



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

Corporate Governance Committee Update

July 2017



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 June 2017 on:
 - Internal Audit reports recently issued
 - Follow up of previous Internal Audit reports
 - Progress on Internal audit work to date in 2017–18
 - A summary of upcoming Internal Audit projects
 - 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 |

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|------------|-----------------|
| Red | Critical |
|------------|-----------------|

Significant issues to be brought to the attention of SLT, CET, Cabinet Lead Members and Corporate Governance Committee

Revenues & Benefits service working in partnership with Civica – March 2017

| Partnership Arrangements – High Assurance | Benefits –High Assurance | Sundry Debtors – Medium Assurance | Council tax & business rates – Medium Assurance |
|---|--------------------------------|-----------------------------------|---|
| 2 Moderate Risks/Issues | 1 Moderate Risks/Issues | 3 Moderate Risks/Issues | 2 Moderate Risks/Issues |
| 0 Major Risks/Issues | 0 Major Risks/Issues | 0 Major Risks/Issues | 0 Major Risks/Issues |
| 0 Critical Risks/Issues | 0 Critical Risks/Issues | 0 Critical Risks/Issues | 0 Critical Risks/Issues |

4. Last year’s audit review included significant coverage of the governance arrangements in place, as this was the first year of the partnership; therefore, the scope of this year’s review was brief in this area, only to ascertain that mechanisms put in place last year are now fully embedded. We confirmed that this is the case, with more development of performance reporting to strengthen the monitoring of the governance arrangements of the partnership. It was particularly evident from our review of the minutes of the Operations Board that the Council is increasingly acting as a ‘critical friend’ in seeking clarification where needed. Additionally, the client officer role has been developed further to ensure that he has sufficient capacity and knowledge to monitor the partnership effectively.

 5. There has been a change in the financial support being provided to the Civica partnership. The level of strategic support remains unchanged, with both the Head of Finance and Deputy Section 151 Officer attending at various board
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levels, but a different finance officer provides support at an operational level. While we acknowledge that this officer is still gaining an understanding of the partnership, the financial reports supplied to the Operations Board need to be more detailed to ensure that the Board effectively monitors and challenges financial transactions made as part of the partnership.

6. Progress has been made with addressing some of the risks/issues raised during our last review in relation to the partnership arrangements, particularly with the Alternative Service Delivery Model (ASDM) that the Head of Finance has prepared and agreed with Corporate Executive Team (CET) and Senior Leadership Team (SLT). Training has been provided to SLT and an ASDM within Leisure is being used as pilot to test the above arrangements.
 7. Operationally, the bank reconciliation process for council tax, business rates, benefits and sundry debtors continues to be effective, as reconciliations are carried out regularly and there is a good separation of duties in place.
 8. Although better than last year, we still experienced problems with some of the systems reports provided to us during our review of council tax, business rates and sundry debtors. A systems administrator within Civica has worked extensively with us during this review to develop the reports further but there were still problems with the promptness of the reporting, receiving reports in a useable format, and not having all the information requested contained within the reports. As this has affected our ability to carry out testing in some key areas, e.g. council tax arrears and business rates credit balances, we have raised a risk/issue so that further improvement can be made.
 9. We identified several positive areas as part of our review of council tax and business rates, including recovery action being taken within the designated timescales, where possible. We were, however, unable to determine the action taken against several business rates accounts dating back to 2008/9 that are at pre-committal stage (where no other form of recovery has been successful, court proceedings may be started for the debtor to be committed to prison or declared bankrupt). The same issue applies to council tax but we have been unable to quantify this due to the previously mentioned system report problems. Additionally, as highlighted by our previous review, there are still several council tax accounts that have credit balances dating back to 1996. Credit balances are not subject to a regular review.
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10. Our assurance rating for sundry debtors remains the same as last year. While the performance of the function has not been reported to Operations Board for several months, we recognise that other local authorities are experiencing similar problems with the robustness of the performance measure, and this has been discussed extensively at the Operations Board, with a new performance measure being implemented recently. However, improvements are still needed, particularly in ensuring that write-offs are carried out promptly. We also highlight the importance of carrying out a post-implementation review of the new sundry debtor system that was implemented last year, as we identified some areas where there was a lack of system control, e.g. the calculation of the VAT is carried out manually by the user. This review may also identify where users require further guidance, such as retaining documentation to support the debt and ensuring that invoices are not raised below the minimum level set in Financial Regulations, which has recently been amended from £10 to £25.
11. The standard of the service provided by the Benefits team has been maintained, with benefit claims continuing to be administered accurately and promptly. While there has been considerable improvement made to the overpayments process now that it forms part of Civica's remit, we were unable to ascertain whether the Operations Board has approved the ceasing of interventions for visits to identify incorrect and fraudulent claims.
12. The scope of our review of the bailiff function was brief, as the service provision was in the process of being transferred from Civica to Dukes. As part of the transition arrangements, the Council needs to ensure that the eBay account used for the sale of repossessed vehicles and the associated Paypal account are closed, and that the bailiff bank account is fully reconciled.

