

<b>ISLE OF ANGLESEY COUNTY COUNCIL</b>	
<b>Report to:</b>	Governance and Audit Committee
<b>Date:</b>	18 July 2024
<b>Subject:</b>	Internal Audit Update
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<p><b>Nature and Reason for Reporting:</b></p> <p>The Governance and Audit Committee’s Terms of Reference has an explicit requirement for the Committee to oversee the Council’s internal audit arrangements as part of its legislative duties under the Local Government (Wales) Measure 2011. (3.4.8.10.1)</p> <p>The Committee is required to consider updates on the work of internal audit including key findings, issues of concern, management responses and action in hand as a result of internal audit work. It is required to consider summaries of specific internal audit reports as requested, including the effectiveness of internal controls and will monitor the implementation of agreed actions. (3.4.8.10.10)</p> <p>This report also fulfils the requirements of <a href="#">CIPFA’s Position Statement: Audit Committees in Local Authorities and Police 2022</a>, specifically, in relation to the authority’s internal audit function and the <a href="#">Public Sector Internal Audit Standards</a>, which require the chief audit executive to report information about progress and the results of audit activities. (Standard 2060)</p>	

## 1. Introduction

1.1 This report updates the Committee, as at 30 June 2024, on the audits completed since the last update as at 31 March 2024, 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 considers:

- the outcome of Internal Audit’s work,
- the assurance provided and
- our priorities going forward.

# Internal Audit Update

July 2024



Marion Pryor BA MA CMIIA CPFA ACFS

Head of Audit & Risk



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## Summary of Assurance Work Completed Since Last Update

1. This section provides an overview of assurance reports finalised since the meeting in April 2024, including the overall assurance rating and the number of issues/risks raised.
2. We have finalised **three** pieces of assurance work in the period, summarised below and discussed in more detail later in the report:

Title	Assurance Level	Critical	Major	Moderate
Destination - Maritime Team: Income Processes	Reasonable	0	1	6
IT Audit – IT Supplier Management	Limited	0	0	10
Robustness of estimates and adequacy of reserves assessment (Section 25 of the Local Government Act 2003)	Reasonable	0	0	0

## Destination - Maritime Team: Income Processes

Reasonable Assurance	Issues/Risks	
	0	Critical
	1	Major
6	Moderate	

3. Our review sought to answer the following key question:  
**Does the Destination - Maritime team have effective arrangements in place to collect, record and bank income from all its activities in full and in the most efficient way?**
4. Our review concluded that the Council's arrangements for collecting, recording, and banking income from Maritime activities are mostly effective due in the main to an experienced and diligent team.
5. However, we identified several risks. Due to the vulnerabilities these expose, this report will be considered in more detail in private session.
6. We raised seven Issues/Risks, which require management attention, most of moderate impact at service level, and agreed an action plan with management, which is detailed in a separate document.
7. Though we are able to provide a reasonable assurance rating, it is important that the service mitigates the key financial, operational and reputational risks in this area.
8. We have therefore agreed to carry out a formal follow up review in January 2025 to support the service in strengthening its internal controls.

## IT Audit - IT Supplier Management

Limited Assurance	Issues/Risks	
	0	Critical
	0	Major
10	Moderate	

9. Our review sought to answer the following key question:  
**Does the Council have effective controls in place to minimise key risks associated with managing its IT suppliers?**
10. The IT Audit Team at Salford Council conducted this piece of work on our behalf. They concluded that, in the main, the Council is not adequately mitigating the key risks associated with managing its IT suppliers to an acceptable level.
11. Concerns exist across all aspects of supplier management from pre-procurement due diligence through to termination of contracts, which has reflected the Limited Assurance opinion.
12. However, these issues are symptomatic of a wider procurement issue within the Council which is being addressed as part of a two-year improvement programme led by an external procurement specialist.
13. We raised 10 Issues/Risks and have agreed an action plan with management, which we have detailed in a separate document. We are assured that management plans to address all the Issues/Risks within a two-year programme.
14. We will continue to monitor how the Issues/Risks are resolved and will report progress to the Governance and Audit Committee.

## Financial Resilience – Robustness of Estimates and Adequacy of Reserves Assessment (Section 25 of the Local Government Act 2003)

Reasonable Assurance	Issues/Risks	
	0	Critical
	0	Major
	0	Moderate

15. Our review sought to answer the following key question:  
**Does the Council have effective arrangements in place to ensure it complies with section 25 of the Local Government Act 2003 and CIPFA’s Financial Management Code 2019 (Standard ‘K’) in respect of the robustness of estimates and adequacy of reserves when determining the Council’s annual budget and Council Tax precept?**
16. Our review concluded that the Council complies with section 25 of the Local Government Act 2003 and ‘Standard K’ of CIPFA’s Financial Management Code in respect of the robustness of estimates and adequacy of reserves when determining its annual budget and Council Tax precept. Despite this, the challenging financial climate over the next two years will require the Council to make difficult decisions in order to safeguard its financial resilience.
17. The Council’s Section 25 Statement is a culmination of a complex financial management framework and budget setting process, underpinned by robust medium term financial planning processes, macroeconomic risk analysis, capital, and treasury management strategies and in-year budgetary control processes, with evidence of good practice outlined by CIPFA, such as early member and senior officer engagement, use of scrutiny mechanisms as an important check and balance, scenario testing of alternative solutions to budget constraints, and reflecting compliance in the Council’s Annual Governance Statement (AGS).

