

# Internal Audit Update

June 2019

## 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 22 May 2019 on:
  - Internal Audit reports recently issued:
    - Bridges & Structures
    - Grant Management
    - Revenues & Benefits
    - Section 106
  - Progress on Internal Audit work to date in 2018-19;
  - Progress with improvement actions arising from 2018-19;
  - Progress with counter fraud work;
  - Internal Audit performance standards; and
  - CIPFA Practical Guidance for Audit Committees update.

## Internal Audit Reports Recently Issued

3. This 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.

### Bridges & Structures – April 2019

4. Our review found inspections are carried out within the timescales as set out in the National Code of Practice for Bridges, the results of which inform the prioritisation of the maintenance programme.
5. A list of highway assets is maintained and the ownership of bridges and culverts is clear. However, there is ambiguity as to the ownership of some retaining walls.
6. The most recent code of practice requires a risk assessment of structures and, while this has not been completed for all structures, this now forms part of the

Medium Assurance	
4	Moderate risks/issues
0	Major risks/issues
0	Critical risks/issues

inspection regime. This can prove to be very time consuming, so the team has begun trialling an asset management system and, it is anticipated that, once it is fully implemented, this will enable the team to complete risk assessments and monitor progress of inspections and the maintenance programme more efficiently.

7. Following the requisite inspections, highway structures requiring maintenance are identified and work prioritised as necessary. This is a reasonable approach for managing safety and serviceability.
8. Bridges and structures do not currently feed into the Highways Asset Management Plan and this needs to be updated.
9. Specialist consultants are used to perform inspections and ascertain the level of maintenance work required for highway structures. We found that procurement of consultants and contractors did not consistently follow Contract Procedure Rules (CPRs).
10. The financing of the team through Strategic Investment Group (SIG), while ensuring that there is a specific annual allocation for Bridges and Structures, does make medium and long term forward planning difficult. A 10 year maintenance backlog has been identified and a programme is in place to reduce this. An annual bid is put forward to SIG to secure additional funding to reduce this backlog. This bid is not a guarantee that the full requested allocation will be granted.
11. Overall, there is a good system in place for prioritising bridge maintenance repair, and no roads are closed due to bridge conditions which contributes to the Corporate Priority of Connected Communities. The team's weak procurement practice, lack of internal guidelines and need to include bridges in the Highways Asset Management Plan means that we give a medium assurance rating.

### Grants Management- March 2019

12. Overall, our review found that the grant management process is being administered effectively by services. The terms and conditions set out in the individual grant award letters are complied with, and staff generally submit grant claims and returns within the designated timescales. Where there

Medium Assurance	
1	Moderate risks/issues
0	Major risks/issues
0	Critical risks/issues

have been late submissions, this has been due to staff sickness or changes in personnel and have not resulted in a funding clawback.

13. Finance are involved operationally to monitor grant expenditure and complete a checklist before the final claim is submitted to the awarding body. The Head of Finance signs quarterly returns and final grant claims when his involvement is detailed in the terms and conditions.
  14. Finance are also responsible for maintaining two grant registers for capital and revenue grants. The Capital Grants register is comprehensive and is currently being updated so that key supporting information is also held within the register. However, the Revenue Grants register could be improved, as it is currently only prepared towards the end of the financial year so all key staff may not be clear of the grants that the Council deals with. The register template would also benefit from a review to ensure it captures the key information during the year, e.g. audit requirements, and there were some grants on the ledger for 2017/18, which were not detailed on the corresponding grant register.
  15. While our testing of grants was overall positive, the main area for improvement is to provide more documented guidance to staff on managing grants. While the process is briefly covered in Financial Regulations and the Scheme of Delegation, some of the weaknesses identified during our review could be addressed by providing further guidance:
    - evidence that grant programmes clearly demonstrate value for money prior to them being accepted, e.g. sufficient consideration of financial and staffing resources involved and whether the grant is aligned with corporate priorities;
    - Some grant documentation is retained on personal drives, which does not provide effective business continuity arrangements, and there was uncertainty as to the retention period of documentation;
    - on the authorisation process for grant management, if not covered in the grant terms and conditions, to ensure key documentation such as grant acceptance letters are authorised at an appropriate level; and
    - on monitoring grant outcomes or lessons learnt to avoid potential funding clawback should we be unable to supply the requisite information.
  16. Flexible funding will be introduced during the next financial year 2019/20 resulting in ten existing grants being reduced to two. The implementation of
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the funding is being phased in with full implementation from 2020/21. Operationally, work has been undertaken to prepare for its implementation through the Flexible Funding group, made up of representatives from the four services affected.