Corporate Procurement – May 2017

Progress on implementation of new corporate procedures relating to tender evaluation, vetting and contract documentation

13. Overall, a significant amount of progress and improvement has been made in corporate procurement over the last year,

| | |
|-------------------------|-----------------------|
| Medium Assurance | |
| 5 | Moderate Risks/Issues |
| 0 | Major Risks/Issues |
| 0 | Critical Risks/Issues |

with revised Contract Procedure Rules (CPRs) and processes being developed and implemented, and a new Corporate Procurement Team structure being introduced from February 2017. The new CPRs provide more clarity and are much easier to understand and follow than the previous version, which should lead to increased compliance over time. A significant amount of training was provided when the new CPRs were launched to enhance understanding, although we suggest that this should now be followed up with some form of day-to-day quick reference guide, particularly for those officers who do not undertake procurement on a regular basis.

14. The tender evaluation process is generally working well from the evidence we found in the sample of projects that we reviewed. The Proactis system provides template documents for officers to use, although the Corporate Procurement Team has recognised that the number of these is excessive and needs to be revised. The evaluations of the tenders in our sample were carried out using the 'most economically advantageous tender' approach, and our review of the process shows that scoring of tenders was consistent, and they were evaluated in accordance with predetermined evaluation criteria. We have raised a query over the scoring in one case where the Proactis system did not have the functionality to deal with the evaluation scoring mechanism used, so the system does not accurately reflect the result of the tendering exercise. Our testing also found that officers from legal and finance were involved in tender evaluations, conflicts of interest were dealt with appropriately, relevant questions were asked at PQQ and tender evaluation stages, and relevant documentation was requested from tenderers, although we did not always find this on Proactis.
 15. Financial vetting checks are carried out at tendering stage, although we have highlighted during a few other audit reviews this year that these need to be continued after appointment to ensure that contractors and suppliers remain financially viable. We also found that the financial vetting checks, although always carried out, are not being held on the Proactis system with other documentation. Work is ongoing within the Corporate Procurement Team to improve vetting reports so that reminders can be sent to officers to run financial and other vetting checks, e.g. insurance and Disclosure and Barring Service (DBS) checks.
 16. Previous Internal Audit work highlighted a weakness in the Council, in that signed contracts are not always in place before a contractor commences work,
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although Legal Services previously confirmed that a written acceptance letter, together with a signed purchase order, cross-referenced against the signed tender submission does constitute a written contract. However, the status of that contract is at a lower level than a fully signed-up contract document would provide. Our work during this latest review still highlights some weaknesses in this area in that there is no clear guidance on timescales for drawing up contracts, contracts are not always in place before work commences, and copies of contracts are not always held on Proactis. We also noted that not all contracts are being entered onto a corporate contracts register, which they should be, particularly if the Council plans to make this information available via its website.

17. Although our review has highlighted some weaknesses and some non-compliance with CPRs and procurement processes, we have been able to narrow these down using root cause analysis to five main causes. Our analysis shows that there are not a significant number of problems in the procurement process but there are a few root causes contributing to several issues arising. Having discussed these with the Programme Manager – Business Change, there were no real surprises in the outcomes of our review, and action is being taken or is planned to address the root causes that we have identified. Given that the transformation of corporate procurement is still a ‘work in progress’, the improvements that have been implemented so far, and our confidence that further improvements will be made, we are able to provide a ‘Medium Assurance’ based on the work carried out within the scope of our review.
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Financial Systems – July 2017

| Accounts Payable – Medium Assurance | |
|--|--------------------------|
| 5 | Moderate Risks/Issues |
| 0 | Major Risks/Issues |
| 0 | Critical Risks/Issues |

| Payroll – High Assurance | |
|-----------------------------|--------------------------|
| 1 | Moderate Risks/Issues |
| 0 | Major Risks/Issues |
| 0 | Critical Risks/Issues |

