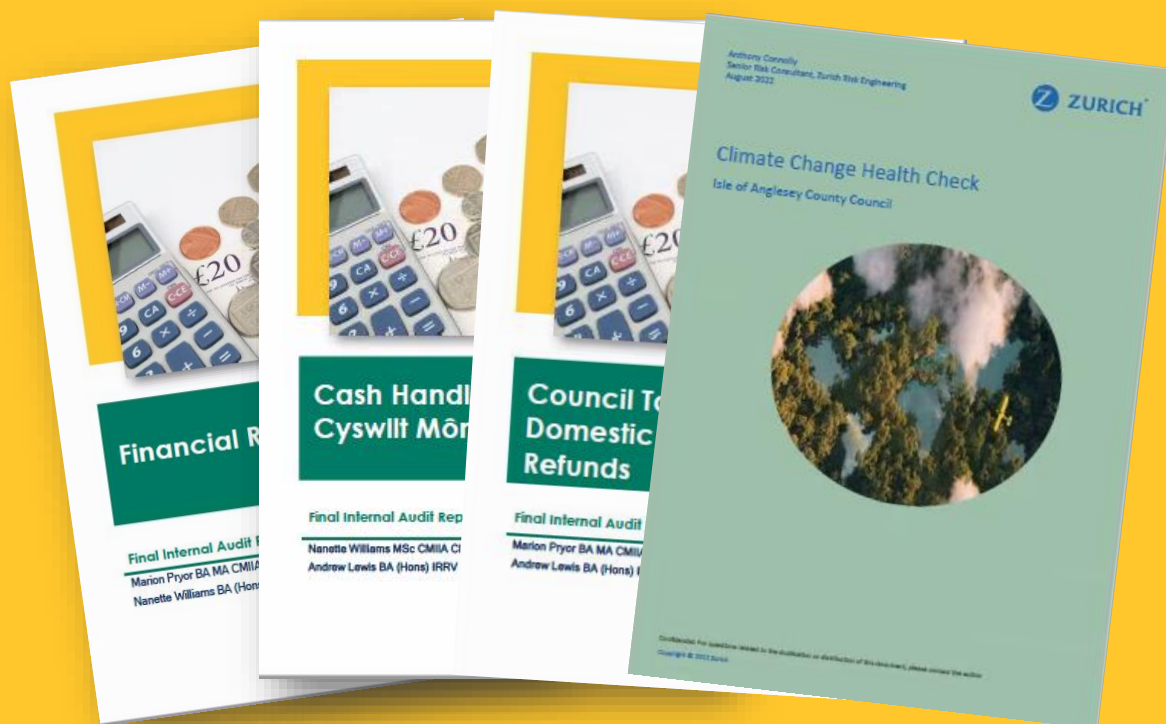
ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	08 December 2022
Subject:	Internal Audit Update
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Natur a Rheswm dros Adrodd / Nature and Reason for Reporting: In accordance with the Council's 'Strategy for Committee 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 30 November 2022, on the audits completed since the last update as at 31 August 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 DECEMBER 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 September 2022, including the overall assurance rating and the number of issues/risks raised.
2. We have finalised **three** pieces of internal audit assurance work in the period, summarised below:

Title	Strategic Risk Register Ref.	Date Final Report	Assurance Level	Critical	Major	Moderate	Total
Financial Resilience	YM1	November 2022	Reasonable	0	0	1	1
Cash Handling at Cyswllt Môn	n/a	November 2022	Reasonable	0	0	3	3
Council Tax and Non Domestic Rates Refunds	n/a	November 2022	Reasonable	0	0	4	4

Financial Resilience

	Issues/Risks	
Reasonable Assurance	0	Critical
	0	Major
	1	Moderate

3. Our review sought to answer the following key question:
Does the Council have adequate arrangements in place to manage the implications of real term funding reductions to ensure that it continues to achieve its priorities and delivers quality services?
4. Our review concluded that within the scope of its control, the Council has a framework of effective controls in place to manage the implications of real term funding reductions. Despite this, it is clear that the Council faces difficult decisions over the next two years due to the current challenging and unpredictable economic climate.
5. The Council operates an effective budget monitoring process, which ensures that it is sighted and alert to potential budget pressures at an early stage. Service accountants work closely with Heads of Service and management teams to support effective budget management. In addition, the Executive receive regular, detailed budget monitoring reports, which outline the Council's current financial performance across its three key budget areas; revenue, capital, and housing revenue (HRA).

