

# ISLE OF ANGLESEY COUNTY COUNCIL

<b>COMMITTEE:</b>	<b>AUDIT COMMITTEE</b>
<b>DATE:</b>	<b>27 APRIL 2015</b>
<b>TITLE OF REPORT:</b>	<b>INTERNAL AUDIT ANNUAL REPORT 2014/15</b>
<b>PURPOSE OF REPORT:</b>	<b>FOR INFORMATION</b>
<b>REPORT BY:</b>	<b>FORMER AUDIT MANAGER</b>
<b>ACTION:</b>	<b>TO NOTE CONTENTS</b>

## 1. INTRODUCTION

- 1.1 The following report summarises the work of the Internal Audit Section for 2014/2015. The Audit Manager makes regular progress reports in year to the Audit Committee which allows an on-going evaluation of the overall internal control framework as reflected within Audit coverage.
- 1.2 A common set of Public Sector Internal Audit Standards (PSIAS) became effective from 01 April 2013. The PSIAS apply to all public sector internal audit service providers and were adopted by the County Council from that date.
- 1.3 The Chief Audit Executive confirms that, as far as he is aware, the Internal Audit Service has complied with the Public Sector Internal Audit Standards during the year with the exception that there has been no formal internal or external quality assurance and improvement programme undertaken in 2014-15. (PSIAS 1310)

## 2. OUTPUT GENERATED DURING THE YEAR

- 2.1 The following table gives a comparison of the planned number of audits with the actual audits carried out as at 31 March 2015. As in any year, in 2014/15 it was necessary to amend the audit plan to take account of various factors throughout the year. This year, these factors mainly related to additional work being required to meet emerging risks and referrals. In particular this year additional work was required to be undertaken around Information Management and Logical Access Controls as well as work related to the administration of Third Sector Schemes.
- 2.2 In all 46 reports (Final and Draft) resulting from formal reviews were issued during 2014/2015, compared to the 50 in the original Internal Audit Operational Plan 2014-15.
- 2.3 Where reviews have not been carried out in 2014/15 but there is an assessed on-going level of risk that requires review these reviews have been included in the Internal Operational Plan for 2015/16.
- 2.4 All the key financial reviews in the plan were completed in final or draft format by the end of the period in March 2015.
- 2.5 In addition to the work on the 2014/15 Internal Audit Operational Plan the first quarter of 2014/15 was taken up in part with the finalisation of work from the 2013/14 Internal Audit Operational Plan with seven final reports being issued during this period.

## 3. PERFORMANCE INDICATORS

- 3.1 Each year the Council's Internal Audit Service participates in pan Wales benchmarking against indicators relating to cost and output. This benchmarking is carried out in May / June each year and, therefore, the results for 2014/15 were not available in time to be included in this annual report.

- 3.2** When the results are published they will be included in the next Internal Audit progress report thereafter.
- 3.3** The Internal Audit Service also monitors key indicators of performance such as % of Operational Plan completed in period; overall customer satisfaction levels from questionnaires; and % of High & Medium Internal Audit recommendations implemented.
- 3.4 % of Operational Plan Completed:** As in any year a number of reviews included in the Internal Audit Operational Plan have been either postponed to next year or have been removed from the Plan as circumstances change and new systems come on line. Conversely a number of reviews are added to the Plan in year as emerging risks or changes to existing practices come to light during the year. Therefore the calculation of percentage of Operational Plan completed is based on the number of reviews completed to Draft report stage rather than the actual number of Draft reports issued that relate to areas specifically included in the approved Operational Plan at the start of year.

The number of reviews included in the original Operational Plan for 2014-15 as approved in April 2014 was 50. The number of reviews in year completed to Draft and / or Final report stage was 46. Therefore the percentage of the Operational Plan completed has been calculated as 92%.

- 3.5 % of High and Medium Internal Audit Recommendations Implemented:** The percentage of High and Medium recommendations implemented as at 31 March 2015 was 49% overall and 71% excluding recommendations relating to schools which have been again proved difficult to monitor over the year. The Internal Audit Service will work with the Education Service to address this problem in 2015/16.

During 2014/15 the Internal Audit Progress Report format has been amended so that details of the outstanding High category recommendations are highlighted for the Audit Committee's information. Internal Audit Progress reports are presented to the Senior Leadership Team for their information and support in ensuring that identified High level risks are being addressed promptly.

