



Denbighshire Internal Audit Services
Caledfryn, Smithfield Road, Denbigh LL16 3RJ

Corporate Governance Committee Update

November 2016



Introduction

1. This report provides an update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.
2. The report provides an update as at the end of October 2016 on:
 - Internal Audit reports recently issued
 - Follow up of previous Internal Audit reports
 - Progress in delivering the Internal Audit Operational Plan 2016/17
 - Internal Audit performance standards.

Internal Audit reports recently issued

3. The following section provides an overview of recent Internal Audit reports, including the overall **Assurance Rating** and the number of **Risks/Issues** raised in the report's action plan.

Definitions of Assurance Rating

Green	High Assurance	Risks and controls well managed and objectives being achieved
Yellow	Medium Assurance	Minor weaknesses in management of risks and/or controls but no risk to achievement of objectives
Amber	Low Assurance	Significant weaknesses in management of risks and/or controls that put achievement of objectives at risk
Red	No Assurance	Fundamental weaknesses in management of risks and/or controls that will lead to failure to achieve objectives

Definitions of Risks/Issues

Green	Low	Advisory issues discussed with managers during the audit and not included in audit reports and action plans
Yellow	Moderate	Operational issues that are containable at service level
Amber	Major	Corporate, strategic and/or cross-service issues potentially requiring wider discussion at SLT and/or CET
Red	Critical	Significant issues to be brought to the attention of SLT, CET, Cabinet Lead Members and Corporate Governance Committee

Payments to External Providers – Community Support Services

Medium Assurance

2	Moderate Risks/Issues
0	Major Risks/Issues
0	Critical Risks/Issues

4. We carried out this review to provide assurance on how effective Community Support Services is at monitoring payments to external providers of significant services and how robust the contract arrangements are with these suppliers.
5. Although we found a couple of areas that could improve the monitoring of external service providers, the overall arrangements are good. The service has agreed an action plan to address the two weaknesses identified during our review, which we will follow up in January 2017.
6. There are up-to-date contracts in place between the Council and external providers of residential care, nursing care, community living scheme and domiciliary care services. The content of the contracts in place included all expected key requirements.
7. The team has a process called ‘Escalating Concerns’, where issues and concerns are discussed. This involves key members of staff from the Council and the service provider as well as representatives from the Care and Social Services Inspectorate Wales, health service and other local authorities.
8. There is regular and effective monitoring of providers to ensure that they are complying with the contract. Although the service prepares reports and, where appropriate, action plans following a review of providers, no further follow up work is carried out to ensure that the action plan has been addressed.
9. Although performance of service providers is monitored regularly, one key area of weakness is that there are no financial checks carried out to ensure that the providers are financially sound and not experiencing financial difficulties that may lead to problems in continuation of the service.

Housing Allocations & Voids

Medium Assurance

5	Moderate Risks/Issues
0	Major Risks/Issues
0	Critical Risks/Issues

10. The Head of Facilities, Assets and Housing asked us to undertake this review, following some concerns raised over the length of time taken to relet void properties. Our review coincided with a period of significant change within the housing service, caused by the adoption of the new relet standards, and development and implementation of a new housing management software solution.
 11. While our review identified some weaknesses in the allocations and voids processes, the service is mostly aware of these risks and is taking action to mitigate them. The current climate of change in the service also provides an
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ideal opportunity to strengthen controls in certain areas highlighted by our review. The service has agreed an action plan, which we will follow up in January 2017.

12. Current processes for administering void properties are overly bureaucratic and paper-intensive in parts, leading to duplication and inefficiency, but hopefully the housing management system will help to address this.
13. There is a change in culture within the service, which has previously focused more on speed of turnaround rather than the quality of the home being let. There have also been changes to the way in which the service manages asbestos surveys and removal work. While members of staff are well aware of these changes, some processes and systems have not been updated accordingly, which has contributed to a general lack of clarity within some areas.
14. Revisits to properties within the first few weeks of a tenancy are high, and the service is not analysing performance in this area. While there has been an improvement in performance recently, it is important that the service monitors this in future to ensure continued effectiveness of its new approach.
15. Overall customer satisfaction is good, as demonstrated by results of the new tenants survey.
16. The service endeavours to ensure value for money in its refurbishment of void properties by obtaining competitive quotations for all works undertaken; however, it needs to ensure that it complies with the Council's Contract Procedure Rules in respect of aggregate spend.
17. There is an opportunity for more collaborative working and information sharing arrangements between housing and social services when a tenant requires social care.

