

Internal Audit Update

April 2021

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Internal Audit Reports Recently Issued

Since the last Internal Audit Update report in January 2021, Internal Audit has completed two reviews and a full copy of each report has been circulated to members of the committee. Three follow up reviews of low assurance audits have also been completed and a revised assurance rating awarded to reflect improvements made. The assurance given and number of issues raised for each review is summarised below:

Area of work	Assurance Level	Critical Issues	Major Issues	Moderate Issues
Rhyl Regeneration Programme	Medium ●	0	0	3
Settlement Agreements	Medium ●	0	0	1
Housing Tenancy Follow Up*	Medium ●	-	-	-
Support Budgets & Direct Payments Follow Up*	Medium ●	-	-	-
Payment Card Industry – Data Security Standards Follow Up*	Medium ●	-	-	-

* Follow Up of audits previously awarded a low assurance rating. It should be noted that the updated opinion is based on the assumption that systems and controls as previously identified during the original audit remain in operation and are being complied with in practice. The purpose of our follow up exercises is not to retest the operation of controls which have already been assessed, but to review how management has responded to the action plans following our initial work. The Follow Up reports for Housing Tenancy, Support Budgets & Direct Payments and PCI-DSS are available as part of separate agenda items.

Rhyl Regeneration Programme – February 2021

Medium Assurance ● Number of Risk Issues: 3 Moderate ●

This review was completed as part of our review of Rhyl based programmes and projects and focused on: governance arrangements, roles and responsibilities, programme delivery, finance and risk management.

Rhyl regeneration has been a focus for the council since 2004, particularly with the Rhyl Going Forwards Strategy in 2011.

Implementation of revised governance arrangements for Rhyl regeneration have been delayed due to the previous programme manager leaving the council in January 2020 and the impact of the Covid-19 pandemic. While separate governance definition documents have been agreed for both the Programme Board and the Community Development Board, there are no terms of reference for the Programme Board detailing its roles and responsibilities. More clarity is needed on the role and remit of the Board, the workstream leads, project executives and project boards to ensure there is sufficient accountability and monitoring of projects and relationship to other committees.

The council follows the Managing Successful Programmes (MSP) methodology for operating programme boards, which the Chair of the Programme Board is qualified in. A more permanent solution for its programme management needs to be put in place, which is consistent with the council's other programme boards. At the conclusion of our review, political oversight had been discussed with the Leader, which included regular meetings with him to discuss the work of both boards.

Both boards meet regularly (although meetings have been impacted by the pandemic), and are overall well attended. The Strategic Planning & Performance Manager attends both boards so can provide updates to each. However, there is not an effective mechanism for recording and reporting the programme board's activities, including risks, benefits, and performance.

The focus of the Programme Board's work is regenerating the town centre, as captured within the Rhyl Town Centre Vision and Masterplan, which is linked to the Regional Regeneration Plan. The Community Development Board also has its own vision document. Consideration should be given to having an overall Rhyl regeneration strategy to: align the work of the two boards, setting joint SMART (specific, measurable, attainable, relevant and timely) objectives, timescales for actions and a vision for Rhyl regeneration.

There has been a considerable amount of investment in Rhyl regeneration, which has been supported by significant grant funding. Long term commitment is needed to deliver existing regeneration projects, some of which are complex and ambitious. An investment strategy could assist in exploring opportunities for attracting external investment. Previous

lessons learnt reviews highlighted that better financial information was required to enable effective monitoring of project costs and funding streams. This has been addressed.

Overall, we provide a medium assurance rating as the Rhyl Regeneration Board was aware of most of the issues identified and was in the process of putting them in place.

Settlement Agreements – April 2021

Moderate Assurance ● Number of Risk Issues: 1 Moderate ●

We undertook a review of settlement agreements for staff with a leave date between September 2017 and February 2019 to provide assurance over: validity of the payments, key representatives authorisation and involvement in the decision, the process for managing the settlements.

This review commenced before the pandemic and we were unable to access key documents, which delayed the conclusion of our review.

Overall, our review found that the process for managing settlements agreements continues to work well. We are satisfied that there is justification for settling and the associated payments were not excessive.

It should be noted that the circumstances behind each settlement case is different, meaning that resulting payments and settlement terms also differ. Our testing focussed therefore on whether each case was conducted in line with agreed Council protocol, appropriate professional advice had been sought early on during the decision making process and that the rationale behind payments was reasonable.

Our testing confirmed that: HR were involved in all cases; Payroll ensured that National Insurance and Income Tax contributions were correctly accounted for; Legal services were involved in all cases but there were some instances where they were involved at a late stage.

Our testing highlighted that, occasionally, situations arise where the council inherits circumstances which result in settlement agreements. For instance: Regional groups (where Denbighshire is not the lead authority) changes its structure or job roles without proper consultation with the council. HR confirmed that managers are made aware of this

scenario and risk by their HR business partners during recruitment, particularly those involving grant funded positions.