6. The Director of Function (Resources) and Section 151 Officer has recently revised the Council's Medium Term Financial Plan (MTFP) which, using a number of technical assumptions, forecasts the Council's likely resource requirements and funding availability over a two year period. This is critical in enabling the Council to effectively plan how it will finance its operations over the medium term. Based on current estimates, the Council is likely to require an additional £18.15m to meet demand and inflationary pressures in the 2023/24 financial year. Though the financial outlook over the medium term looks extremely challenging, we are able to take assurance at this early stage that senior management and the Executive are acutely aware of these challenges, and work to identify savings solutions is underway. Nevertheless, the Council will inevitably be required to make difficult decisions in order to balance its budget in 2023/24 and 2024/25.
7. Following the Council elections in May 2022, the Director of Function (Resources) and Section 151 Officer delivered finance-related training to the new cohort of members, and specific treasury management training was given to the Governance and Audit Committee in September 2022. A further briefing session for all elected members is planned for November to ensure they are cited and fully understand the expected financial challenges and implications in 2023/24.
8. The Council operates a policy to retain 5% of its net revenue budget in general reserves. This helps to create a level of mitigation from any unexpected financial risk. Current general reserve balances held by the Council are £11.29m, which is £3.37m above the minimum reserve level. While the use of reserves to help bridge potential funding gaps is not a sustainable financial strategy, the existence of healthy balances provides a level of resilience and gives the Council greater opportunity to implement savings and potentially re-design services.
9. The Council has outlined a number of key financial performance indicators, which it tracks through the quarterly corporate scorecard. Though effective in monitoring short-term financial performance, in their current format these indicators do not allow the user to easily assess the Council's longer-term financial resilience, and whether this is improving or deteriorating. The Chartered Institute of Public Finance and Accountancy (CIPFA) has identified five indicators of public sector financial resilience, which could be used for this purpose. While this information is contained within the Council's MTFP and budget monitoring reports, we consider it may be useful for senior management and elected members to access this performance data more readily in a dashboard format quantifying the Council's understanding of its upcoming financial challenges.
10. In the context of the current economic challenge and uncertainty, we are assured that the Council is taking all reasonable steps within its control to manage its key financial risks. We are therefore able to provide a **reasonable level of assurance** of the governance, risk management, and control of this area at this time. We have raised one 'Issue/Risk', which requires management attention and have agreed an action plan with management.

Cash Handling at Cyswllt Môn

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
	3	Moderate

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

Does the Council have adequate arrangements in place to manage and mitigate the risks associated with receiving cash income at Cyswllt Môn?

12. Our review concluded that the Council had adequate internal controls in place to manage the associated risks of receiving cash payments at Cyswllt Môn before the Covid-19 pandemic forced the temporary closure of Council buildings to the public. The lockdowns during 2020 and 2021 provided an opportunity for the Council to further its transition to electronic-only payment processes and as a result, Cyswllt Môn no longer accepts cash payments. However, on the rare occasions where services accept cash directly, the availability of formal documented processes and a lack of a record of the transfer of cash between officers increases the risk of financial loss to the Council.
13. While we raised three 'Issues/Risks' of moderate impact, which require management attention, the outcome of our review is largely positive. Therefore, we are able to provide **reasonable assurance** in relation to the governance, risk management, and controls in this area and have agreed an action plan with management.

Council Tax and Non Domestic Rates Refunds

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
	4	Moderate

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

Does the Council have adequate arrangements in place to ensure refunds of Council Tax and Non Domestic Rates are accurate, correct, timely and only provided once?

15. Our review concluded that the Council's arrangements for managing risks relating to Council Tax and Non-Domestic Rates (NDR) refunds are effective in the main. However, the Council would benefit from making some improvements in respect of:
- periodic checks of refund payments and processes for refunding credit card payments
 - the administration and treatment of unclaimed Council Tax and NDR credit balances
 - reviewing the application of exemptions where recent case law has set a precedent.
16. While we raised four 'moderate' issues/risks, which require management attention, the outcome of our review is largely positive. Therefore, we are able to provide **reasonable assurance** in relation to the governance, risk management, and controls in this area and have agreed an action plan with management.

OTHER ASSURANCE WORK

Climate Change Health Check (Zurich Municipal)

