

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>Report to:</b>	Governance and Audit Committee
<b>Date:</b>	18 April 2023
<b>Subject:</b>	Internal Audit Update
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<p><b>Natur a Rheswm dros Adrodd / Nature and Reason for Reporting:</b>  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.</p>	

## 1. INTRODUCTION

1.1 This report updates the Committee, as at 31 March 2023, on the audits completed since the last update as at 31 January 2023, 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 APRIL 2023

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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 February 2023, including the overall assurance rating and the number of issues/risks raised.
2. We have finalised **five** pieces of internal audit assurance work in the period, summarised below:

Title	Strategic Risk Register Ref. / Reason for audit	Date Final Report	Assurance Level	Critical	Major	Moderate	Total
Recovering Council Debts and the Impact of Covid-19	Requested by Director of Function (Resources) / Section 151 Officer Second Follow Up	February 2023	Limited	0	2	3	5
Gas Safety-Regulatory Compliance (Housing)	Requested by the Head of Housing Services	March 2023	Reasonable	0	1	5	6
IT Audit - Cloud Management	YM3	March 2023	Reasonable	0	1	1	2
Payments - supplier maintenance and duplicate payments	Second Follow Up	March 2023	Reasonable	0	0	1	1
The Council's effectiveness in managing its strategic risk 'YM11 – Poverty'	YM11	March 2023	Reasonable	0	0	5	5

## Recovering Council Debts and the Impact of Covid-19 (Second Follow Up)

Limited Assurance	Issues/Risks	
	0	Critical
	2	Major
	3	Moderate

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

**Has management addressed the outstanding issues/risks originally raised in our 'Limited Assurance' report dated November 2021?**

4. In response to the original report, the Director of Function (Resources) and Section 151 Officer commissioned an IT consultancy firm to work with the Service to address the issues and risks raised and improve processes within the Income section.
5. The Service determined that the first area that needed to be improved was income reconciliation. The consultant worked with the Council's Income and IT teams to develop automated income reconciliation routines, which would significantly reduce the manual intervention required by the Income Team. However, due to other priorities within the service leading to the redeployment of the consultant to work on the Capita Revenues system upgrade, only the 'school income' import routine has been successfully implemented to date. As a result, the Service has not yet completed the work to improve efficiency and streamline processes within the Income Section. Despite this, the Service has made some positive progress with addressing the issues/risks raised in our original report. For example:
- The Revenues and Benefits Service Manager now receives and reviews regular performance reports from the two debt collection agencies utilised by the Council
  - The Income team leader has reviewed the key duplicate debtor accounts identified during our initial review, and where possible taken action to resolve them
  - The Service has completed the planned restructure within the wider revenues recovery team
  - The recently appointed Strategy and Business Manager for the Resources Service has re-commenced performance monitoring of the sundry debtors' function. This role also now provides additional capacity to support the service in improving income and recovery processes and addressing the issues/risks raised in our original audit.
6. The Revenues and Benefits Service Manager confirmed that following the completion of the Capita system upgrade, the work to implement the remaining income reconciliation routines will resume. The Service will then consider the most appropriate way to facilitate a business process re-engineering exercise of sundry income and recovery processes to improve efficiency and enable a more proactive approach to recovering sundry debts.
7. However, due to the reasons outlined above in respect of progress with the consultant's project, we are unable to increase our assurance rating from '**Limited**' at this time. We will therefore review progress later in the year to ensure the Service addresses the remaining issues/risks, and the improvements to sundry debtors' processes are effective.

## Gas Safety – Regulatory Compliance (Housing)

Reasonable Assurance	Issues/Risks	
	0	Critical
	1	Major
	5	Moderate

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

**Does the Council comply with the Gas Safety (Installation and Use) Regulations 1998 (as amended)?**
9. Our review concluded that the Council has a framework of adequate internal controls to minimise the risk of non-compliance with gas safety regulations across its housing stock.
10. The Council implements appropriate policies and procedures to manage the installation, maintenance, service and repair of its gas appliances, although both the Responsive Repairs and Maintenance Policy and the Gas Safety and Servicing Policy require review and revision to ensure that they adopt the most recent changes to housing legislation.
11. A robust process ensures only qualified individuals, both internal staff and external contractors, carry out gas safety work on behalf of the Council. In addition, our testing confirms prompt attendance and repair times in respect of the most serious gas related issues, although a lack of performance monitoring and reporting on this could compromise success in this area.
12. The Council also has robust controls in place to ensure new builds and re-acquired properties are promptly added to its asset management system and gas safety check programme.
13. However, some areas within the process would benefit from review and improvement. Recharges had not been raised promptly and effectively, in line with agreed policy. Such delays pose risks of loss of income, increased financial costs and additional tenant complaints.
14. The Gas Servicing and Maintenance Contract ended in March 2022. Failure to subject this contract to effective, fair, and transparent competition poses a risk that the Council is not achieving value for money.
15. In addition, the Service is retrospectively raising purchase orders for gas safety checks carried out by subcontractors, i.e., following the completion of the work and once the Service receives an invoice for payment. Retrospective purchase orders serve no legal purpose and increase the risk of duplicate payments being made.
16. However, the outcome of our review was mostly positive, and we can provide **reasonable assurance** of the governance, risk management, and control of this area. We have agreed an action plan with management, who propose to address the issues and risks by December 2023.