We raised one risk issue relating to controls around authorisation and following procedures not always being applied.

This review also highlighted that key records are paper based which impacted the conclusion of the audit. Services involved (HR & Legal) have recognised that a review of the settlement agreement process would be beneficial to ensure that it is still effective especially in light of officers working remotely as a result of the pandemic

Progress in Delivering the Internal Audit Assurance

Internal Audit is currently focusing on completing priority audits from the Audit Strategy 2020-21 and no new projects are currently planned until the Audit Strategy for 2021-22 is agreed.

In light of the coronavirus pandemic, the internal audit team continues to support and advise services regarding changes to arrangements that the Council is having to implement at pace to respond to the pandemic. We continue to carry out audits remotely and make progress with the highest priority areas within the 2020/21 plan of work (agreed in July 2020) with good engagement from services; however, the pace and progression of audits continues to be impacted.

The table below provides an update on progress against the Audit Plan for 2020/21. A number of projects will be carried forward to the financial year 2021/22. The Senior Auditor's secondment to the Test Trace Protect team has been extended to September 2021 and the team carries a Senior Auditor vacancy.

The Chief Internal Auditor has made an assessment on the assurance work carried out during the year and based on this, will be able to form an Annual Opinion on governance, risk management and internal control arrangements without any scope limitations. The Internal Audit Annual Report will be presented to Governance & Audit Committee in June 2021.

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Area of work	Current status	Assurance level	Critical issues	Major issues	Moderate issues	Comment
AONB Grant	Complete	Grant certification	0	0	0	Annual accounts audit
Provision of Homeless Accommodation	Complete	Low ●	0	2	5	
Deprivation of Liberty Safeguards	C/f 2021-22	-	-	-	-	2021-22. Awaiting revised Welsh Government guidance
Education Improvement Grant	No longer required	-	-	-	-	Grant terms and condition no longer require audit.
Pupil Improvement Grant	Complete	High ●	0	0	1	Annual grant certification
Financial Management System 2019-20	Complete	Not applicable ●	-	-	-	Project at an early stage so unable to give an assurance rating.
Treasury Management 2019-20	Complete	High ●	0	0	3	
Accounts Payable 2019-20	Complete	High ●	0	0	0	
Direct Payments for Children	Complete	Low ●	0	4	2	
Recruitment & Retention	Complete	High ●	0	0	2	
Health & Safety Enforcement	Complete	High ●	0	0	4	
Schools audit: Ysgol Pendref	Complete	Medium ●	0	0	6	
School Audit: Ysgol Bro Cinmeirch	Closing Meeting	-				Delayed due to Covid-19
Supply Chain Risk	Complete	Advisory	-	-	-	Advisory
Housing Support Grant	Complete	High ●	0	0	0	
Rhyl Regeneration Programme	Complete	Medium ●	0	0	3	
Project Management: SC2	Draft report	-				
Project Management: Queens Market	Complete	Low ●	0	2	2	

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Area of work	Current status	Assurance level	Critical issues	Major issues	Moderate issues	Comment
Business Rates Grants	Complete	Advisory	-	-	-	Advisory
Discretionary Business Grants	Complete	Advisory				Advisory
Free School Meals Direct Payments	Complete	N/a	-	-	-	Advisory
Social Care Workers Bonus Payments	Complete	N/a	-	-	-	Advisory
Transport complaint	Complete	N/a				Advisory
Rhuddlan Town Council	Complete	N/a				External fee earning work
National Fraud Initiative	Ongoing	N/a	N/a	N/a	N/a	Commencing 2020-21 exercise
Revenues & Benefits 2020/21	Draft report	-				Focus on Covid impact
Capital Management	Draft Report	-				
Financial Services 2020/21: - Accounts Payable - Payroll	Closing meeting	-				Reviews of Accounts Payable & Payroll
Community Living Schemes	Draft Report	-				
Data Protection & Freedom of Information	Complete	Medium ●	0	0	3	
Denbighshire Leisure Limited	Fieldwork	-				
ICT Capacity & Resilience	Fieldwork	-				
Ethical Culture	Complete	Medium ●	0	0	3	
Risk Management	Fieldwork	-				
General Fraud Enquiries	Ongoing	N/a	N/a	N/a	N/a	
Follow up audits	Ongoing	N/a	N/a	N/a	N/a	
School fund audits	Ongoing	N/a	N/a	N/a	N/a	
Corporate Governance Framework	Ongoing	N/a	N/a	N/a	N/a	
Corporate Working Groups	Ongoing	N/a	N/a	N/a	N/a	

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Area of work	Current status	Assurance level	Critical issues	Major issues	Moderate issues	Comment
Consultancy & Corporate Areas	Ongoing	N/a	N/a	N/a	N/a	
Team Meetings /1:1s	Ongoing	N/a	N/a	N/a	N/a	
Management	Ongoing	N/a	N/a	N/a	N/a	
Training & Development	Ongoing	N/a	N/a	N/a	N/a	