The Internal Audit Service has been working with the Audit Committee to improve implementation rates of High and Medium recommendations and increasing the accountability of Heads of Service who fail to implement agreed recommendations within agreed timescales. The Internal Audit Service will aim to increase the information provided to Heads of Service on recommendation status within their Service to assist them with this task.

- 3.6** Internal Audit will carry out a review of outstanding recommendations in April 2015 and will again in 2015/16 be working with Services to update the 4Action system with the latest implementation data which it is hoped will assist in an improvement against target.

#### **4. OVERALL CONCLUSION ON THE AREAS AUDITED**

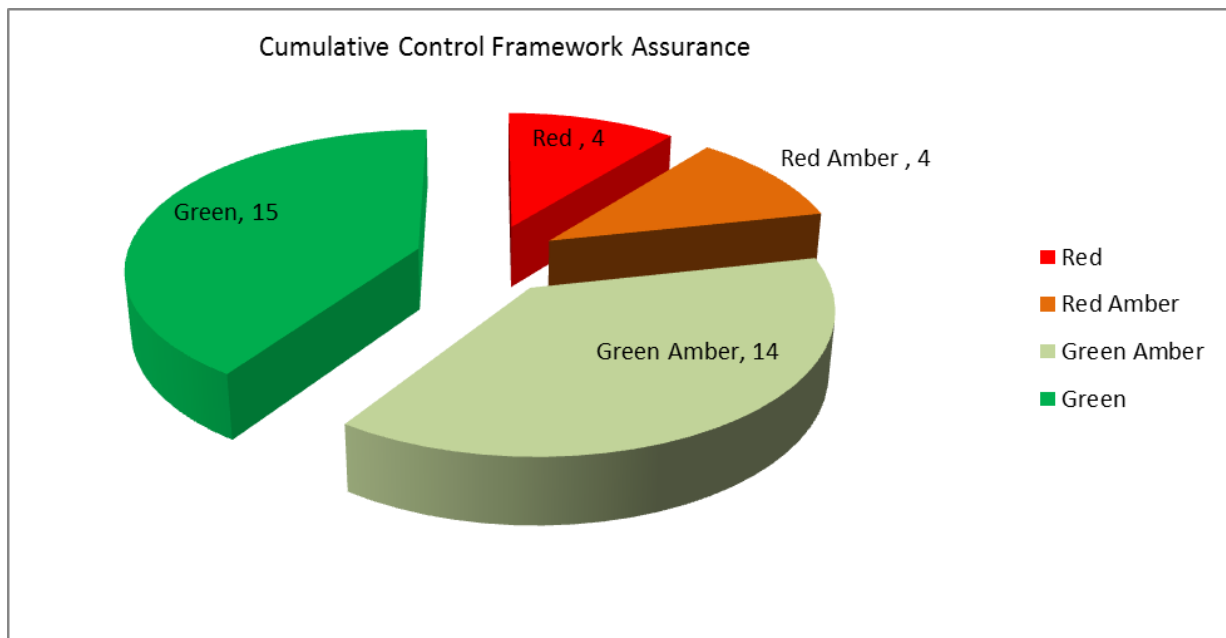
- 4.1** Table 1 shows the number of reviews undertaken in 2014/15 for which an opinion of either Green; Green/Amber; Red/Amber or Red opinion was given and includes the definition for each assurance level.

**Table 1**

<b>RAG Opinion/ Grade</b>	<b>What is meant by the RAG Opinion/Grade</b>	<b>System/ Risk 2014/15</b>
<b>Green</b>	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.	<b>15</b>
<b>Green Amber</b>	Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably	<b>14</b>

	designed, consistently applied and effective. However, we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	
<b>Red Amber</b>	Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.	<b>4</b>
<b>Red</b>	Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.  Action needs to be taken to ensure this risk is managed.	<b>4</b>
<b>Advisory/Referral</b>	Advisory review designed to provide best practice advice – No formal opinion.	<b>9</b>
<b>Total</b>		<b>46</b>

**Table 2 – Pie Chart of RAG Opinions**



**4.2** The overall results of our Internal Audit work which resulted in a RAG assurance opinion are that 78% of such reviews resulted in 'positive' opinions (Green or Green/Amber) and 22% resulted in 'negative' assurance opinions (Red and Red/Amber). The 22% of reports receiving negative assurance opinions is made up of eight reports (Four Red and Four Red/Amber).