17. Welsh Government has only recently started to supply guidance and documentation to assist with its implementation, and the Council recognises it needs to work more strategically to ensure that the necessary processes are put in place to fully implement the new funding stream. For example, how to allocate the fund across the affected services and considering lessons learnt and good practice from early adopters, e.g. having a designated person to monitor and manage grants.
18. Our overall rating is medium assurance given the issues identified, which cross several Service areas. These mostly relate to the need for written guidance to direct better practice in relation to the Council’s management of grant applications (authorisation), storing evidence and monitoring outcomes.

### Revenues & Benefits– April 2019

Medium Assurance	
10	Moderate risks/issues
0	Major risks/issues
0	Critical risks/issues

19. This year, our scope focused on: partnership arrangements, sundry debtors, benefit overpayments and enforcement.
  20. The ‘business as usual’ element of the Civica partnership continues to operate well in terms of the governance and monitoring arrangements in place. The Operational Board continues to meet monthly to review performance and discuss key aspects of the partnership, and change control forms are authorised by both the Head of Finance and Civica to reflect any key amendments to the contract.
  21. Operationally, performance is high with all but three Key Performance Indicators (KPIs) being rated as ‘green’ at the conclusion of our review. Performance within Benefits has recently been impacted with the migration to Universal Credit, but these KPIs are being kept under review by the Operational Board.
  22. Civica has conducted a review of its compliance with General Data Protection Regulations (GDPR) and an action plan has been developed.
  23. The Strategic Board meets quarterly to monitor performance and discuss income generation and developments with the Elwy Centre. Despite the efforts of both Civica plc and the Council, commercial opportunities within the Elwy
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Centre have not yet materialised as anticipated in the original business case. Additionally, no profit has been generated for the Council through the 'On Demand' work. Developmental opportunities are kept under review, and other income maximisation projects are being pursued.

24. Our review of Sundry Debtors concludes that improvement is mainly dependent on departments taking prompt action to assist with collecting their debts, as currently it can be some time before departments respond to Sundry Debtors if their debts cannot be recovered by the debt collector.
  25. There are planned changes to the sundry debtor system, which should improve efficiency, e.g. being AUDDIS (Automated Direct Debit Instruction Service) compliant. If feasible, we suggest further enhancements to the system to include a mandatory field to record the date the service was provided (for VAT purposes), details of the purchase order raised by the customer (where appropriate), and a repository on the system to store documentation to support the debt.
  26. Robust procedures exist to prevent set up of duplicate debtor accounts, and our testing identified two duplicate invoices. The problem that caused these duplicates has since been resolved. In addition, we identified instances where recovery of aged debts had not progressed and recovery had stalled for a few of the debts being repaid under an instalment plan. These are being reviewed.
  27. Added resource has been put in place within the Overpayments function to target historic debt where no recovery was being made. Where the two key performance indicators for overpayments historically had a 'red' status as the target was never met at year end, they now have a 'green' status because of recent initiatives.
  28. Civica (Denbighshire) recognises that further improvements are needed with the Overpayments function, some of which have been inherited prior to start of the Civica partnership, e.g. the historic debt and credit balances. They are particularly held back by the robustness of the overpayments system and there are a number of issues that are currently in the process of being resolved. However, we are concerned about the impact of these system issues to the accuracy of reporting which may also mean that some debts are not being recovered.
  29. While added resource has been put in place, there are ineffective business continuity arrangements to cover the Overpayments Officer's role. There is
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some documented guidance, but this requires a review to ensure it is up-to-date and to reflect changes when the process is reviewed to ensure it is efficient and effective.

