

Internal Audit Update

September 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 28 August 2019 on:
 - Internal Audit reports issued since the last update:
 - Financial Services 2018–19
 - Cyber Security
 - Programme & Project Management
 - School Governance
 - Support Budgets & Direct Payments
 - Former North Wales Hospital
 - Legal Services Collaboration
 - General Data Protection Regulations (GDPR)
 - Progress on Internal Audit work to date in 2019–20;
 - Progress with improvement actions arising from 2019–20;
 - Progress with counter fraud work;
 - National Fraud Initiative Interim Update
 - Internal Audit performance standards; and
 - CIPFA Practical Guidance for Audit Committees update.
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Internal Audit Reports Recently Issued

Financial Services – July 2019

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

3. Our review covered the period 1 November 2017 – 31 December 2018 and focused on: Accounts Payable, Accounting Systems, Cash Receipting, Bank Reconciliations, Money Laundering, Payroll and Treasury Management. We also reviewed progress with implementing actions agreed following last year's review.
 4. Results were as follows:
 - Accounts Payable continue to have a good process for identifying duplicate payments and take appropriate action.
 - The Finance team is investigating the purchase of a new IT system.
 - The upgrade of the cash receipting system has been implemented with minimal issues.
 - Confirmed that bank reconciliation controls continue to work appropriately.
 - Responsibility for Money Laundering is specified in Financial Regulations. We highlight an issue around staff awareness of money laundering procedures as they are not well communicated. This was addressed following our review.
 - Overtime and casual staff payments are more efficient since it is now done electronically. We raised an issue about lack of consistency with staff working overtime receiving additional leave allocation.
 - Overpayments to staff continue to happen due to lack of information on the leaver form or late notification of leaver. Finance continues to monitor the situation.
 - Treasury Management continues to be well managed overall. We raise two issues relating to the Treasury Management advisory contract as it had not been signed and the need to keep the Treasury Management risk register up-to-date.
 - Follow up of previous agreed actions shows that two have been completed with one in progress.
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Cyber Security – July 2019

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

5. Cyber risk refers to any risk of financial loss, disruption or damage to reputation of an organisation that arises from the failure of its IT systems. Our review focused on: governance and accountability, policies and procedures, training and awareness, security monitoring and incident response plan.
6. Overall, we identified suitable governance arrangements for monitoring, identifying and addressing potential cyber security breaches.
7. Policy and guidance is in place together with cyber security videos available on the intranet; however, staff awareness of both policy and guidance was poor.
8. Sample testing confirmed that the contractors used had suitable information security accreditation e.g. ISO 27001; however, we were unable to locate signed copies of all contracts. This issue was raised in the ICT Procurement review and is in the process of being addressed.
9. The council is accredited to the public sector network (PSN) demonstrating it has met the requisite security measures set by Welsh Government. At the time of our review, ICT were also in the process of obtaining Cyber Essentials accreditation.
10. Monitoring and guidance surrounding the use of externally hosted cloud storage systems needs strengthening.

Programme & Project Management – July 2019

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

11. This audit covered specific capital projects to review the project management arrangements including: Governance, Risk Management, Monitoring and Reporting and Benefit Realisation.
 12. We chose to review Rhyl Faith School New Build and New Customer Relationship Management (CRM) System. We also completed a general review of closed projects to establish if post project reviews, closure reports and lessons learnt have been completed.
 13. While there were mostly good arrangements in place to manage associated risks, we raised three issues in total which were common to many projects:
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- There is no process to effectively measure benefits after completion of a project.
- Issues and lessons learnt are not always recorded so that other project managers or services are aware and to minimise the risk of the same issues recurring.
- One instance identified where contract procedure rules were not complied with. While processes have been strengthened since, further improvement is required to ensure that the Procurement Team is consulted at the start of each project at business case stage.