The overall opinion for the systems reviewed is a positive Green/Amber opinion which is in line with previous years.

**4.3** This overall RAG Opinion translates to a minimal to low risk to the Authority, based on the scope of the work carried out, the action recommended to management being implemented and those systems continuing to operate as intended.

**4.4** The Audit Manager is, however, aware of areas where significant weaknesses in control would prevent the Council placing reasonable reliance on the systems of internal control in respect of the work of the Internal Audit Service during the year.

A report on progress made on the previously reported areas of Internal Audit concern was presented to the Committee by the Deputy Chief Executive at its

September 2014 meeting. The areas will continue to be a concern for Internal Audit until all significant recommendations have been implemented and assurance can be provided that the frameworks and systems are in place; have been embedded; are robust and are effective. The current position on these areas is provided below.

**Business Continuity** – Recommended actions to strengthen controls in this area have been collated from a number of assurance provider reports, including those of Internal Audit. Progress on arrangements is now being made on a North Wales basis.

**Risk Management** – The Council is in the process of developing its Risk Management Framework and embedding risk management in the organisation. The Corporate Risk Register is still in development and a regular reporting regime has yet to be implemented.

**Information Management** – The Information Commissioner’s Office has undertaken a review in this area and identified similar issues and control weaknesses to those identified by the WAO, PWC and Internal Audit in previous reports. A draft follow up report from the Information Commissioner’s Office is being considered.

**Governance** - Issues relating to non-compliance with key corporate policy and procedure have again been identified in 2014-15, for example in relation to corporate procurement; ICT Security; Third Sector Scheme; etc. The Council has stopped the use of its electronic policy compliance and sign off of policies system which recorded users as having read, understood and agreed to abide by policies. Without such record of sign off it is more difficult to show that the policies have been adequately disseminated to relevant staff. A report concerning these issues was issued in 2011-12, and again in the Logical Access report in October 2014; however a number of key recommendations remained unimplemented.

**Corporate Procurement Framework** – Management has restructured and strengthened the Procurement Team. New Contract Procedures Rules are to be introduced and implemented. A review of Procurement arrangements has been included in the Internal Audit operational Plan for 2015/16 to provide assurance that the changes made have led to increased compliance with procurement regulation, policy and procedure.

**Partnerships Framework** - The Council does not have a formal Partnership Framework in place to provide assurance that all partnerships have adequate governance, management and performance arrangements in place to meet their stated objectives and that they provide value for money in relation to the Council’s financial and other resources invested in them.

A review of corporate compliance with guidance issued in relation to the administration of Third Sector Schemes also received a ‘Red Assurance’ opinion in 2014/15.

A follow up of the Internal Audit review of Partnership Arrangements issued in June 2013 is to take place in quarter 1 of 2015/16.

**Schools Recommendation Implementation** – There is a continuing issue with regards to schools implementing internal audit recommendations. These recommendations relate to financial and governance issues within schools which should be of concern to Head Teachers and to the Education Department.

These are considered important issues for the Council which need on-going work to address them in 2015/16.

- 4.5** It should be noted that any system of internal control can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The audits undertaken and completed did not identify any other areas of concern which are considered significant or business critical for the Council as a whole beyond those stated at 4.4 above.

