

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Governance and Audit Committee
Date:	5 December 2024
Subject:	Internal Audit Update
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<p>Nature and Reason for Reporting:</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 CIPFA’s Position Statement: Audit Committees in Local Authorities and Police 2022, specifically, in relation to the authority’s internal audit function and the Public Sector Internal Audit Standards, 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 28 November 2024, on the audits completed since the last update as at 31 August 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

December 2024



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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 September 2024, including the overall assurance rating and the number of issues/risks/opportunities 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
Partnerships Oversight (YM15)	Reasonable	0	0	6
Counter fraud controls within Revenues refunds	Reasonable	0	0	4
Cybersecurity Assessment Framework Review	Reasonable	0	0	12

Partnerships Oversight (YM15)

Reasonable Assurance	Issues/ Risks / Opportunities	
	0	Critical
	0	Major
6	Moderate	

3. Our review sought to answer the following key question:
Does the Council have effective governance arrangements in place for its significant partnerships and collaborations?
4. Our review concluded that the Council has established key elements of a partnership governance framework, including a policy, toolkit, and scrutiny programme. However, these controls are not consistently effective due to insufficient awareness among managers. Sample testing revealed that governance arrangements with strategic partners are often not formalised in agreements due to confusion over what constitutes a partnership and inconsistent application of controls. A lack of corporate oversight exacerbates this issue.
5. The Council maintains a partnership register to support its strategy and scrutiny activities, which is under review to ensure accuracy and relevance. Performance management needs improvement, with gaps in monitoring outcomes and conducting periodic self-assessments. Current service challenge processes also do not fully evaluate partnership effectiveness.
6. Partnership risks are acknowledged in the strategic risk register. The Council is updating its Partnership Register and Toolkit to improve risk consideration for significant partnerships. Scrutiny committees have established a 24-month review plan for key partnerships, with outcomes reported annually to Full Council to aid governance responsibilities.
7. While the review highlights areas for improvement, it provides reasonable assurance of the governance and risk management in this area and an action plan has been agreed with senior leadership.

Counter fraud controls within Revenues refunds

Reasonable Assurance	Issues / Risks / Opportunities	
	0	Critical
	0	Major
4	Moderate	

8. Our review sought to answer the following key question:
Does the Council have effective counter fraud controls in place within its Revenues refunds process to minimise the risk of internal 'insider threat' fraud?
9. A highly publicised £1m fraud in [Aberdeen City Council](#) prompted this review. We found that while the Council has some effective measures in place to mitigate the risk of internal fraud in revenue refunds, key weaknesses in controls, system functionality, and dormant credit accounts increase the risk of fraud.
10. Despite refunds requiring authorisation from an independent manager who conducts basic checks, a system weakness allows refunds to be processed even if the payee name does not match the recipient's bank account, enabling potential fraud. In addition, authorising officers can amend bank details before finalising refunds, creating a risk of redirecting payments.
11. There are numerous dormant Council Tax and Non-Domestic Rates accounts, which are particularly vulnerable to fraud, as demonstrated in the Aberdeen case. While fraud involving active accounts could be detected when customers report missing refunds, dormant accounts are less likely to prompt immediate detection, increasing the risk.
12. These were the weaknesses that allowed the fraud in Aberdeen to occur. However, while the potential for fraud exists, the overall fraud risk in this area is considered low and the Council has agreed an action plan to address the identified risks.

Cybersecurity Assessment Framework Review (YM3)

Reasonable Assurance	Issues/ Risks / Opportunities	
	0	Critical
	0	Major
	12	Moderate

13. Our review sought to answer the following key question:
Does the Council have an appropriate level of cyber resilience as prescribed by the National Cyber Security Centre's (NCSC) Cyber Assessment Framework?
14. The review, conducted by external IT audit specialists, of the Council's cybersecurity arrangements found that overall, the measures in place are reasonably effective, with several robust controls to reduce cybersecurity risks.
15. However, gaps identified mean that the Council is unlikely to achieve full compliance with the National Cyber Security Centre's (NCSC) Cyber Assessment Framework (CAF) in the short term without additional investment in technology, personnel, and processes.
16. The review identified 12 areas for improvement, reflecting the audit's comprehensive scope. Management should not be overly concerned, as the identified improvements will inform an action plan to address gaps and enhance cybersecurity arrangements further.
17. The Council is progressing toward full CAF compliance and is participating in a national project led by the Welsh Local Government Association (WLGA) to support this effort.