As indicated previously, the following projects will no longer be completed in 2020/21. The areas assessed as high priority areas will be carried forward to the Audit Plan for 2021/22:

- Community Mental Health Team – BCUHB confirm that it is focusing on other priorities
- Deprivation of Liberty Safeguards (DOLS) – carry forward to 2021/22
- Adoption Service – Carry forward to 2021/22
- Youth Service – Carry forward to 2021/22
- Works in Defaults – no longer a priority
- Workforce Development – carry forward to 2021/22 as Workforce Planning.
- School Audits – on hold, carry forward to 2021/22
- Heritage Services – no longer a priority
- Additional Learning Needs – carry forward to 2021/22
- Empty Homes – no longer a priority
- Commercial Waste – Carry forward to 2021/22
- Exceptions and Exemptions with CPRs – Carry forward to 2021/22
- Equalities / Wellbeing and Impact Assessments – Carry forward to 2021/22

Progress with Counter Fraud Work

Counter fraud work carried out since the last internal audit update includes:

1. Providing advice on counter fraud to officers on request. This has included the emergency Covid-19 related grants for businesses.
2. National Fraud Initiative (NFI) update:
 - a. NFI exercise 2018-19 is complete and closing down any open cases. Monies identified as wrongfully paid are in the process of recovery.
 - b. Data matches for the 2020-21 exercises have been released. Training and awareness raising with services to enable review and investigation.
3. Education Support continue to prompt schools to maintain up-to-date school fund certificates. Coordinating with schools to prevent potential scam which was highlighted by another Welsh local authority.
4. The Strategy for the Prevention and Detection of Fraud, Corruption and Bribery and Fraud Response Plan scheduled to go to Senior Leadership Team prior to the Governance & Audit Committee.
5. Alerts from the National Anti-Fraud Network (NAFN) relating to Business Rates Grants and potential Mandate Fraud reviewed with the relevant service and response taken accordingly.
6. Responding to Whistleblowing concerns which involve allegations of potential fraud.

Referrals 2020/21

While it is not Internal Audit's role to identify or investigate fraud, Internal Audit keeps abreast of potential fraud from a view of ensuring that any governance, risk management or control weaknesses are addressed.

Four allegations relating to potential fraud have been referred to Internal Audit during the financial year 2020/21: one has been referred to the police, two have been concluded with no fraud proven and recommendations made to strengthen existing controls, the most recent allegation is under investigation.

Whistleblowing concerns are reported separately to Committee as part of the Annual Whistleblowing Report but are included in the above figures should there be an element relating to potential for fraud.

Internal Audit Performance Standards

The table below shows Internal Audit's performance to date for 2020/21.

Performance Measure	Target	Current Performance
Send a scoping document before the start of every audit	100%	100%
Issue draft report within 10 days of the closing meeting	Average days less than 10	7 days
Issue final report within 5 days after agreeing the draft report and action plan	Average days less than 5	8 days
Percentage of audit agreed actions that have been implemented by services	75%	62%

Performance relating to issuing the final report within an average of 5 days following agreement to the draft report has been adversely impacted by capacity shortage within the team following the redeployment of a senior auditor to the Trace, Test Protect (TTP) team at short notice. Performance continues to improve over recent months.

Implementing of agreed actions has not achieved the target with Community Support Services and Highways & Environment Services showing the lowest rates of completion. Covid-19 is the main reason attributed for this with the particular services areas having additional demands placed upon them in terms of respond to the pandemic. Internal Audit are prioritising the completion of assurance work and continue to follow up previous reviews awarded a low assurance to ensure that necessary improvements are being made. While many actions are taking longer to resolve than originally envisaged by services, we are satisfied that progress is still being made to implement the requisite change.

Appendix 1 – Assurance Level Definition

Assurance Level	Definition	Management Intervention
High Assurance ●	Risks and controls well managed and objectives being achieved	Minimal action required, easily addressed by line management
Medium Assurance ●	Minor weaknesses in management of risks and/or controls but no risk to achievement of objectives.	Management action required and containable at service level. Senior management and SLT may need to be kept informed.
Low Assurance ●	Significant weaknesses in management of risks and/or controls that put achievement of objectives at risk.	Management action required with intervention by SLT.
No Assurance ●	Fundamental weaknesses in management of risks and/or controls that will lead to failure to achieve objectives.	Significant action required in a number of areas. Required immediate attention from SLT.

Risk Issue Category	Definition
Critical ●	Significant issues to be brought to the attention of SLT, Cabinet Lead Members and Governance and Audit Committee.
Major ●	Corporate, strategic and/or cross-service issues potentially requiring wider discussion at SLT.
Moderate ●	Operational issues that are containable at service level.