## **5. COUNTER FRAUD ARRANGEMENTS**

- 5.1** On the 1st November 2014 the Department for Work and Pensions Single Fraud Investigation Service (SFIS) took responsibility for the investigation of all “benefit” fraud investigations being conducted by the Isle of Anglesey County Council. This resulted in one of the authorities investigators transferring to the SFIS team and the other investigator was appointed to the new role of Corporate Counter Fraud Officer (CCFO) within the Internal Audit Service.
- 5.2** In effect this means that the Authority will no longer investigate Housing Benefit (HB) fraud, this function now being carried out by the SFIS. However SFIS will not investigate Council Tax Reduction Scheme (CTRS) fraud offences as this is not classed as a “benefit”, therefore it is envisaged that the Counter Fraud Officer will investigate CTRS offences. At this time it is not clear whether SFIS will partake in joint HB and CTRS fraud investigations in the future.
- 5.3** With the creation of the Corporate Counter Fraud Officer post it is envisaged that the post holder will investigate CTRS offences and other Council Tax offences. It is planned that in consultation with the Housing Service that the CCFO will investigate incidents of tenancy fraud that may be identified by the Housing Service. The CCFO will also become responsible for the investigation of any possible fraud offences that may be referred to the Internal Audit Service or identified by them during their routine auditing duties.
- 5.4** In addition to the traditional reactive measures mentioned above, it is intended that the CCFO will have a more proactive role in Corporate Fraud prevention and create a corporate framework geared towards creating a culture of fraud awareness and prevention within the Authority.
- 5.5** It is intended that an initial priority for the CCFO will be to liaise with all Services within the authority to produce a corporate fraud risk assessment. This risk assessment will be utilised to assist in formulating policies that will reduce losses to the Council and ultimately to the public purse. In addition the CCFO will facilitate fraud awareness training in relation to forged and counterfeit documents that may be produced for identification etc.

## **6. STATEMENT ON INTERNAL CONTROL**

- 6.1** PSIAS 2450 requires the Chief Audit Executive to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The standard requires that the audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.
- 6.2** Summaries and outcomes of all completed Internal Audit reports are reported to the Audit Committee via the Audit Manager’s quarterly Internal Audit Progress reports. Any system based review receiving a ‘Red’ assurance opinion, is reported in detail to the Audit Committee and a follow up of management responses to the report reported back to the next Audit Committee.
- 6.3** In total four ‘Red Assurance’ reports were issued in 2014-15. These opinions relating to reviews of; Agency Staff Arrangements; Logical Access Controls and Segregation of Duties; and Third Sector Schemes. A further ‘Red Assurance’ opinion was given for the follow up of recommendation implementation for the Logical Access and Segregation of Duties review.

- 6.4** A total of four reviews undertaken in 2014-15 resulted in a 'Red Amber' assurance opinion. These opinions relating to reviews of Follow Up of implementation of recommendations made in the 2013/14 Creditors report; Homelessness Arrangements; Teacher's Payroll; and Sundry Debtors review 2014/15.
- 6.5** On the basis of Internal Audit work completed during 2014/15, and taking into account the outstanding areas of concern detailed at section 4.4 of this report and the number of 'Red' and 'Red Amber' reports issued as detailed in sections 6.3 and 6.4 of this report, the Council has adequate arrangements of control to manage risks. Action however, needs to be taken to address the areas of outstanding concern, especially in relation to risk management and governance, and to strengthen control in those other areas of review where weaknesses have been identified in 2014/15 and in previous years.

**AUDIT MANAGER**

**27 April 2014**

## Reports Issued In Period with RAG Opinion

## Appendix A

Creditors Follow Up	Red Amber
Effeciencies	ADVISORY
Benefits	Green Amber
Payroll	Green Amber
Treasury Management	GREEN
VAT	ADVISORY
Complaints	GREEN
Agency	RED
Home Carers Hours	Green Amber
Charitable Trust	ADVISORY
Penalty Charge Notices	GREEN
Porth Amlwch	ADVISORY
Housing Rents	Green Amber
Logical Access Controls	RED
Information Governance – Follow Up	GREEN
Ysgol Henblas	GREEN
Ysgol Cylch y Garn	GREEN
School Financial Management – Budgets	ADVISORY
Third Sector Schemes	RED
School Clothing Grants	GREEN
Schools Follow Up	Green Amber
Plas Arthur – Leisure Centre	GREEN
NFI 2014	ADVISORY
Gaerwen Depot - Diesel	ADVISORY
Closure of Accounts	GREEN
Amlwch Leisure Centre	GREEN
Logical Access Controls – Follow Up	RED
Third Sector Scheme – Follow Up	Green Amber
TalNet	Green Amber
Maritime Fuel	ADVISORY
Homelessness	Red Amber
Sports Development	GREEN
Teachers’ Payroll	Red Amber
Ysgol Pentraeth	Green Amber
Ysgol Llangoed	GREEN
Council Tax	Green Amber
NNDR	Green Amber
Cashiers	GREEN
Sundry Debtors	Red Amber
Creditors	Green Amber
Main Accounting System	Green Amber
Payroll	Green Amber
Treasury Management	GREEN
Housing Benefits	Green Amber
Housing Rents	GREEN
Bryn Trewarn	ADVISORY