| Treasury Management – High Assurance | |
|--|--------------------------|
| 0 | Moderate Risks/Issues |
| 0 | Major Risks/Issues |
| 0 | Critical Risks/Issues |

| VAT Returns – High Assurance | |
|---------------------------------|--------------------------|
| 0 | Moderate Risks/Issues |
| 0 | Major Risks/Issues |
| 0 | Critical Risks/Issues |

| Bank Reconciliation – High Assurance | |
|--|--------------------------|
| 0 | Moderate Risks/Issues |
| 0 | Major Risks/Issues |
| 0 | Critical Risks/Issues |

| General Ledger/Collaborative Planning –High Assurance | |
|--|--------------------------|
| 0 | Moderate Risks/Issues |
| 0 | Major Risks/Issues |
| 0 | Critical Risks/Issues |

18. Overall, our review provides assurance that the Council’s financial systems continue to operate well.

19. All IT systems are well supported and backed up daily. Access to some systems is not being removed when members of staff leave or move jobs within the Council but, as this is a corporate issue and the main risks relate to web-based systems rather than software-based systems, such as payroll and creditors, we will follow this up outside of this report.
 20. There is good knowledge sharing in all areas, which provides resilience during periods of absence and strengthens service continuity. There is also a comprehensive Finance Business Continuity Plan, which contains written procedures and strategies and identifies key personnel, roles and responsibilities. The Council's Financial Regulations have also been updated.
 21. Systems and procedures provide robust verification and authorisation controls and are supported by experienced members of staff who keep abreast of legislation changes and are proactive in supporting other Council services to resolve issues and bring about improvements. However, steps taken by Accounts Payable to expedite a reduction in the number of invoices that have not been paid due to longstanding invoice discrepancies or queries have, so far, only had minimal effect.
 22. Most payments, both payroll and creditors, are made correctly, securely and promptly, with only a few exceptions; however, the number of orders being raised retrospectively is still too high given that Financial Regulations require purchase orders to be raised in advance. Also, late notification of leavers is still creating a number of payroll overpayments.
 23. The number of duplicate payments, although low in comparison to the total number of invoices processed, has increased since our last review and most were picked up by the duplicate payment prevention software within Accounts Payable, so they should have been cancelled. We have also raised an issue regarding the Council not recovering all the VAT due from its invoice and purchasing card payments. Work carried out as part of our review has already recovered £6,620 in VAT and has also identified a significant amount of further VAT that the Council may be able to claim back relating to proforma invoices. Accounts Payable has successfully recovered £19,000 in credit balance refunds since last year's audit review and the overall value of outstanding credit balances has reduced; however, some recovery action is still ongoing, particularly those relating to care/nursing homes.
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24. The Payroll/iTrent integration is now complete and the EDRMS team is working on further pieces of work, which will improve communication between Payroll and HR, reducing duplication. A new IT system has also been implemented that will electronically transfer pension details to the pension administrator monthly, reducing the amount of information that the Payroll team previously had to collate manually. It will also reduce the risk of errors and omissions.
25. The roll-out of the new Proactis-based electronic travel and subsistence system is progressing well and purchasing card payments are now processed via Proactis, which will enforce greater controls and address many of the issues identified in previous reviews with the old paper-based process. We plan to carry out further work on the travel and subsistence system in 2017-18.
26. Key reconciliations are carried out regularly and promptly, including reconciliations between the different systems and bank reconciliation.
27. 'Verto' (Project Management system) is still not being updated to show progress on Finance-based projects; however, we have not carried the issue/risk forward as we are planning to carry out a separate review of the corporate project management system in 2017-18.
28. Finally, treasury management processes and procedures continue to be well controlled, ensuring that key risks are managed effectively and robust controls are in place to ensure that VAT returns are completed and returned within the necessary timescales.