Work in Progress

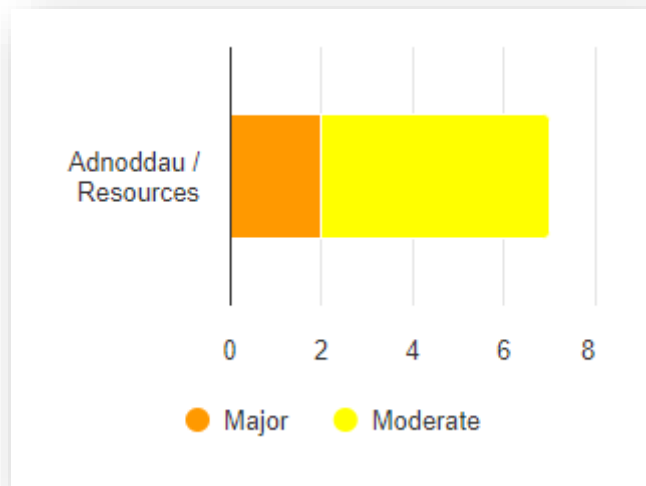
18. The following pieces of work are currently in progress:

Area	Reason for Audit	Stage
National Fraud Initiative	Counter Fraud, Bribery and Corruption Strategy 2022-2025	Data uploaded in accordance with timetable. Match reports expected end of December 2024.
Declarations of Interest	Counter Fraud, Bribery and Corruption Strategy 2022-2025	Postponed due to being included in Procurement Improvement Programme. Results of testing shared with team.
Investigation – Housing Services	Complaint	Postponed due to disciplinary process
Recruitment and Retention	Strategic Risk Register (YM2)	Draft report
The Council's Housing Strategy	Strategic Risk Register (YM9)	Draft report
Investigation – Property Services	Complaint	Draft report
Childcare and Welsh Medium Education Provision	Requested by the Chief Executive Officer	Fieldwork
Management of the Council's Assets	Strategic Risk Register (YM14)	Fieldwork
IT Audit: Purchase Card Industry Data Security Standards (PCI DSS)	Strategic Risk Register (YM3)	Fieldwork
Performance Management	Internal Audit Strategy 2024-25	Scoping
Council Tax Base	Requested by the Director of Function (Resources) / Section 151 Officer	Scoping

Outstanding Actions

19. Work is progressing to support services with addressing all 'Issues / Risks / Opportunities' raised and implementing all outstanding actions.
20. As at 28 November 2024, seven moderate-rated issue / risk / opportunities remain unaddressed beyond their target date, as can be seen below. All are within the Resources Service.
21. Six of these actions relate to an audit of the Recovery of Council Tax, Non-Domestic Rates and Sundry Debts, for which a follow up review is currently in progress.
22. The remaining action relates to an issue assessed as 'moderate' which was raised during an audit of 'Supplier Maintenance and Duplicate Payments' regarding the recovery of duplicate creditor payments, for which action is in progress.

Overdue Issues / Risks / Opportunities by Service



Priorities

Short/Medium Term Priorities

23. Our current workload can be seen in [Work in Progress](#) detailed earlier in this report.
24. 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

Tender for the provision of Internal Audit services

25. Local government internal audit teams across the UK are struggling with resourcing issues, due to unfilled vacancies, lack of specialist skills and budget cuts.
26. To address this locally, Wrexham County Borough Council has undertaken a tender exercise on behalf of the north and mid-Wales region for the provision of internal audit services. These include the provision of specialist roles, including IT audit.
27. The initial responses have been evaluated and found to be disappointing. Work is in progress to improve the outcome.