18. The Council operates a policy to retain a minimum of 5% of its net revenue budget (NRB) in general reserves. This is derived from past budget performance and forecasting and helps to create a level of mitigation from any unexpected financial risk. £4.425m of reserves have been used as funding for the 2024-25 revenue budget, leaving the revised balance at £10.79m, which equates to 5.88% of the NRB.
19. It is important to note that continued use of reserves to fund services presents a significant risk to the Council’s financial resilience. This is reflected in the Section 25 statement, which clearly outlines that while current levels are within agreed thresholds, future use of reserves to fund the revenue budget will not be possible.
20. Included within the 2024-25 annual budget is a savings target of £2.3m. A detailed savings plan has been agreed by the Executive and considered by the Finance Scrutiny Panel and Corporate Scrutiny Committee. Oversight of these savings will be undertaken throughout the year as part of established budget monitoring processes.
21. Due to the significant financial challenges anticipated for the next fiscal year 2025-26, with further anticipated savings of £7.4m required, the Director of Function (Resources) / Section 151 Officer has commenced work with services to identify ways to bridge the funding gap, as well as an exercise to cost the Council’s Plan 2023-28 and objectives, to ensure plans focus on the Council’s stated priorities. Due to the scale of future savings required, it is crucial that robust governance arrangements are in place to monitor future savings programmes, such as via an efficiencies board or panel. We are assured that once savings plans are developed and approved by members, appropriate governance mechanisms to oversee delivery will be established.
22. As financial resilience is a key risk within the Council’s Strategic Risk Register, we will continue to keep this area under review. However, within the scope of our review, we are able to provide reasonable assurance of the governance, risk management and control of this area at this time.

## Work in Progress

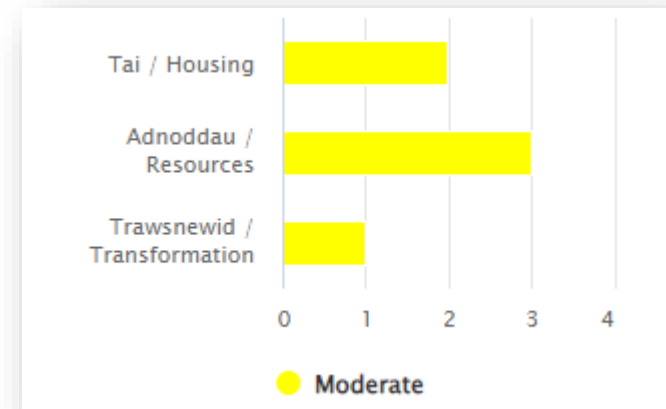
23. The following pieces of work are currently in progress:

Area	Reason for Audit	Stage
National Fraud Initiative	Counter Fraud, Bribery and Corruption Strategy 2022-2025	Ongoing
Declarations of Interest	Counter Fraud, Bribery and Corruption Strategy 2022-2025	Postponed
Direct Debit Management	Internal Audit Strategy 2023-24	Draft Report
Partnership Oversight	Internal Audit Strategy 2023-24	Draft Report
Management of the Council's Assets	Strategic Risk Register (YM14)	Fieldwork
Investigation - Property Services	Complaint	Fieldwork
Investigation - Housing Services	Complaint	Fieldwork
Childcare and Welsh Medium Education Provision	Requested by the Chief Executive Officer	Fieldwork
IT Audit: Cybersecurity Assessment Framework (CAF) Gap Analysis	Strategic Risk Register (YM3)	Fieldwork
Recruitment and Retention	Strategic Risk Register (YM3)	Fieldwork
The Council's Housing Strategy	Strategic Risk Register (YM9)	Fieldwork
Continuous Monitoring (identifying erroneous and fraudulent payments)	Internal Audit Strategy 2024-25	Fieldwork

## Outstanding Actions

24. Work is progressing to support services with addressing all 'Issues/Risks' raised and implementing all outstanding actions.
25. As at 30 June 2024, six moderate-rated issue/risks remain unaddressed beyond their target date, as can be seen below.

### Overdue Issues / Risks by Service



## Priorities

### Current Capacity

26. We have lost one Senior Auditor post due to efficiency savings. We continue to have one vacant post at Senior Auditor level, due to the continuance of a long-term secondment.
27. We continue to utilise the budget savings from this vacancy to commission additional external support.

### Short/Medium Term Priorities

28. Our current workload can be seen in [Work in Progress](#) detailed earlier in this report. Our priority is to complete the investigations, followed by the assurance on Strategic Risks.
29. We are making steady progress with our Annual Internal Audit Strategy for 2024-25 and Counter Fraud, Bribery and Corruption Strategy 2022-2025.

### Longer Term Priorities

30. The International Internal Auditing Standards Board (IIASB) issued the new [Global Internal Audit Standards](#) on 9 January 2024 which will become effective following a one-year transition period. The Standards guide the worldwide professional practice of internal auditing.
31. The Internal Audit Standards Advisory Board (IASAB), which sets the standards for the UK public sector, has begun its review of the impact on the Public Sector Internal Audit Standards and will develop proposals for revised material which will be suitable for the UK public sector context. Any subsequent changes to the UK's PSIAS, and their implementation, will be subject to consultation and appropriate transitional arrangements.
32. We will keep the Committee members updated on the impact this may have on the work of the Committee.