## IT Audit – Cloud Management

Reasonable Assurance	Issues/Risks	
	0	Critical
	1	Major
	1	Moderate

17. Our review sought to answer the following key question:
- Does the Council have appropriate controls in place to minimise keys risks associated with software hosted in a cloud environment?**
18. Our audit concluded that, in the main, the Council manages its cloud-based services well and uses robust measures to manage its associated risks. Supplier management and monitoring would benefit from improvement; however, this does not detract from the positive outcome of our review.
19. The Council has developed a draft IT Cloud Policy which once agreed will provide a robust framework to ensure that business need, risk and procurement are considered when commissioning new cloud services and software. The policy outlines the IT service's involvement in procuring cloud products to ensure information security and technical requirements are identified and implemented by suppliers.
20. Service users produce business cases and IT project requests for the procurement of cloud services and software, and examples reviewed detail the typical areas for consideration such as product requirements, costings, risks, and benefits. In addition, mechanisms exist to prevent unauthorised staff purchasing cloud applications, including instructions for users, security restrictions for personal equipment usage, device management and business-wide software audits.
21. The IT Cloud Policy and Data Protection Impact Assessment (DPIA) highlight the required legal checks and information security risk assessments and clauses to cover GDPR and Information Security requirements are in place within cloud supplier contracts.
22. All cloud-based software is recorded in the Council's Freshservice IT asset management system, and licence management controls in this area are effective. Access to cloud solutions is managed, and where higher risk data is involved, it is managed using Azure Active Directory (AD) and multi factor authentication. User access permissions are adequately restricted, managed and controlled.
23. The IT team does not routinely monitor cloud suppliers against contractual clauses or service level agreements (SLAs) and this could lead to suppliers not meeting contractual security requirements and obligations which increases the risk of data loss or corruption, service outage and lack of regulatory compliance. Further, the limited level of 'due diligence' checks included in the current technical specification document for IT procurement, increases the risk of potential contractual clarity issues.
24. Overall, however, the outcome of our review was positive, and we can provide **reasonable assurance** of the governance, risk management and control of this area. We have agreed an action plan with management, who propose to address the issues and risks by July 2023.

## Payments – Supplier Maintenance and Duplicate Payments (Second Follow Up)

	Issues/Risks	
Reasonable Assurance	0	Critical
	0	Major
	1	Moderate

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

**Has management addressed the outstanding issues/risks originally raised in our two Limited Assurance reports focussed on the Council's creditor payments processes in 2021?**

26. The Finance team has undertaken much work to strengthen controls and as a result has addressed most of the issues/risks raised in our original reports. Improved supplier maintenance processes and a greater awareness of duplicate payment errors within the Payments team helps to minimise the associated risks to a more acceptable level. In particular:

- The Civica team has produced a comprehensive suite of guidance documents covering the entire 'purchase to pay' (P2P) process.
- The number of live duplicate supplier accounts has reduced significantly
- The Civica team has developed a series of duplicate invoice reports which analyse and compare previously paid invoices to identify potential duplicates. The Payments Officer now reviews these prior to each pay run.
- There is a marked decrease in the number and value of potential duplicate payments, indicating the effectiveness of this work.

27. Where required, 85% of invoices sampled had corresponding purchase orders, which exceeds the corporate target in this area. However, some potential issues around contract payments and monitoring became apparent during this review, therefore we plan to cover this in a planned audit of Contract Management later this year.

28. There are still problems associated with purchase order quality within services and the subsequent volume of rejected and queried invoices continues to be high, creating additional work for the Payments team. However, the new guidance documents should help to improve staff's understanding of the P2P process going forward. The Finance and Payments teams are also in the process of investigating the remaining potential duplicate payments identified during our previous reviews.

29. Of the 10 issues/risks outstanding after our first follow up review, the service has fully addressed six, and action taken to reduce the likelihood of the risk has resulted in two issues/risks being re-scored as 'minor'. This leaves one moderate-rated issue/risk still in progress, and one which we will review further with services as part of our Contracts Management audit. Arrangements to manage the risks associated with supplier maintenance and duplicate payments have improved since our initial reviews and we can therefore increase the assurance level provided to '**Reasonable**'. We will continue to monitor the remaining action as part of our internal monitoring system to ensure it is successfully implemented, and the associated issue/risk is addressed.