Counter Fraud, Bribery and Corruption Strategy 2025-2028

28. Work to develop the new Strategy for 2025-2028 has commenced, with plans to consult with internal colleagues and external peers on developing a Fraud Risk Assessment.
29. The Strategy will be submitted to the February 2025 meeting of the Governance and Audit Committee for consideration.

Other Developments

Changes to Internal Audit Standards

30. Since 2013, the Public Sector Internal Audit Standards (PSIAS), based on the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) have been mandated as the internal audit standards for the UK local government sector.
31. In January 2024, the International Internal Auditing Standards Board (IIASB) issued new Global Internal Audit Standards (GIAS).
32. Following a review, the Relevant Internal Audit Standard Setters¹ (RIASS) in the UK agreed to use the new GIAS as the basis for internal auditing for the UK Public Sector and asked the UK Public Sector Internal Auditing Standards Advisory Board (IASAB) to carry out a review of the new standards with a view to producing sector specific interpretations to make them suitable for UK public sector use.
33. At the invitation of CIPFA, the Head of Audit and Risk has been part of a working group to undertake this work.
34. The outcome (an Application Note) was issued for consultation in October 2024. The IASAB met in November 2024 to consider the 44 consultation responses received. As a result, the IASAB is refining the content and submitting for approval to all the RIASS, with an aim to complete this process and publish before Christmas.
35. If all goes to plan, from 1 April 2025, new standards – Global Internal Audit Standards (UK public sector), will be mandated consisting of:
 - the IIA’s Global Internal Audit Standards (GIAS)
 - Application Note: Global Internal Audit Standards in the UK public sector

Code of Practice for the Governance of Internal Audit in UK Local Government

36. CIPFA has developed a new Code to support authorities in establishing their internal audit arrangements and providing oversight and support for internal audit.
37. The Code is designed to work alongside the new internal audit standards - GIAS (UK public sector (referred to above) and replaces the organisational responsibilities set out in the Statement on the role of the head of internal audit (CIPFA, 2019).
38. It is aimed at those responsible for ensuring effective governance arrangements for internal audit:
 - the body or individual charged with governance
 - the audit committee
 - senior management, including the statutory officers, head of paid service, monitoring officer and section 151 officer.
39. The GIAS (UK public sector) do not add any UK public sector requirements in relation to governance but to achieve conformance the internal audit function must demonstrate that there are adequate and appropriate arrangements for its governance.
40. Domain III of the GIAS sets out baseline ‘essential conditions’ for governance, but these require adjustment to reflect the operation of governance within the UK local government sector. The CIPFA Code of Practice sets out the basis for suitably adjusted essential conditions, and when the Code is applied, the objectives of the GIAS conditions will be achieved.
41. The Code was subject to consultation with responses invited from those with an interest in internal audit in the UK local government sector, including audit committee members, senior managers in local government, internal auditors, those in governance roles, and stakeholders. Closing date for responses was 28 November 2024.

¹ The RIASS are: HM Treasury for central government; Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK

Review of the CIPFA and Solace Guidance on the Annual Review and Annual Governance Statements

42. The Head of Audit and Risk is part of a CIPFA Reference Group to oversee a review of the 2016 guidance on the annual review and Annual Governance Statement (AGS) in UK local government bodies and to make recommendations to CIPFA and Solace.
43. The outcome of the review will be an addendum to the guidance.
44. This is the first update of the guidance since 2016 and replaces Chapter 7 of the Framework publication. The 2016 publication and the seven principles of good governance remain unchanged.
45. Three meetings have been held and the addendum is now at final draft stage. It is planned to be issued for consultation before March 2025.
46. Authorities will be required to ensure that the AGS for 2025-26 onwards complies with the guidance and are encouraged to consider it for 2024-25.