Public Transport

- | | | Medium Assurance |
|---|----------|-------------------------|
| 18. Our review focused on the February 2016 tendering process where four operators bid for some of the five groups of public transport routes. The review covered the tendering process, financial arrangements and contract management. | 5 | Moderate Risks/Issues |
| | 0 | Major Risks/Issues |
| 19. The service provision for public transport is extremely limited with only a couple of operators being able to provide a service in some areas. Following the tendering process, assessing price and quality, all five routes were awarded to one operator. During our review, this operator went into administration; however, the service should be commended for its prompt action in ensuring that the service continued to be delivered with very little disruption to school pupils or the public. | 0 | Critical Risks/Issues |

20. Overall, we consider that the team has put in place some good procurement processes through ensuring that the public has been sufficiently consulted on any changes to routes, the market has been adequately tested, and introducing an assessment of quality for the February 2016 tender round.
21. The tender process for February 2016 was extremely complex, and significant consideration was given to the outcome. Several key people were consulted as part of the evaluation process and a detailed tender evaluation report was submitted to the Lead Member for Public Realm and the Head of Highways & Environmental Services for consideration detailing various options to award. While quality was given considerably more emphasis than price as part of the tender evaluation, the tender bids also had to be broadly in line with the budget available. The capacity of the operators also had to be a key consideration as not all of the routes were tendered for.
22. The public transport market is extremely limited; therefore, it may not always be possible to follow procurement guidance prescriptively, otherwise the Council could be at risk of excluding all key contractors from a tender. We are satisfied that there were sufficient compensating controls put in place where this was the case.
23. Overall, the Passenger Transport team manages its public transport contracts well, as the contract content covered key elements and, where there have been issues with operators, the Passenger Transport team has taken action to try to address them. Additionally, when the operator went into administration during July 2016, the Passenger Transport team successfully implemented a contingency plan to ensure that all of the school transport and some of the public transport routes could be covered.
24. The service has agreed an action plan to address the issues identified during our review and we will follow this up in April 2017. A key lesson to be learned from this review, by the team and corporately, is ensuring that adequate financial checks are carried out on service providers, both at tendering stage and once the contract has been awarded. We are covering this as part of our corporate procurement review because there is currently a lack of documented procurement guidance to ensure that there are sufficient checks of contractors including financial, health and safety, and insurance.

Follow up of previous Internal Audit reports

25. Most of our Internal Audit reports identify risks and control weaknesses, rated as critical, major or moderate risk. Management agrees actions to address the risks, including responsibilities and timescales.
 26. The Head of Internal Audit reports to Corporate Governance Committee on all instances where management fails to respond to the service's follow up work or where there are unacceptable delays in implementing improvements. The Committee decides whether it needs to take further action, e.g. by calling the relevant people to its next meeting or asking for a written report to explain lack of progress.
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Summary of recent Internal Audit follow-up work

Audit Report	No. of Actions in the Audit Action Plan									Next IA F/up	Comments
	Actions Due			Actions Complete			Actions Outstanding				
Strategic HR	0	4	12	0	4	12	0	0	0	n/a	•All actions now complete
Management & Administration of Legal Services	0	5	7	0	3	7	0	2	0	Apr 17	•2 nd follow up •Remaining 2 issues in progress

Progress in delivering the Internal Audit Operational Plan 2016/17

27. This year's planning has been difficult due to changes in capacity arising from maternity leave. We are now on our third version of the Operational Plan, which is well under way and will be completed to allow the Head of Internal Audit to provide an annual audit opinion at the end of the financial year.
28. The service is currently operating with one of the three Senior Auditors on maternity leave for the rest of the financial year, and one other Senior Auditor will be on maternity leave from February 2017. One of the team's Auditors has agreed to 'act up' in a Senior Auditor role until the end of the financial year and we hope to recruit temporarily into that Auditor post.
29. The following table shows progress in completion of the latest Operational Plan, providing assurance ratings and number of issues raised for the completed reviews, and an indication of when the remaining projects are scheduled to commence.

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Corporate Priorities Assurance									
Developing the local economy	25	25	25	Complete	Medium	0	1	2	
Improving performance in education & the quality of our school buildings	20	5	20	In progress					
Improving our roads	15	0	15	Not started					Due in quarter 4
Vulnerable people are protected and are able to live as independently as possible	10	9	9	Complete	Medium				Days used for continued review of Corporate Safeguarding
Ensuring access to good quality housing	10	0	10	Not started					Due in quarter 4
Modernising the Council to deliver efficiencies and improve services for our customers	15	0	15	Not started					Due in quarter 3
Corporate Risks Assurance									
Corporate risk management assurance	9	0	9	Not started					Due in quarter 4
Corporate Programmes & Projects Assurance									
Well-being of Future Generations Act Programme	5	5	5	Complete					Implementation of Internal Audit work stream to revise approach to projects
Ruthin Area Review - New Area School for Ysgol Carreg Emllyn	10	3	6	In progress					
Ruthin Area Review - Ruthin Town School Modernisation	10	5	7	In progress					