- 30. No significant issues were identified as part of our review of the external enforcement agents and debt collector service. There is an approved Change Authorisation Note to reflect the change in the contract between the Council and Civica, and the external enforcement agents provide Civica with monthly reports detailing their performance. The Contract & Performance Manager also attends their quarterly review meetings.
- 31. Progress has been made with the addressing the issues outstanding from our previous review with only one issue now outstanding relating to debtor invoices being raised for small values (less than £25).
- 32. Our overall rating is medium assurance; while there are a number of areas for improvement, we consider that these can be resolved by either Civica or the Council.

### Section 106– May 2019

- 33. As this is a ‘low assurance’ report, the full report is shown on the committee’s agenda separately.

Low Assurance	
2	Moderate risks/issues
2	Major risks/issues
0	Critical risks/issues

## Progress in Delivering the Internal Audit Assurance 2019-20

34. The following table shows a summary of Internal Audit’s work to date for this year. This table will be added to during the year as more projects commence.

35. Where projects have been completed since 1 April 2019, the table provides assurance ratings and number of issues raised for the completed reviews.

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

- Office accommodation
- GDPR in Schools

Internal Audit Assurance Plan Areas of Work	2019–20 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
<b>2019–20 Projects</b>								
AONB Grant	1	7	Preparing					
Office accommodation	1	15	Scoping					
Homelessness	5	25	Scoping					Carried forward from 2018/19.
GDPR in Schools	0	20	Scoping					



Internal Audit Assurance Plan Areas of Work	2019-20 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
Contract Management	1	20	Scoping					Carried forward from 2018/19. Joint review with Flintshire County Council. Delayed
<b>2018-19 Projects</b>								
Section 106	1	2	Complete	Low	0	2	2	
Single Access Route to Housing (SARTH)	10	15	Fieldwork					Nearing completion
Revenues and Benefits: <ul style="list-style-type: none"> <li>• Sundry Debtors</li> <li>• Overpayments</li> <li>• Bailiffs</li> </ul>	2	2	Complete	Medium	0	0	10	
School Governance	1	2	Draft					
Grants Management	0	0	Complete	Medium	0	0	1	
School Fund Management	4	5	Fieldwork					See next section of IA update
Bridges and Structures	1	1	Complete	Medium	0	0	4	
Waste Management	3	6	Closing meeting					Nearing completion

Internal Audit Assurance Plan Areas of Work	2019–20 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
Legal Services Collaboration	5	7	Closing meeting					Nearing completion
Programme and Project Management: <ul style="list-style-type: none"> <li>Rhyl Faith School</li> <li>CRM Systems</li> <li>Benefits Realisation</li> </ul>	3	4	Draft					
Financial Services: <ul style="list-style-type: none"> <li>Treasury Management</li> <li>Payroll</li> <li>Accounts Payable</li> <li>Cash Receipting</li> </ul>	7	8	Draft					
Supported Budgets (Direct Payments)	15	20	Draft					
General Data Protection Regulations	8	15	Fieldwork					Nearing completion
Cyber Security	6	8	Draft					
Former North Wales Hospital	2	2	Final	Advisory	N/a	N/a	N/a	
<b>Fraud &amp; Corruption Work</b>								
National Fraud Initiative	5	40	Ongoing					2018–19 exercise underway