Summary of outstanding issues from Internal Audit reports

| Audit Report | No. of Actions in the Audit Action Plan | | | | | | | | | Next IA F/up | Comments |
|-----------------------------------|---|---|---|------------------|---|---|---------------------|---|---|--------------|---------------------------|
| | Actions Due | | | Actions Complete | | | Actions Outstanding | | | | |
| Community Support Services | | | | | | | | | | | |
| Paris Financials | 0 | 2 | 5 | 0 | 0 | 1 | 0 | 2 | 4 | Jul 17 | •2 follow ups carried out |

| | | | | | | | | | | | |
|--|---|---|----|---|---|----|---|---|---|--------|--|
| Cefndy Healthcare | 0 | 0 | 7 | 0 | 0 | 7 | 0 | 0 | 0 | n/a | •Now complete |
| Payments to External Providers | 0 | 0 | 2 | 0 | 0 | 2 | 0 | 0 | 0 | n/a | •Now complete |
| POVA | 0 | 0 | 7 | 0 | 0 | 6 | 0 | 0 | 1 | Aug 17 | •2 follow ups carried out |
| Education & Children's Services | | | | | | | | | | | |
| Governance in Schools | 0 | 0 | 19 | 0 | 0 | 15 | 0 | 0 | 4 | Jan 18 | •2 follow ups carried out |
| Ysgol Mair RC | 0 | 2 | 20 | 0 | 2 | 20 | 0 | 0 | 0 | n/a | •Now complete |
| IT & IM Management in Schools | 0 | 0 | 17 | 0 | 0 | 8 | 0 | 0 | 9 | Sep 17 | •1 follow up carried out |
| Facilities, Assets & Housing | | | | | | | | | | | |
| Housing Rents | 0 | 0 | 5 | 0 | 0 | 4 | 0 | 0 | 1 | Jul 17 | •1 follow up carried out |
| Housing Allocations & Voids | 0 | 0 | 5 | 0 | 0 | 2 | 0 | 0 | 3 | Sep 17 | •1 follow up carried out |
| Industrial Estates | 0 | 0 | 2 | 0 | 0 | 1 | 0 | 0 | 1 | Jun 17 | •2 follow ups in progress |
| Review of On-site Income & Security at Leisure Sites | 0 | 0 | 9 | 0 | 0 | 9 | 0 | 0 | 0 | n/a | •Now complete |
| Ruthin Craft Centre | 0 | 0 | 4 | 0 | 0 | 4 | 0 | 0 | 0 | n/a | •Now complete |
| Rhyl Harbour - Review of Operational Management | 0 | 0 | 4 | 0 | 0 | 2 | 0 | 0 | 2 | Jun 17 | •2 follow ups in progress |
| Finance | | | | | | | | | | | |
| Revenues Services - in Partnership with Civica | 0 | 0 | 16 | 0 | 0 | 12 | 0 | 0 | 4 | n/a | •Follow up being reported as part of 2016/17 audit |
| Financial services | 0 | 2 | 8 | 0 | 0 | 5 | 0 | 2 | 3 | n/a | •Follow up being reported as part of 2016/17 audit |
| Highways & Environmental Services | | | | | | | | | | | |
| Street Works | 0 | 0 | 5 | 0 | 0 | 3 | 0 | 0 | 2 | Oct 17 | •3 follow ups carried out |
| Corporate Fleet Management | 0 | 7 | 12 | 0 | 7 | 9 | 0 | 0 | 3 | Jan 18 | •3 follow ups carried out |
| Passenger Transport | 0 | 0 | 5 | 0 | 0 | 2 | 0 | 0 | 3 | Nov 17 | •1 follow up carried out |

| Legal, HR & Democratic Services | | | | | | | | | | | |
|---|---|---|----|---|---|----|---|---|---|---------|--|
| HR Management in Schools | 0 | 1 | 5 | 0 | 0 | 1 | 0 | 1 | 4 | Sep 17 | •1 follow up carried out |
| Management & Administration of Legal Services | 0 | 5 | 7 | 0 | 5 | 7 | 0 | 0 | 0 | n/a | •Now complete |
| Planning & Public Protection | | | | | | | | | | | |
| Community Enforcement | 0 | 0 | 9 | 0 | 0 | 5 | 0 | 0 | 4 | Aug 17 | •2 follow ups carried out |
| Housing Enforcement | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 | Apr 17 | •2 nd follow up in progress |
| Parking Services | 0 | 0 | 13 | 0 | 0 | 11 | 0 | 0 | 2 | Aug 17 | •2 follow ups carried out |
| Corporate Reviews | | | | | | | | | | | |
| Corporate Procurement | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 5 | Sep 17 | •1 st follow up not due |
| Developing the Local Economy | 0 | 1 | 2 | 0 | 0 | 2 | 0 | 1 | 0 | Jan 18 | •1 follow up carried out |
| IT Access Management | 0 | 2 | 8 | 0 | 1 | 2 | 0 | 1 | 6 | Jun 17 | •3 rd follow up in progress |
| Physical Security of information | 0 | 3 | 3 | 0 | 1 | 2 | 0 | 2 | 1 | Apr 17 | •2 nd follow up in progress |
| Sickness Absence | 0 | 0 | 9 | 0 | 0 | 7 | 0 | 0 | 2 | Sep 17 | •3 follow ups carried out |
| Corporate Safeguarding | 0 | 0 | 19 | 0 | 0 | 18 | 0 | 0 | 1 | Sept 17 | •3 follow ups carried out |

