

# Internal Audit Update

**November 2021**

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## Internal Audit Reports Recently Issued

Since the last Internal Audit Update report in July 2021, Internal Audit has completed:

- five 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 with a reassessed assurance rating awarded based on the level of progress made with implementing the agreed action plan.

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
Housing Support Grant	High ●	0	0	0
Area of Outstanding Natural Beauty (AONB) Grant Certification	High ●	0	0	1
Housing Rent Arrears	Medium ●	0	0	1
Exceptions, Exemptions and Variations from Contract Procedure Rules (CPRs)	Low ●	0	4	0
Denbighshire Leisure Limited – Governance & Contract Management	Medium ●	0	1	1
Payment Card Industry Data Security Standards (PCI-DSS) 3 <sup>rd</sup> Follow Up*	Medium ●	N/a	N/a	N/a
Housing Tenancy 2 <sup>nd</sup> Follow Up*	Medium ●	N/a	N/a	N/a
Contract Management 2 <sup>nd</sup> follow up*	Low ●	N/a	N/a	N/a

\* 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.

## Housing Support Grant – September 2021

High Assurance ●                      Number of Risk Issues:                      N/a

This review was to assess compliance with the terms and conditions of the Housing Support Grant for the financial year 2020/2021, focusing on: grant conditions and delivery, grant payment, and monitoring and outcomes.

Overall, the review identified that the Housing Support Grant (HSG) has been administered effectively and has adhered to the Welsh Government (WG) guidance.

Examples of support provided through the grant include: providing tenants with guidance and financial support on rent payments and arrears; preventative measures such as training and awareness sessions; and supporting clients in community living schemes to improve independent living and mental health and wellbeing.

## AONB Grant – July 2021

High Assurance ●                      Number of Risk Issues:                      1 Moderate ●

Denbighshire County Council is the lead authority on the Joint Committee of the AONB. Internal audit, acting on behalf of the Committee, carried out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ending 31 March 2021.

Our review found that there were effective controls in place for monitoring of income and expenditure. Processes have been adapted to accommodate remote working and virtual meetings. Increases in grant funding received from Welsh Government (WG) had been appropriately allocated.

## Housing Rent Arrears – October 2021

High Assurance ●

Number of Risk Issues: 1 Moderate ●

The review considered the impact to rent arrears of recent legislative changes such as the Welfare Reform Act 2012 (i.e. Universal Credit) and Public Health (Protection from Eviction) (No.2) (Wales) (Coronavirus) Regulations 2021, which restricted evictions during the Covid-19 pandemic until 30 June 2021. The review focussed on: policies and procedures (focusing on rent arrears and collection); current arrears level (including new IT system 'Mobysoft'; repayment arrangements, legal actions and eviction process, former tenant arrears and write-offs, follow up of previous risks/issues raised by internal audit.

Overall, the review concludes that there are effective governance arrangements in place for the collection of rent payments and associated arrears. Guidance provided by Welsh Government on legislative and procedural changes to housing rents and arrears have been adopted. Examples of legislative changes are the Debt Respite Scheme (Breathing Space Moratorium and Mental Health Crisis Moratorium) (England and Wales) Regulations 2020 and the restriction of the evictions process until June 2021.

Regular communications with other departments, and officers from external regional working groups have been beneficial in identifying trends and areas of good practice to improve and strengthen processes.

The team have continued to perform their role effectively despite additional demands caused by the Covid-19 pandemic and changes in legislation. Written procedures are available and accessible to the team which also assists with business continuity.

The team use the 'Open Housing' system and the newly implemented 'Mobysoft' system. Both systems provide a good audit trail. Where conflicts of interests have been raised, tenants' records are restricted to key officers. Although there is a mechanism in place to remove access when staff leave the council, there is no regular monitoring of the system access list for the 'Open Housing' system to ensure any internal staff changes are captured and the system access remains appropriate.

Arrears are reviewed regularly by officers and reported to members as part of the overall arrears process. The current arrears for 2021-22 has increased by 1.82% on the previous

financial year, which is not as significant as in previous years, largely due to tenants being in receipt of universal credit and/or furlough payments as a consequence of the pandemic. Now the 'top-up' of universal credit and furlough has ended, the income and systems manager will continue to monitor the impact to rent arrears closely. Annual forecasting of future rent arrears is performed to ensure the bad debt provision calculation is accurate.

The service has not performed regular write-offs of former tenant arrears and other rent arrears. A write-off exercise was performed in March 2017 and then not until March 2020. Further exercises have not been carried out due to the Covid-19 pandemic and logistics of the current authorisation process for write offs, i.e. needing to physically sign documents. The service intends to re-introduce the regular write-off exercises as part of the arrears process. An alternative solution is being pursued corporately to replace the manual write-off process so it can be done remotely

The two issues identified in our previous review have been addressed. We raise one moderate risk issue following our review relating to the review of the IT system access list.