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Alternative Service Delivery Models Assurance									
Revenues Services	44	70	75	In progress					Review taking longer than anticipated due to problems obtaining system reports
Citizens Advice Bureau	5	0	5	Not started					Project not yet scheduled
Financial Assurance									
Financial services assurance	70	0	70	Not started					Due to commence in quarter 4
AONB Grant	2	2	2	Complete					Certification of grant - no report issued
Housing Rents	20	11	20	In progress					
Welsh Government Assurance									
WG education grant certification	9	4	4	Complete					Certification of grant - no report issued
WG 6th Form Funding/PLASC	30	0	10	Not started					Due in quarter 3. Scope reduced to reduce plan days to account for maternity leave
Other Annual Areas of Work									
IA report follow up work	75	61	75	In progress					
Corporate Anti-fraud & Corruption	79								
Managing the risk of fraud & corruption		1	10	In progress					

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments	
Catering Services - continued review of reconciliation process		7	9	In progress						
National Fraud Initiative Work		22	30	In progress						
Review of housing tenancies		0	20	Not started					Due to commence in quarter 4	
General fraud enquiries		2	2	In progress						
Projects brought forward from 2015/16 to complete -	162									
- Financial assurance		15	15	Complete	Medium	0	2	8		
- Revenues services		7	7	Complete	Various	0	0	16	Separate audit opinions provided for different elements of the service	
- West Rhyl coastal defence scheme		8	8	Complete	Low	0	1	5		
- Risk management		11	11	Complete	n/a	n/a	n/a	n/a	Summary progress report - no formal audit opinion	
- IT access control management		1	1	Complete	Medium	0	1	6		
- Industrial estates		15	15	Complete	High	0	0	1		
- Protection of Vulnerable Adults (POVA)		12	12	Complete	Medium	0	0	3		
- Direct payments / supported budgets		1	1	Complete					Ongoing advice to Community Support Services	
- Community living schemes		22	22	Complete						
- Parking services		32	32	Complete	High Med	0	0	8	Separate assurance ratings for partnership and parking operations	

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
- Community enforcement		8	8	Complete	Medium	0	0	9	
- Housing enforcement		21	21	Complete	High	0	0	2	
- Schools IT & information management		8	8	Complete	Low	0	0	6	
Rhyl Cash Office		1	1	Complete	Medium	0	0	4	
GwE		8	10	In progress					Delays in agreeing draft report - consultancy project
Ruthin Craft Centre		1	1	Complete	Medium	0	0	4	
Management of Voluntary School Funds		1	1	Complete	Low	0	0	8	
2016/17 Corporate & Service Assurance									
Cash receipting processes	60	67	70	In progress					Consultancy on project to modernise service
Voluntary School Fund management	5	2	5	In progress					Development of guidance for schools
Recoupment, Out of County Placement & Additional Learning Needs	8	8	8	Postponed					Project postponed to reduce plan days to account for maternity leave
Payments to external providers - Community Support Services	20	21	21	Complete	Medium	0	0	2	
Housing allocations & voids	35	37	37	Complete	Medium	0	0	5	
Rhyl Harbour	25	28	28	Draft report					
Procurement	20	9	20	In progress					

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
Flood risk management	3	3	3	Complete					Review of risk only - no formal report
Public transport	30	38	38	Complete	Medium	0	0	5	
Registrars	15	0	15	Not started					Not yet scheduled
Early Departures	15	23	25	In progress					
Building control	6	6	6	Complete					Consultancy advice on proposals to review service
Sub-totals	867	646	902						
Contracted Work									
North Wales Police	200	77	200	In progress					Final year of contract
School Funds	30	11	20	In progress					Fewer requests for school fund audits
Sub-totals	230	88	220						
Corporate Support									
Corporate Governance Framework	12	2	12						
Consultancy & corporate areas	41	37	50						
Sub-totals	53	39	62						

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	Days to Date	Likely Outturn Days	Current Status of Work	Audit Assurance	No. of Critical Issues	No. of Major Issues	No. of Moderate Issues	Comments
IA Support & Management									
Team Meetings / 1:1s	47	28	47						
Management	53	30	50						
Training & development	50	46	50						
Sub-totals	150	104	147						
Grand Totals	1300	877	1331						

Internal Audit performance standards

30. Internal Audit measures its performance in two key areas:

- Provision of 'Statutory Assurance' - These projects ensure that the Council delivers its statutory obligations so that the Head of Internal Audit can provide an opinion on governance, risk management and internal control in the Internal Audit Annual Report.
- 'Customer Standards' - A range of indicators to ensure that Internal Audit delivers a good service to its customers.

31. The table below shows Internal Audit's performance to date for 2016/17.

Review of agreed Statutory Assurance areas in Assurance Plan by 31/03/17

Target 100% - **25%**

Contact customers at least 2 weeks in advance to arrange a date for our visit

Target 100% - Current performance **100%**

Send customers the agreed Project Scoping Document before we commence work

Target 100% - Current performance **100%**

Send the customer a draft report within 10 working days of the closing meeting

Target 90% - Current performance **100%**

Send the customer our final audit report within 5 working days of draft agreement

Target 90% - Current performance **100%**