Internal Audit Assurance Plan Areas of Work	2019–20 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
Housing Tenancy Fraud	11	15	Fieldwork					Nearing completion
General fraud enquiries and counter fraud work	0	90	Ongoing					
<b>Follow-up Reviews</b>								
IA project follow-ups	9	30	Ongoing					Includes devising new follow up process
Management of follow-ups	2	30						
<b>Other Areas of Work</b>								
School Fund admin & audits	4	60	In progress					
Corporate Governance Framework	2	20	2018–19 complete					See separate report on progress to date with the improvement actions.
Corporate working groups	2	35	In progress					
Consultancy & corporate areas	2	45	In progress					
<b>IA Support &amp; Management</b>								
Team Meetings / 1:1s	9	65						
Management	6	40						
Training & development	7	40						
<b>Total Days</b>	<b>135</b>	<b>703</b>						

## Progress with Improvement Actions arising from Internal Audit Assurance Work 2018-19

37. Responsibility to resolve issues and manage agreed actions lies with management. The International Internal Audit Standards require internal audit to monitor what is happening to the results of audit engagements to ensure that actions have been implemented effectively or that management has accepted the risk of not taking action. The table below summarises progress as at the end of March 2019. The progress and current status of the actions showing as overdue is detailed in a separate Appendix report.

Service	Actions Raised	Implemented	%	Outstanding	%
Business Improvement & Modernisation	17	15	88%	2	12%
Community Support Services	7	7	100%	0	0%
Communications Customers & Marketing	3	3	100%	0	0%
Education & Children's Services	16	12	75%	4	25%
Facilities Assets & Housing	30	24	80%	6	20%
Finance	18	15	83%	3	17%
Highways & Environmental Services	16	12	75%	4	25%
Legal, HR & Democratic Services	31	14	45%	17*	55%

Planning & Public Protection	10	6	60%	4	40%
<b>Total</b>	<b>148</b>	<b>108</b>	<b>73%</b>	<b>40</b>	<b>27%</b>

\* 7 actions relate to Travel & Subsistence review which has been delayed as pending decision by SLT regarding Grey Fleet Checks.

## Progress with Counter Fraud Work

38. Counter fraud work carried out since the last internal audit update includes:
- Providing advice on counter fraud to officers on request;
  - Review of data matches from the National Fraud Initiative (NFI) exercise 2018–19 is underway.
  - Involvement in Wales Audit Office review of Local Government counter fraud arrangements which will be report to the Public Accounts Committee in July 2019.
  - Audit of outstanding voluntary school fund certificates is nearing completion. Nearly all schools have up-to-date certificates with the exception of two schools. These will be reviewed by Internal Audit once all the required documentation is received.
  - Audit of Housing Tenancy Fraud nearing completion. This includes a review of NFI Housing Tenant matches.

## Referrals 2019/20

Date Referred	Investigation Details	Outcome
Referrals from 2019/20		
No allegations have been referred to Internal Audit to date		

## Internal Audit Performance Standards

39. 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.

40. The table below shows Internal Audit's performance to date for 2018/19.

Customer Service Standard	Target	Current Performance
Internal Audit will discuss, agree and send services the Internal Audit Project Scoping Document before it commences work.	100%	100%
At the conclusion of its work, Internal Audit will hold a closing meeting with all relevant people to discuss the outcome of its work, and then send services a draft report as soon as possible after that meeting.	Avg. Days (> 10)	9.6
Internal Audit will issue a final audit report as soon as possible after agreeing the report and its action plan with services.	Avg. Days (> 5)	2.8

Follow Up Action Plans & Service Improvement	Target	Current Performance
Using performance management system (Verto), Internal Audit will monitor and report on the % of agreed improvement actions that have been implemented by services to show that Internal Audit's service is effective in helping to deliver improvement.	75%	73%

## **CIPFA Practical Guidance for Audit Committees – Update**

41. Through the Welsh Chief Auditors Group an Audit Committee Chairs Network has been formed with its first meeting planned for the Summer 2019. The agenda for the session is being developed to provide guidance and training to support Chairs with carrying out their roles as well as an opportunity to network with their counterparts from other Council's across Wales.
42. Other training being progressed for all committee members include a session on agenda management and effective meetings as well as Treasury Management training by the Council's Treasury Advisors Arlingclose Ltd.