



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

Corporate Governance Committee Update

February 2018



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 January 2018 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
 - Progress with Counter Fraud work
 - 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
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Significant issues to be brought to the attention of SLT, CET, Cabinet Lead Members and Corporate Governance Committee

Revenues and Benefits – January 2018

Partnership Arrangements – High Assurance	Housing Benefits & Council Tax Reduction – High Assurance	Sundry Debtors – High Assurance	Council tax & business rates – High Assurance
0	0	0	0
Moderate Risks/Issues	Moderate Risks/Issues	Moderate Risks/Issues	Moderate Risks/Issues
0	0	0	0
Major Risks/Issues	Major Risks/Issues	Major Risks/Issues	Major Risks/Issues
0	0	0	0
Critical Risks/Issues	Critical Risks/Issues	Critical Risks/Issues	Critical Risks/Issues

4. Partnership governance arrangements has shown steady improvement over the previous two years, and this year’s review confirms this trend is continuing as the partnership continues to apply suitable governance to manage its risks. The Operations Board (which has representatives from both Civica and the Council) functions effectively and the Contract & Performance Manager monitors performance to ensure service delivery continues to perform well.
 5. Performance management is regularly monitored through periodic reports to the Operations Board. Sundry debtors’ performance is regularly monitored but it is the only service area which currently does not have a performance indicator. We confirmed that the Contract & Performance Manager is reviewing the situation.
 6. Reconciliations continues to perform well with suitable transition following the recent retirement of a longstanding officer. We confirmed that staff are being trained to provide service cover.
 7. Processes and controls in the Council Tax and Business Rates systems are operating well and we have raised no formal issues. Reconciliation between the Valuation Office and Council Tax data ensures that all properties are identified, with prompt billing and recovery action to ensure that revenues are maximised.
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8. Housing Benefits and Council Tax Reductions continue to operate well with good processes. Better data matching information means higher volumes of overpayments are being identified, which has resulted in Civica falling short of the agreed performance targets for overpayment collection. The Contract & Performance Manager and Operations Board is monitoring the situation closely.
9. Risk Based Verification is built into the benefits IT system and applies a risk score to each claim based on set criteria for each claimant. Sample testing by the system supplier confirms the effectiveness of this system. We note that the Risk Based Verification Policy needs updating to reflect the partnership arrangements now in place.
10. Sundry Debtors processes invoices promptly; however, there are still instances of invoices being raised for small values (less than £25) contrary to advice as it is deemed uneconomical to pursue. We accept that certain situations need invoices to be raised for values under £25; however, further work is needed to investigate the potential for services to invoice more efficiently, e.g. by consolidating several small invoices into one.
11. Debt recovery processes are adequate as are those for credit notes and write-offs. The number of debtors with credit balances has reduced significantly since we highlighted this issue last year.
12. Considerable effort has been made to address the issues outstanding from our previous reviews with three now outstanding.
13. Based on the scope of our review and the results of our testing, we give a **high** assurance overall as governance and controls are sufficient to manage key risks and service objectives are being met.

Settlement Agreements – January 2018

14. The process for managing settlement agreements in the Council has strengthened significantly since the introduction of the revised process in November 2016. We are satisfied that in all cases reviewed, there was a reasonable justification for the decision to settle, and the associated payment was in line with policy and not excessive.

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

15. We are satisfied that this process is now more embedded, with services clearer on their responsibilities and what is required of them, in particular the need for early consultation with relevant departments such as HR, Finance and Legal. However there are still some weaknesses in the controls around authorisation and document retention of settlement cases. Weaknesses in these areas could result in unauthorised settlement agreements being reached, as well as potential harm to any case brought against the Council as a result of loss of key documentation. Both increase the financial risk to the Council as well as potential damage to its reputation:

- While we have no concerns with the legitimacy of any of the agreements reviewed as part of our testing, there were inconsistencies in the authorisation of some i.e. we could not find evidence that all required signatories had authorised the agreement.
- Further, improvements are needed in the general housekeeping and document retention of relevant case files. While we were able to locate all documentation needed for our review, we found case files were often split between departments, documents duplicated and no central record held.