School Governance – July 2019

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

14. Strong governance in schools is built on governors, head teachers and clerks having adequate support and training to enable them to carry out their statutory duties and improve educational outcomes for all children in Denbighshire.
 15. Overall, we identified areas of good practice in the governance arrangements of the five schools that we visited. Clerks maintain lists of current governors, which revealed that vacancies were largely for Local Education Authority (LEA) governors. The council operates an ongoing campaign to reduce the number of LEA governor vacancies and, following our review, several of the LEA vacancies were matched with new governors.
 16. There appears to be good awareness of the roles and responsibilities of the chair of governors and the clerks. Governing bodies make use of the Regional School Effectiveness and Improvement Service (GwE) and use Governors Cymru as a source of advice and support as required.
 17. Governors are required to complete annual declaration of interest forms to denote any potential conflicts of interest that could impact their decision making. A number of governors in the schools visited had not completed a declaration of interest form for the 2018–19 school year.
 18. There are agreed timescales for the completion of the mandatory training, which is 12 months for governors and clerks, and 6 months for chair of governors. There is also a requirement that all governors and clerks complete Data Barring Service (DBS) forms every four years. Testing identified that not all governors have provided evidence of having attended the required training or supplied a valid and up-to-date DBS certificate.
 19. Arrangements for reviewing policies and procedures, school development plans and complaints were working well overall. However, the same was not evident for financial decisions, approvals and authorisation levels as the relevant minutes were either not captured adequately or not held at all.
 20. Governing bodies of the schools visited were monitoring the overall performance of the school against the school development plans, recent Estyn reports and actions originating from GWE.
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Support Budgets & Direct Payments – August 2019

As this is a 'low assurance' report, the full report is shown on the committee's agenda separately

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

Former North Wales Hospital – August 2019

Assurance Not Applicable	
1	Moderate risks/issues
0	Major risks/issues
0	Critical risks/issues

21. This review consisted a narrow scope focusing on the process undertaken, bid opening, selection and decision making. As a result, we did not give an assurance rating.
22. Overall, the review identified that the process to award the land was carried out with the aid of internal and external advisors to ensure that any decision to award was sound. We did not identify any significant areas of weakness; however, risks have arisen that need to be captured corporately.
23. Care an advice was taken to ensure that OJEU regulations were not contravened in undertaking the land deal. The selection process had separation of duties to include representatives from Legal, Finance and Welsh Government. The decision to award to a developer involved both officers and members.
24. Cabinet agreed to the award of the land to the North Wales Hospital Limited which consisted the North Wales Building Preservation Trust and Jones Brothers Ruthin Co. Limited. At the time of our review, a development agreement was being formulated to set out the terms and conditions and the requirements for both parties.

Legal Services Collaboration – August 2019

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

25. The Legal Services Collaboration has officially been in operation since 30 September 2013 comprising all North Wales Local Authorities whereby Denbighshire is the lead authority. The review focused on governance arrangements, performance monitoring, service quality monitoring, and accountability and reporting.
 26. Our overall opinion is the Legal Collaboration provides a benefit to the six local authorities, as solicitor time is being freed up by reduced court visits and solicitors are sharing knowledge and best practice.
 27. We consider that strengthening the partnership and governance arrangements will ensure the collaboration will be robust and able to focus on monitoring performance more effectively to improve the service offer further. In summary, the areas for improvement are as follows:
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- A delegation form was drawn up and signed by the Lead Officer from each local authority on 30 September 2013. The form names the solicitors who can institute legal proceedings on behalf of the other councils. The agreement has not been updated since, and we noted that a number of the named solicitors no longer work for the collaboration. Therefore, some of the delegations are no longer accurate and some of the solicitors do not have the authority to institute legal proceedings on behalf of other councils.
- Governance arrangements are not entirely effective. A project board and project team is in place, but there are no clear guidelines as to how the collaboration should operate, for example, setting the agreed minimum level of service, and some key monitoring information is not covered.
- The project board and project team monitors performance information around court attendance including the set target of attending every court session during the year. Concerns from one service expressed that there have been a couple of occasions where a junior barrister/duty solicitor has been used at short notice. The information presented to the board should cover such instances.
- The collaboration has revealed savings on the purchase of case management software (Iken) and subscription fees by purchasing them through a joint contract. Other savings achieved have not been quantified e.g. solicitor time savings, reduction in costs from using external solicitors and specialist support.