## Exceptions, Exemptions and Variations from CPRs – November 2021

Low Assurance ●                      Number of Risk Issues:    4 Major ●

This review evaluated the use and authorisation of contract exceptions, exemptions and variations in accordance with the Contract Procedure Rules (CPRs). This review was proactively sought by the Legal and Procurement Services.

The review considered the impact of Covid-19 on the use and prevalence of contract exceptions and extensions and value for money considerations in decision making. It also evaluated the advice provided to services by Legal and Procurement and how this was addressed. The audit serves as one of our proactive counter-fraud reviews.

Our chosen sample of decisions taken over the last two financial years, where contract exceptions and variations had been granted, comprised of nine contract exceptions, i.e. directly awarded contracts, and 10 contract variation/extension requests. The testing focused on the justification for the request, the advice given by both Legal and Procurement, how this was addressed, and the authorisation and decision making process. While the review identified that all requests had been authorised, there were a

number of instances where CPRs were not complied with. This was the case across all services.

We also sought to assess the impact of Covid-19 on the use and prevalence of contract exception and extension requests. There was no evidence to indicate that the pandemic resulted in an increase in the volume of requests. However, Covid-19 was cited using the “extreme urgency” provisions of the CPRs in relation to the direct award of several contracts. In those instances, the provision used was deemed appropriate and justified.

The full report with details of the agreed action plan is available in Appendix 2. The report and action plan has been subject to scrutiny at an escalation meeting involving relevant members of senior management and the Lead Member and was then discussed at Corporate Executive Team (CET).

## **Governance & Contract Management with Denbighshire Leisure Limited — July 2021**

Medium Assurance ●                      Number of Risk Issues:    1 Major ●    1 Moderate ●

A high level review of governance arrangements and management of key risks and controls was carried out following transition of leisure services to the newly formed council owned company, Denbighshire Leisure Limited. Our scope covered: governance arrangements, contract management, and financial management. Detailed testing of the financial systems did not form part of this review due to the proximity to year end and external audit of accounts which was imminent.

Overall, the governance arrangements in place with Denbighshire Leisure Limited (Denbighshire Leisure) are robust. A similar governance framework to that used for the Civica partnership has been implemented as there is a monthly Operational Board monitoring performance; and a Strategic Governance Board (SGB) managing the relationship between the council and the company. The latter includes elected member representation. Denbighshire Leisure also has its own governance framework that includes a Board of Directors, a Finance & Governance Sub-Committee, and various other subgroups.

The governance framework ensures effective monitoring and scrutiny of the Denbighshire Leisure arrangement; suitably detailed information was provided to both the SGB and the Operational Board. It was evident that the SGB is acting as a critical friend supporting the company but also challenging when required; this also seems to be the case with the Operational Board but minutes could make this more apparent. We note that the SGB has not received the Board of Directors' report packs and meeting minutes to comply with the Members' agreement.

The client monitoring role is a critical one, and the contract manager is suitably experienced from managing the Civica contract along with other key council contracts. Board members have a role in monitoring that arrangements remain effective, particularly having sufficient knowledge that the Teckal exemption is being complied with, both in terms of governance structure, as well as financial arrangements. Covid-19 has impacted the Denbighshire Leisure's performance, and this is regularly reported, including an exception report of Key Performance Indicators where the target has not been met, to both the Operational Board and the SGB.

There is a governance checklist that clearly details the mandatory and other policies and procedures that Denbighshire Leisure should have in place. At the time of our review, they were in a transitional period developing their own policies and procedures, such as the Scheme of Delegation and the Contract Procedure Rules, or had adopted the council's.

Both Denbighshire Leisure and the Operational Board have a documented risk register.

Financially, the Covid-19 pandemic has significantly affected trading across Denbighshire Leisure sites, and detailed financial information is provided regularly to both the Operational Board and the SGB with regards to this, as well as to the company's own Board of Directors and sub-committee. Denbighshire Leisure is also a theme on the council's recovery plan. A five-year business plan has yet to be put in place to comply with the contract. As lockdown restrictions are now being lifted, the company plans to develop and present its business plan to the SGB.

Contract documentation covered the key elements expected, but Schedule 4 of the contract detailing high value assets that were transferred to the company is not available. Contract variations have been minimal but have followed the required procedure, and appropriate approval undertaken. Leases for all sites have yet to be completed, due to



complexities that were known before the contract was signed. Remote working requirements has hindered the signing of the support services service level agreement. This is due to be rectified shortly.

Overall, we are satisfied that there is a generally suitable system of governance, risk management and control.