## The Council's effectiveness in managing its strategic risk 'YM11 -- Poverty'

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
	5	Moderate

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

**Does the Council have effective governance and control measures in place to manage the risk relating to poverty and its impact on council services?**

31. Our review concluded that the strategic risk relating to poverty is being managed in a reasonable manner and control measures are operating adequately in the most part. The Council has identified improvements and is in the process of implementing enhancements to its governance and control measures.
32. The Anti-Poverty Strategy (2018-2023) defines the Council's priorities and actions to reduce the impact of poverty with coverage across Council services and its partners. The Prevention and Early Intervention Strategy (2020) also features Tackling Poverty, with governance via the Prevention Board and the Tackling Poverty Group. Given recent major events i.e., Covid-19 and the cost-of-living crisis, both strategies now require a review.
33. The Corporate Transformation Team's review of the governance and the Council's approach to tackling poverty and prevention (report dated December 2022) makes several recommendations to strengthen governance arrangements and improve oversight and monitoring of the Council's activities. A project manager, appointed in January 2023, is making progress with implementing the recommendations by reforming the Board, revising the governance structure and Terms of Reference, and establishing a dashboard to enable monitoring of performance through analysis of relevant datasets e.g., foodbank use. Suitable performance indicators and measures will enable oversight of the implementation of the relevant strategies and action plans. These should also assist future reviews of the strategic risk's control measures' effectiveness and inform decision-making.
34. The pandemic and the cost-of-living crisis required the Council to react quickly and process several additional welfare payments at pace. The Council is aware that some of these (and existing benefits) may not have reached all the households that are eligible. Consideration is being given to:
- automating Council Tax Reduction Scheme payments where a Universal Credit claim prompts this, and
  - using data to identify individuals who may be eligible to claim additional financial support (subject to compliance with data protection requirements).

35. In alignment with the Welsh Government (WG) 'Child Poverty: Income Maximisation Plan', the Council is looking to adopt the 'No Wrong Door' approach to provide support no matter which service is contacted. The WG's plan also specifies the need for Local Authorities to streamline the benefit claim process, and the Council must continue to review how it can better achieve this to encourage take up of the support that is available.
36. The strategic risk: poverty (YM11) needs to be reviewed and updated to reflect recent changes e.g., removing 'Youth Homelessness Research Project Officer' as it is no longer a control measure, and to ensure that all relevant key control measures are listed. Cross-referencing to other strategic risks' control measures e.g., economy (YM7), young people opportunities (YM8) and homelessness and housing (YM9) would give a more complete record.
37. 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 mainly positive. We have agreed an action plan with management. Therefore, within the scope of our review, we can provide **reasonable assurance** of the governance, risk management and control of this area.

## WORK IN PROGRESS

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

Audit Area	Strategic Risk Register Ref	Service	Reason for Audit	Stage
Declarations of Interest	n/a	Corporate	Included within Counter Fraud, Bribery and Corruption Strategy 2023-2025	Fieldwork
National Fraud Initiative	n/a	Corporate	Included within Counter Fraud, Bribery and Corruption Strategy 2023-2025	Fieldwork
Fuel Card System	n/a	Highways, Waste and Property	Vulnerabilities exposed following an incident	Fieldwork
The Council's effectiveness in managing its strategic risk 'YM10 - Safeguarding.	YM10	Social Services	Strategic Risk Register	Scoping
The Council's effectiveness in managing its strategic risk 'YM5 - The Island's Schools'.	YM5	Learning	Strategic Risk Register	Scoping

## OUTSTANDING ACTIONS

39. Work is progressing to support services with implementing all outstanding actions.
40. A more detailed report on all outstanding actions is submitted separately to this meeting.

# PRIORITIES

## Current Capacity

41. A recent successful recruitment exercise means we are now only carrying one vacant post at Senior Auditor level due to long-term secondment. Our new Senior Auditor starts with the team on 1 April 2023.
42. We are continuing to utilise the budget savings to commission additional external support, including technical IT audit from the IT Audit Team at Salford Council.

## Short/Medium Term Priorities

43. Our new Annual Internal Audit Strategy for 2023-24 is submitted separately to this meeting of the Governance and Audit Committee and outlines our priorities for the year.
44. Our Annual Internal Audit Report for 2022-23, including the Head of Audit's opinion to inform the Annual Governance Statement, will be submitted to the June meeting of the Governance and Audit Committee.
45. We will work with the Chair of the Governance and Audit Committee to draft the Committee's Annual Report on discharging its responsibilities for 2022-23, which will also be submitted to the June meeting.

## Longer Term Priorities

46. We will 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.
47. 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 recently published CIPFA guidance as a benchmark.