General Data Protection Regulations (GDPR) – August 2019

28. This review looked at a sample of processes and practices for a sample of services within the council in light of the introduction of GDPR in May 2018. The review focused on Governance & Accountability, training and awareness raising, data sharing and direct marketing.

29. Formation of the Information Governance Group (IGG) provides good governance with representatives from services working together to ensure the

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

council complies with legislation. A forward work programme identified risks and issues with supporting actions. We highlight that the action plan has not been updated in recent months and this has since been addressed.

30. Comprehensive guidance is available to staff which is based on guidance provided by the Information Commissioner's Office (ICO). However, at the time of our review, the Data Protection Policy available to staff was out-of-date and did not reflect the recent changes in legislation and to the staffing structure e.g. different Chief Executive Officer. Since our review the revised policy is now accessible on the council's website.
 31. Staff awareness of data protection requirements is good as a result of the data protection e-learning module and paper based factsheet. As at April 2019, 85% of staff had completed the training. More advanced training is available on request. Completion rate of school based staff is lower with 74% having completed the training. Only 30% of members attended the mandatory training provided.
 32. While it is clear that the council has endeavoured to provide training to everyone, we emphasise the importance that all staff and members are made sufficiently aware of the act's requirements.
 33. Overall, there is good awareness of Data Protection Impact Assessments, Information Sharing Protocols and privacy statements. However, we identified a couple of ISPs that were due for review without a clear process in place to ensure this happens.
 34. The majority of the information held by the council is used for legislative purposes. Where consent is required, there are processes in place to obtain customer consent and to withdraw consent. Services are making good progress with updating individual information asset registers.
 35. We identified inconsistencies in services reviewing and disposing of data held on network drives in line with agreed document retention periods. This repeats a previous internal audit issue which remains outstanding. Since our review, Community Support Services have volunteered to trialling the use of software to analyse the information held on their network drives.
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Progress in Delivering the Internal Audit Assurance 2019-20

36. 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.

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

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

- Direct Payments – Children's Services
- Revenues & Benefits to include Benefits, Council Tax and Non-Domestic Rates (NNDR)
- Financial Services to include Accounting Systems, Accounts Payable, Payroll and Budget Monitoring
- Ethical Culture

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
2019-20 Projects								
AONB Grant	3	3	Complete	Grant certification	0	0	0	
Office accommodation	3	15	Scoping					
Payment Card Industry – Data Security Standards (PCI-DSS)	22	25	Draft					

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
Homelessness	5	25	Scoping					Carried forward from 2018/19. Review scheduled for November 2019.
GDPR in Schools	21	25	Draft					
Contract Management	22	30	Fieldwork					
Deprivation of Liberty Safeguards (DOLS)	1	20	Scoping					
Education Improvement Grant	5	5	Complete	High	0	0	0	
Pupil Development Grant	4	4	Complete	High	0	0	0	
Revenues & Benefits 2019–20	2	40	Scoping					Control Risk Self Assessments (CRSAs) issued.
Financial Services 2019–20	0	40	Scoping					Preparing Control Risk Self Assessments (CRSAs)
Direct Payments – Children’s Services	0	20	Scoping					
Traffic Regulation Orders	1	15	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
2018–19 Projects								
Section 106	2	2	Complete	Low	0	2	2	
Single Access Route to Housing (SARTH)	23	25	Draft					
Revenues and Benefits 2018–19: <ul style="list-style-type: none"> Sundry Debtors Overpayments Bailiffs 	3	3	Complete	Medium	0	0	10	
School Governance	2	2	Complete	Medium	0	0	6	
Grants Management	0	0	Complete	Medium	0	0	1	
School Fund Management	4	5	Fieldwork					Outstanding query with Blessed Edward Jones' school fund.
Bridges and Structures	1	1	Complete	Medium	0	0	4	
Waste Management	6	7	Draft					
Legal Services Collaboration	11	12	Final Draft	Medium	0	0	4	