## Payment Card Industry Data Security Standards (PCI-DSS) Second Follow Up – November 2021

Medium Assurance ●	Actions fully implemented:	5 (3 Major and 2 Moderate)
	Actions Outstanding	3 (1 Major and 2 Moderate)

Our original review of Payment Card Industry – Data Security Standards (PCI-DSS) was completed in November 2019 giving a low assurance rating due to the nature of the issues and control weaknesses identified. The first follow-up audit took place in April 2021, giving a medium assurance. As mentioned previously, it should be noted that the purpose of our follow up exercise 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 revised assurance rating should be considered accordingly.

The second follow-up review identified that progress has been made to implement some of the outstanding actions, but due to Covid-19 restrictions further delays in delivery have transpired. The remaining actions to be implemented are as follows;

- Continue working with the appointed consultant and to deliver the compliance project which has been divided into three distinct areas: internet payments, face to face payments and telephone payments.
- A PCI policy document is being updated as work is progressing on the three compliance elements.
- Compliance to be reviewed once a new system is in place.

A further follow up review will be performed in June 2022 to provide assurance that the outstanding actions are implemented. Based on the results of our follow up review, we provide a medium assurance rating.

## Housing Tenancy Second Follow Up – October 2021

Medium Assurance ●	Actions fully implemented:	9 (8 Major & 1 Moderate)
	Actions Outstanding	6 (4 Major & 2 Moderate)

Our original review of Housing Tenancy was completed in November 2019 giving a low assurance rating due to the significant weaknesses identified. The first follow-up audit took place in April 2021, giving a medium assurance. This follow up picked up one action that had become due; there are a further five remaining actions with a later revised implementation date which we will re-visit in March 2022.

The review shows that Tenancy Fraud training has taken place with staff so they are more aware of how to investigate further should it be required. Progress with reviewing National Fraud Initiative (NFI) housing matches has been impacted as the service is focusing its resources on its response to the Covid-19 pandemic.

A follow up review will be performed in March 2022 to establish progress and provide assurance that all the outstanding actions are implemented.

## Contract Management Second Follow Up – November 2021

Low Assurance ●	Actions fully implemented	5 (4 Major & 1 Moderate)
	Actions Outstanding	6 (6 Major)
	Actions Not Yet Due	1 (1 Major)

This report provides an update on progress in implementing the action plan that accompanied the Internal Audit report on Contract Management. The original audit report was presented to this committee in July 2020 and the committee requested a revised action plan to reflect key changes which was presented in January 2021. The first follow up was reported to committee in July 2021 and members requested a further progress report.

Please see separate agenda item for the progress report and the internal audit follow up report in full.

## Progress in Delivering the Internal Audit Assurance

The table on the next page provides an update on progress against the Audit Plan for 2021/22.

The internal audit structure continues to carry one vacancy. We have extended the temporary contract for the Senior Auditor until 31 December 2022 and an Auditor has recently been seconded to the Senior Auditor position to cover the continued secondment (initially a redeployment) of the Senior Auditor to the Test, Trace & Protect Team which has since been extended to from March 2022 to June 2022. This leaves a vacant Auditor position to be filled.

Audits due to commence shortly include:

- Additional Learning Needs Code Implementation
- Revenues and Benefits 2021-22
- Financial Services 2021-22
- Highways Improvement
- Rhyl High School
- Ysgol Brynhyfryd

# Internal Audit Update – November 2021

Area of work	Current status	Assurance level	Critical issues	Major issues	Moderate issues	Comment
AONB Grant 2020/21	Complete	High ●	0	0	1	Annual accounts audit
Deprivation of Liberty Safeguards	Not yet started	-	-	-	-	2021-22. Welsh Government guidance delayed
Pupil Improvement Grant	Not yet started	-	-	-	-	Annual grant certification
Accounting Systems including Budgetary Control	Fieldwork	-	-	-	-	Due to re-commence in Q4
Recruitment & Retention	Complete	High ●	0	0	2	
School Audit: Ysgol Bro Cinmeirch	Complete	Medium ●	0	0	5	
Housing Support Grant 2020-21	Complete	High ●	0	0	0	
Project Management: SC2	Complete	Medium ●		1	2	
Rhuddlan Town Council 2020-21	Complete	N/a	N/a	N/a	N/a	External fee earning work
National Fraud Initiative	Ongoing	N/a	N/a	N/a	N/a	2020-21 exercise
Revenues & Benefits 2020/21	Complete	High ●	0	0	0	
Capital Management	Complete	Medium ●	0	0	3	
Treasury Management	Complete	Medium ●	0	0	3	
Financial Services 2020/21: - Accounts Payable - Payroll	Complete	High ●	0	0	1	Review included Purchasing Cards and Emergency CHAPS payments
Community Living Schemes	Complete	Medium ●	0	0	3	
Data Protection & Freedom of Information	Complete	Medium ●	0	0	3	
Governance & Contract Arrangements with Denbighshire Leisure Limited	Complete	Medium ●	0	1	1	