Progress in delivering the Internal Audit Assurance 2017-18

29. The following table shows a summary of Internal Audit's work to date for this year. As the new Internal Audit Strategy has an 'organic' plan, this table will be added to during the year as more projects commence.

30. Where projects have been completed since 1 April 2017, the table provides assurance ratings and number of issues raised for the completed reviews.

31. The following projects have not yet commenced but are scheduled for the coming months:

- Citizens Advice Bureau – Governance Arrangements
 - Corporate Communications
 - Revenues Services
 - Managing the Risk of Fraud & Corruption Phase 2
 - Settlement Agreements
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| Internal Audit Assurance Plan Areas of Work | 2017-18 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 |
|--|----------------------|---------------------|------------------------|-----------------|------------------------|---------------------|------------------------|---|
| 2017-18 Projects | | | | | | | | |
| Corporate document retention | 16 | 20 | In progress | | | | | |
| Modernising the Council to deliver efficiencies and improve services for our customers | 26 | 30 | In progress | | | | | |
| Highways asset management – Improving our roads | 6 | 10 | Draft report | | | | | |
| AONB Grant | 2 | 2 | Complete | n/a | | | | Certification of grant – no report issued |
| ALN & Inclusion / Recoupment & Out of County Placement / Special Education | 5 | 40 | In progress | | | | | |
| Projects Brought Forward from 2016-17 | | | | | | | | |
| Corporate risk management assurance | 4 | 5 | Draft report | | | | | |
| Financial assurance 2016-17 | 32 | 33 | Complete | Medium | 0 | 0 | 5 | |
| Petty cash review | 21 | 23 | QA review | | | | | |
| Fraud & Corruption Work | | | | | | | | |
| National Fraud Initiative | 7 | 10 | In progress | | | | | |
| Managing the Risk of Fraud & Corruption Phase 1 | 3 | 5 | In progress | | | | | |
| Follow-up Reviews | | | | | | | | |

| Internal Audit Assurance Plan Areas of Work | 2017-18 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 project follow-ups | 25 | 100 | In progress | | | | | |
| Management of follow-ups | 1 | 5 | | | | | | |
| Other Areas of Work | | | | | | | | |
| School Fund admin & audits | 12 | 20 | In progress | | | | | |
| Corporate Governance Framework 2017-18 | 0 | 10 | Not started | | | | | |
| Corporate working groups | 1 | 10 | In progress | | | | | |
| Consultancy & corporate areas | 9 | 40 | In progress | | | | | |
| IA Support & Management | | | | | | | | |
| Team Meetings / 1:1s | 4 | 40 | | | | | | |
| Management | 16 | 50 | | | | | | |
| Training & development | 12 | 40 | | | | | | |
| Total Days | 202 | 493 | | | | | | |

Internal Audit performance standards

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

- Follow-up audit work – Two measures to ensure that Internal Audit carries out its follow-up work promptly and that services implement agreed improvement actions.
- Customer Standards – A range of indicators to ensure that Internal Audit delivers a good service to its customers.

33. The table below shows Internal Audit's performance to date for 2017/18.

Internal Audit commences follow-up reviews in the planned month

Targets – Excellent 100% – Good 90% – Acceptable 80%

Current performance 100%

Services have implemented agreed improvement actions from Internal audit reviews

Targets – Excellent 75% – Good 70% – Acceptable 65%

Current performance 66% – Performance will be cumulative during the year and will improve as the year goes on.

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

Targets – Excellent 99% – Good 95% – Acceptable 90%

Current performance 100 %

Send customers the agreed Project Scoping Document before we commence work

Targets – Excellent 99% – Good 95% – Acceptable 90%

Current performance 100 %

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

Targets – Excellent 99% – Good 95% – Acceptable 90%

Current performance 100%

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

Targets – Excellent 99% – Good 95% – Acceptable 90%

Current performance 100%