17. The Isle of Anglesey County Council has acknowledged climate change as a critical issue and accordingly, has identified a risk in its strategic risk register that the Council may not be able to adapt to become a carbon neutral Authority by 2030.
18. As it is a specialist area, we commissioned Zurich Municipal Risk Engineers to undertake a climate change health-check, with the support of the Council's Climate Change Manager, to gain a better understanding of the key risk exposures and areas where improvements were needed to manage this risk and to support the achievement of 'net zero' by 2030.
19. The health check concluded that the 'Net Zero' target achievement might not be possible in all areas of the Council by 2030 but there is strong evidence of a significant portfolio of 'net zero' aligned work / programmes in place.
20. The health check identified many positive features in the Council's current climate change / net zero action plans and arrangements and a strong foundation on which to move forwards in achieving its net zero targets across key strategic areas. Plans are maturing and the Climate Change Manager role will be a key enabler in ensuring this activity is on track and managed in line with budget.
21. The Zurich Municipal Risk Engineers made recommendations to build upon the work already undertaken to help deliver a more cohesive, connected view across the Council. They felt there were currently too many initiatives and projects siloed within services that need to be fully visible and centrally monitored against agreed targets. This will need its own governance and oversight to ensure the 'net zero' ambitions at the Council are realised and achieved.
22. The report produced provides insight into the current strategies, plans and actions, and is submitted as a separate item on the Committee's agenda. The Climate Change Manager has drafted and agreed an action plan with senior management, which is also submitted as part of the separate item on the agenda.

WORK IN PROGRESS

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

Audit Area	Strategic Risk Register Ref	Service	Reason for Audit	Stage
Galw Gofal (Partnership Governance Arrangements)	n/a	Adult Services	Requested by Chief Executive.	Draft Report - being considered by Galw Gofal Partnership Board on 01/12/22
Community Renewal Fund Grant	n/a	Resources / Regulation and Economic	Request by Grants Manager (requirement of grant)	Fieldwork
Local Government Pension Scheme	n/a	Resources	Concerns raised during Teachers' Pensions audit	Postponed
IT Audit - Cloud Computing	YM3	Corporate Transformation	Strategic Risk Register	Scope agreed
Recovering Council Sundry Debts	n/a	Resources	First follow up of Limited Assurance report from November 2021	Fieldwork
Payments - Supplier Maintenance / Identification of duplicate invoices and recovery of duplicate payments	n/a	Resources	Second follow up of Limited Assurance follow up report from April 2022	Fieldwork

OUTSTANDING ACTIONS

24. 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 30 November 2022.
25. There are currently 14 overdue actions (3 Major; 11 Moderate), which relate to 'Issues/Risks' raised in the following audits:
 - Leavers' Process
 - Recovering Council Sundry Debts - follow up currently underway
 - Sundry Debts - follow up currently underway
 - Information Governance
26. We are working with the services to provide support with implementing the actions.

PRIORITIES FOR 2022-23 AND BEYOND

Current Capacity

27. We are currently carrying two vacant posts at Senior Auditor level - one due to long-term secondment and one due to resignation. We have been unable to attract enough suitable applicants despite three attempts to recruit.
28. 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

29. 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 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.

Red and Amber Strategic Risks

30. There are three strategic risks remaining to be reviewed before the end of the year:
 - YM5 School Modernisation Programme (red/red)
 - YM11 Increase in poverty increasing demand on Council services (red/red)
 - YM10 Corporate Safeguarding (red/amber)

National Fraud Initiative (NFI)

31. The NFI is a UK-wide data matching exercise that helps to detect and prevent fraud. It is conducted in Wales by the Auditor General under his statutory data matching powers set out in Part 3A of the Public Audit (Wales) Act 2004 (the 2004 Act).
32. The NFI is designed to help public bodies build their fraud detection capability through data matching at a national level. The Auditor General collaborates with the UK Cabinet Office, Audit Scotland and the Northern Ireland Audit Office to run NFI as a UK-wide exercise.
33. The main data matching exercise is carried out biennially and we have been working with services to extract data from systems to upload for this year's exercise. Before uploading, data sets must be quality assured to ensure they meet the data specification. Privacy notices must also be checked to ensure compliance. Data must be uploaded to the secure NFI portal before 2 December 2022, otherwise it may be classed as late and a failure to fully meet the Council's statutory duty.
34. The outcome of the matching exercise will be available at the end of January 2023, when we will commence work to review matches on a risk-basis, and where possible, distribute to services for them to review. The outcome of our review must be recorded on the secure NFI portal.

Other Work

35. We will continue to actively promote and monitor the addressing of outstanding internal audit issues/risks.
36. 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.
37. We are currently subject to an External Quality Assessment of compliance with the Public Sector Internal Audit Standards, which is being undertaken by Flintshire County Council.

Longer Term Priorities

- The delivery of the new Counter Fraud, Bribery and Corruption Strategy 2022-25, 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 Governance and Performance Review Group.
- Once it has had time to mature, we will work with members of the Governance and Audit Committee to undertake an assessment of the effectiveness of the Committee using the newly published CIPFA guidance as a benchmark.

APPENDIX 1 – OUTSTANDING ACTIONS AS AT 30 NOVEMBER 2022 (4ACTION DASHBOARD)