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
Programme and Project Management: <ul style="list-style-type: none"> Rhyl Faith School CRM Systems Benefits Realisation 	6	6	Complete	Medium	0	0	3	
Financial Services 2018–19: <ul style="list-style-type: none"> Treasury Management Payroll Accounts Payable Cash Receipting 	10	10	Complete	High	0	0	5	
Supported Budgets (Direct Payments)	29	30	Final Draft	Low	0	3	2	
General Data Protection Regulations	19	19	Complete	Medium	0	1	4	
Cyber Security	10	10	Complete	Medium	0	0	2	
Former North Wales Hospital	3	3	Complete	Advisory	0	0	1	
Fraud & Corruption Work								
National Fraud Initiative	14	40	Ongoing					See Counter Fraud Section for an update
Housing Tenancy Fraud	19	25	Closing meeting					

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
General fraud enquiries and counter fraud work	16	90	Ongoing					
Follow-up Reviews								
IA project follow-ups	30	50	Ongoing					
Management of follow-ups	4	10						
Other Areas of Work								
School Fund admin & audits	15	40	In progress					
Corporate Governance Framework	5	20	Ongoing					
Corporate working groups	4	30	In progress					
Consultancy & corporate areas	6	45	In progress					
IA Support & Management								
Team Meetings / 1:1s	37	65						
Management	19	40						
Training & development	40	50						
Total Days	427	907						

Progress with Improvement Actions arising from Internal Audit Assurance Work 2019-20

39. 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 August 2019. The progress and current status of the actions showing as overdue is detailed in a separate Appendix report.

Service	Actions Raised (includes actions from 2018/19)	Actions due for implementation	Implemented since April 2019	%	Actions exceeding agreed date	%
Business Improvement & Modernisation	23	16	14	88%	2	12%
Community Support Services	7	7	7	100%	0	0%
Communications Customers & Marketing	4	3	3	100%	0	0%
Education & Children's Services	34	34	23	68%	11	32%
Facilities Assets & Housing	9	9	4	44%	5	56%
Finance	24	12	3	25%	9	75%

Highways & Environmental Services	15	11	6	55%	5	45%
Legal, HR & Democratic Services	26	23	9	39%	14	61%
Planning & Public Protection	19	19	12	63%	7	37%
Total	161	134	81	60%	53	40%

Progress with Counter Fraud Work

40. 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 progressing well. So far, a total of £640,172 has been identified as wrongfully paid and recovery is underway.
 - Wales Audit Office review of Local Government counter fraud arrangements was reported to the Public Accounts Committee in July 2019. This highlights the lack of counter fraud arrangements across Local Authorities since the transfer of Benefit Fraud teams to the Department of Work and Pensions' Single Fraud Investigation Service (SFIS).
 - Long outstanding voluntary school fund certificates are nearly all up-to-date. Only Blessed Edward Jones's school funds have queries outstanding. Education Support maintain regular contact with schools to prompt them to maintain up-to-date certificates.
 - Fieldwork for the Housing Tenancy Fraud review is complete. Once the report is finalised, the results will be reported to Corporate Governance Committee.

Referrals 2019/20

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

National Fraud Initiative Progress as at 20 August 2019

41. The Auditor General conducts the biennial NFI data-matching exercise in Wales in order for organisations to identify and investigate data anomalies that may be due to fraud. Participants submit their data securely, which is matched against the data of other local authorities and central government departments. This includes data for payroll, housing benefit, blue badges, and housing. Reports are provided that contain matches that specifically relate to the Council to investigate.