16. Despite raising two moderate risk issues, the results of our review are positive as we note a significant improvement in the process for managing settlement agreements, therefore we are able to provide a **medium assurance** rating overall.

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	Mar 18	•3 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	Mar 18	•2 follow ups carried out
Education & Children's Services											
Governance in Schools	0	0	19	0	0	15	0	0	4	Jan 18	•3 rd follow up in progress
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	•2 nd follow up in progress
Management of Voluntary School Funds	0	0	8	0	0	0	0	0	8	Sep 17	•1 st follow up in progress
Facilities, Assets & Housing											
Housing Rents	0	0	5	0	0	4	0	0	1	Jun 18	•4 follow ups carried out
Housing Allocations & Voids	0	0	5	0	0	4	0	0	1	Mar 17	•2 follow ups carried out
Industrial Estates	0	0	2	0	0	1	0	0	1	Feb 18	•4 th follow up 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	4	0	0	0	N/a	•Now complete
Finance											

Revenues Services - in Partnership with Civica	0	0	16	0	0	13	0	0	3	N/a	•Follow up reported as part of 2017/18 audit
Financial services	0	2	8	0	0	5	0	2	3	N/a	•Follow up being reported as part of 2017/18 audit
Highways & Environmental Services											
Street Works	0	0	5	0	0	3	0	0	2	Mar 18	•4 follow ups carried out
Corporate Fleet Management	0	7	12	0	7	11	0	0	1	Jan 18	•3 follow ups carried out
Passenger Transport	0	0	5	0	0	4	0	0	1	Jan 18	•2 follow ups carried out
Legal, HR & Democratic Services											
HR Management in Schools	0	1	5	0	0	4	0	1	1	Feb 18	•2 follow ups 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	9	0	0	0	N/a	•Now complete
Housing Enforcement	0	0	2	0	0	1	0	0	1	Mar 18	•2 follow ups carried out
Parking Services	0	0	13	0	0	13	0	0	0	N/a	•Now complete
Corporate Reviews											
Corporate Procurement	0	0	5	0	0	1	0	0	4	Mar 18	•1 follow up carried out
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	3	0	1	5	Feb 18	•4 follow ups carried out
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	9	0	0	0	N/a	•Now complete
Corporate Safeguarding	0	0	19	0	0	18	0	0	1	N/a	•1 outstanding issue transferred to procurement follow up

Modernising the Council	0	0	2	0	0	0	0	0	2	May 18	• 1 follow up carried out
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Progress in delivering the Internal Audit Assurance 2017-18

17. 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.
18. Where projects have been completed since 1 April 2017, the table provides assurance ratings and number of issues raised for the completed reviews.
19. The following projects have not yet commenced but are scheduled for the coming months:
- Catering;
 - Project Management:
 - Denbigh Extra Care Housing Scheme;
 - Ruthin Town: Glasdir Development – Relocation of Ysgol Pen Barras & Rhos Street School;
 - Ruthin Area Review – New Area School for Ysgol Carreg Emlyn;
 - Risk Management;
 - Health & Safety in Schools;
 - Business Continuity Management.
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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	31	31	Complete	Low	0	3	1	
Modernising the Council to deliver efficiencies and improve services for our customers	44	44	Complete	Medium	0	0	2	
Highways asset management – Improving our roads	10	10	Complete	Medium	0	0	2	
AONB Grant	2	2	Complete	n/a				Certification of grant – no report issued
Welsh Government Grants	12	12	Complete	n/a				Certification of grant – no report issued
ALN & Inclusion / Recoupment & Out of County Placement / Special Education	8	40	On hold until end February 2018					Head of Service request to delay start review while the service is undergoing a restructure.
Citizens Advice Bureau – Governance Arrangements	16	16	Complete	High	0	0	1	
Corporate Communications	24	24	Complete	Medium	0	0	3	