# Internal Audit Update – November 2021

Area of work	Current status	Assurance level	Critical issues	Major issues	Moderate issues	Comment
ICT Capacity & Resilience	Complete	Medium ●	0	0	4	
Risk Management	Complete	High ●	0	0	5	
Governance – Decision Making	Draft	-	-	-	-	
Exemptions, Exceptions & Variations from CPRs	Complete	Low ●	0	4	0	
Housing Rent Arrears	Complete	High ●	0	0	1	
Housing Repairs & Maintenance	Fieldwork	-	-	-	-	Nearing completion
Equalities	Fieldwork	-	-	-	-	Nearing completion
Rhyl High School	Fieldwork	-	-	-	-	
Ysgol Brynhyfryd	Scoping	-	-	-	-	
Additional Learning Needs (ALN) Code Implementation	Scoping	-	-	-	-	
Financial Services 2021-22	Planned	-	-	-	-	
Revenues & Benefits 2021-22	Planned	-	-	-	-	
Cefndy Healthcare	Planned					Due in Q4.
Direct Payments for Children 1st follow up	Complete	Medium ●	-	-	-	
Project Management: Queen's Building 1 <sup>st</sup> follow up	Complete	Medium ●	-	-	-	
Contract Management 1 <sup>st</sup> Follow Up	Complete	Low ●	-	-	-	
Contract Management 2 <sup>nd</sup> Follow Up	Complete	Low ●	-	-	-	
Support Budgets & Direct Payments: Adults 1 <sup>st</sup> Follow Up	Complete	Medium ●	-	-	-	
Support Budgets & Direct Payments: Adults 2 <sup>nd</sup> Follow Up	Fieldwork	-	-	-	-	
Provision of Homeless Accommodation 1 <sup>st</sup> Follow Up	Final Draft	-	-	-	-	Partnership Scrutiny in December 2021

# Internal Audit Update – November 2021

Area of work	Current status	Assurance level	Critical issues	Major issues	Moderate issues	Comment
Housing Tenancy 2 <sup>nd</sup> Follow Up	Complete	Medium ●	-	-	-	
PCI-DSS 2 <sup>nd</sup> Follow Up	Complete	Medium ●	-	-	-	
General Fraud Enquiries	Ongoing	N/a	N/a	N/a	N/a	
Whistleblowing Investigation	Fieldwork	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	
Consultancy & Corporate Areas <ul style="list-style-type: none"> <li>- UK Community Renewal Fund</li> <li>- GAC Lay Member vacancies</li> <li>- Counter Fraud Strategy &amp; Plan</li> </ul>	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	

The following audits included in the Audit Plan 2021-22 may no longer be required as alternative assurances may be available which internal audit can rely on:

- Wellbeing Impact Assessments - reviewed by Audit Wales as part of its national studies programme.
- Workforce Planning – reviewed by Audit Wales as part of Springing Forward performance audit
- Liberty Safeguards – national review by CIW & HIW and guidance from WG delayed

## 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 - Data matches for the 2020-21 exercise. Internal Audit plans to review additional Covid-19 related business rates grants data matches as part of the planned audit of Revenues & Benefits.
3. Assist Education Support with ensuring that schools continue to complete school fund certificates promptly.
4. The Strategy for the Prevention and Detection of Fraud, Corruption and Bribery and Fraud Response Plan was endorsed by Cabinet in September 2021. This will be available shortly on the Council's website and communicated to staff. E-learning is being developed to advise staff on what to do should they suspect fraud.
5. Alerts from the National Anti-Fraud Network (NAFN) reviewed with the relevant service and response taken accordingly.
6. Responding to Whistleblowing concerns which involve allegations of potential fraud.
7. Attending the newly formed North & Mid Wales Audit Partnership sub-group focusing on taking action to address the matters raised in the Audit Wales report 'Raising Our Game – Tackling Fraud in Wales'  
<https://www.audit.wales/publication/raising-our-game-tackling-fraud-wales>
8. Senior Auditor has passed the CIPFA Accredited Counter Fraud Specialist training.

## Referrals 2021/22

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.

Three allegations relating to potential fraud have been referred to Internal Audit during the financial year 2021/22: all three are currently 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 fraud.

## Internal Audit Performance Standards

The table below shows Internal Audit's performance to date for 2021/22.

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	5.6 days
Issue final report within 5 days after agreeing the draft report and action plan	Average days less than 5	3.5 day
Percentage of audit agreed actions that have been implemented by services	75%	53%

The audit agreed actions that have been implemented figure is always lower than the target at the start of the financial year and normally improves over the course of the year. In July 2021, the figure reported stood at 42% so there has been some improvement in the rate of completion; however, Covid-19 is still affecting performance with some services areas placed under additional demands in terms of ongoing response to the pandemic or through other capacity pressures.

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.