42. The last NFI exercise was the most successful to date with £5.4 million of frauds and overpayments being identified across public services in Wales compared with £4.4 million previously.
43. Matches were made available for departments to review from January 2019, and a new fraud risk score introduced to prioritise matches. Internal Audit's role is to act as 'Key Contact' for the NFI exercise. This involves planning, distributing matches to services for investigation, and monitoring progress with the exercise. However, we were directly involved in reviewing some matches for payroll, housing tenants, and waiting list as part of recent audits, which will be reported separately. NFI matches for procurement and creditors will be covered in future planned audits.
44. The process for reviewing concessionary travel matches has changed, with the Welsh Government processing these matches. Consequently, none of the matches were released to individual local authorities. Similarly, there are no matches for insurance claimants as NFI had previously carried out consultation and as a result it was decided that the dataset would not be required for 2018–19. No results were provided for market traders as no licences have been issued since our last review.
45. We have summarised the progress with the 2018–19 NFI exercise to date in the table below. Notable results include:
- a) There were 198 matches for Blue Badges with 195 being tested. 114 errors have been identified mainly due to not being notified of a deceased person. The report has been closed down and the administration for blue badges has been transferred to the customer contact centre;
 - b) There was only one match for Resident Parking Permit, which has been reviewed. The person had died but the permit had already expired. Resident Parking Permits do not form part of the Tell Us Once system, which the officer involved was trying to rectify;
 - c) Of the 29 errors identified for Housing Benefit totalling £21,759, errors were mainly due to the customer not informing us of a change of circumstance for pensions and student loans. The figures do not include the potential frauds that were referred to the Department of Work and Pensions' Single Fraud Investigation Service (SFIS). Similarly, the 22 errors for Council Tax Reduction

Scheme were mainly due to a change of circumstances in relation to pensions.

- d) Unlike some other data matches, NFI does not prioritise specific matches to be reviewed within the Council Tax data, as all matches are deemed of equal importance. This is an annual data matching exercise with the latest data release date in December 2018. Council Tax have taken a different approach this year as they have filtered records to ensure they investigate those with the highest quality data. All customers have been contacted along with other departments to ensure the data held by Council Tax is accurate. This new approach has produced considerable benefits with £610,295 overpayments being identified with 156 frauds. These were mainly incorrect claiming of Single Person Discount and are being recovered by amending the council tax liability for the property. While the process has been time consuming, it is hoped that the improvements with data quality will result in fewer matches requiring investigation in future exercises.

46. While a considerable resource is required for investigating the matches, 156 fraudulent activities have been identified, together with other errors. Overpayments totalling £640,172 have been identified and are in the process of being recovered.

Referral Types	Total NFI Referrals	Tested	In Progress	Frauds	Errors	Estimated Savings £
Housing benefit	443	204	0	0	29	21,759
Payroll	196	74	17	0	0	0
Procurement	50	0	0	0	0	0
Housing tenants	271	154	4	0	0	0
Waiting List	70	17	8	0	0	0
Blue Badge	198	195	0	0	114	0
Creditors	2,629	0	0	0	0	0
VAT	62	33	0	0	0	0
Private residential care homes	24	0	11	0	0	0
Personal Budgets	9	0	0	0	0	0
Resident Parking Permit	1	1	0	0	1	0
Council Tax SPD to Electoral Register	1,211	873	80	146	67	604,174
Council Tax Rising 18s	45	39	6	2	34	2,321
Council Tax to other datasets	2,867	136	14	8	2	3,800

Council Tax Reduction Scheme	778	206	1	0	22	8,118
Totals	8,854	1,932	141	156	269	640,172

Internal Audit Performance Standards

47. The table below shows Internal Audit's performance to date for 2019/20.

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)	8.3
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)	3.5

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%	60%*

48. Current performance is within the set target apart from the measure relating to the number of internal audit actions implemented by management. This measure is reliant on management taking appropriate action with the agreed timescales. Quarter 1 performance is usually lower as actions from the previous financial year have been archived, so this measure should improve as the year progresses. The Chief Internal Audit is currently meeting with Heads of Services and is raising their awareness of current performance with implementing internal audit improvement actions.

CIPFA Practical Guidance for Audit Committees – Update

49. Welsh Chief Auditors Group has arranged an Audit Committee Chairs Network and the Chair and Vice Chair are confirmed attendees at its first meeting planned for October 2019. The agenda for the session includes a briefing on the role of audit committees with involvement from CIPFA, Wales Audit Office and Welsh Local Government Association (WLGA) representatives. This event will also provide an opportunity for the Chair and Vice Chair to network with their counterparts from other Council's across Wales.
50. The Democratic Services Manager has been in contact with the WLGA to enquire about training on agenda management and effective meetings and a suitable date will need to be arranged in coordination with Members. The Chief Accountant will arrange Treasury Management training early in the New Year to coincide with when the Treasury Management Strategy is next due for review and approval by the committee.