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
Revenues Services: <ul style="list-style-type: none"> Partnership Governance Council Tax & Business Rates Housing Benefits & Council Tax Reductions Sundry Debtors 	80	80	Complete	High	0	0	0	
Settlement Agreements	25	25	Complete	Medium	0	0	2	
Procurement	36	40	Draft					Joint audit with Flintshire County Council of the shared service
Travel and Subsistence	17	20	Draft					
Financial Services 2017/18: <ul style="list-style-type: none"> Accounts Payable Payroll BACS Controls Accounting Systems Treasury Management Bank Reconciliation 	67	70	Closing meeting					
Registrars	14	25	Fieldwork					Initial investigation concluded. Further work planned in Q4
Court of protection	6	15	Fieldwork					

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
CCTV Partnership	15	18	Fieldwork					Nearing completion
Public Conveniences	17	20	Draft					
Catering	0	15	Scoping					
Project Management	1	10	Scoping					
Risk Management	0	10	Scoping					
Health & Safety in Schools	1	10	Scoping					
Business Continuity Management	1	10	Scoping					
Projects Brought Forward from 2016-17								
Corporate risk management assurance	6	6	Complete	High	0	0	0	
Financial assurance 2016-17	34	34	Complete	Medium	0	0	5	
Petty cash review	38	38	Complete	Medium	0	0	3	
Fraud & Corruption Work								
National Fraud Initiative	41	50	In progress					
Managing the Risk of Fraud & Corruption Phase 1	10	10	Complete	Medium	0	0	2	
Managing the Risk of Fraud & Corruption Phase 2	11	13	Closing meeting					

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
General fraud enquiries and counter fraud work	17	20	In progress					
Follow-up Reviews								
IA project follow-ups	102	120	In progress					
Management of follow-ups	6	8						
Other Areas of Work								
School Fund admin & audits	29	35	In progress					
Corporate Governance Framework 2017-18	1	10	In progress					
Corporate working groups	8	10	In progress					
Consultancy & corporate areas	27	40	In progress					
IA Support & Management								
Team Meetings / 1:1s	40	45						
Management	59	70						
Training & development	39	40						
Total Days	895	1096						

Progress with Counter Fraud Work

Referrals 2017/18

Date Referred	Investigation Details	Outcome
April 2017	Anonymous complaint from a previous employee claiming that a member of staff is making personal gain from an arrangement with a Council contractor.	Allegation not proven.
June 2017	Concern raised about the management of School Fund.	Nothing proven. School Fund guidance being finalised to stipulate key controls for managing the funds.
July 2017	Referral was received concerning a member of staff attempting to obtain reimbursement from school funds by deception.	Ongoing – with HR.
July 2017	A referral was received concerning a member of staff overcharging for a service and potential that they were keeping the difference.	Internal disciplinary proceeding and non-compliance proven. Member of staff resigned and recommendations have been made to strengthen controls.
September 2017	Solicitor attended a deceased client's property to take possession and found the property empty. Concern raised regarding who emptied the property.	Ongoing.
October 2017	NFI match showing a member of staff with the same address as a business. Potential conflict of interest in awarding work.	Ongoing

20. Other counter fraud work carried out during 2017/18 includes:

- Providing advice on counter-fraud to officers on request;
- Co-ordinating the National Fraud Initiative (NFI) data matching exercise;
- Involvement with the Welsh Chief Auditor's Group to share learning regarding potential vulnerabilities and control weaknesses; and
- Ongoing audit review using the CIPFA Code of Practice for Managing the Risk of Fraud and Corruption.

Internal Audit performance standards

21. 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.

22. 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 75% – Performance will be cumulative during the year and should 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 90% – Due to lead auditor sickness absence, one report was sent 8 working days after draft agreement.