

To: Members of the Corporate
Governance Committee

Date: 16 March 2017

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Dear Councillor

You are invited to attend a meeting of the **CORPORATE GOVERNANCE COMMITTEE** to be held at **9.30 am** on **WEDNESDAY, 22 MARCH 2017** in **CONFERENCE ROOM 1A, COUNTY HALL, RUTHIN.**

Yours sincerely

G. Williams
Head of Legal, HR and Democratic Services

AGENDA

PART 1 - THE PRESS AND PUBLIC ARE INVITED TO ATTEND THIS PART OF THE MEETING

1 APOLOGIES

2 DECLARATIONS OF INTEREST

Members to declare any personal or prejudicial interests in any business identified to be considered at this meeting.

3 URGENT MATTERS

Notice of items, which in the opinion of the Chair should be considered at the meeting as a matter of urgency pursuant to Section 100B(4) of the Local Government Act 1972.

4 MINUTES (Pages 3 - 10)

To receive the minutes of the Corporate Governance Committee meeting held on 25 January 2017 (copy enclosed).

5 2017 AUDIT PLAN DENBIGHSHIRE COUNTY COUNCIL (Pages 11 - 34)

To consider a report by the Chief Accountant (copy enclosed) informing members of the planned programme of work for both WAO's financial audit and performance audit programme.

6 WAO: SAVINGS PLANNING LOCAL REPORT FOR DENBIGHSHIRE (Pages 35 - 50)

To receive the Wales Audit Office: Savings Planning for Denbighshire County Council (copy enclosed).

7 INTERNAL AUDIT UPDATE (Pages 51 - 70)

To consider a report by the Head of Internal Audit (copy enclosed) updating members on Internal Audit progress.

8 INTERNAL AUDIT STRATEGY 2017-18 (Pages 71 - 86)

To consider a report by the Head of Internal Audit (copy enclosed) informing members of the Internal Audit Strategy 2017-18.

9 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME (Pages 87 - 90)

To consider the Committee's Forward Work Programme (copy enclosed).

MEMBERSHIP

Councillors

Stuart Davies
Peter Duffy
Martyn Holland

Alice Jones
Jason McLellan
Win Mullen-James

Lay Member

Paul Whitham

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CORPORATE GOVERNANCE COMMITTEE

Minutes of a meeting of the Corporate Governance Committee held in COUNCIL CHAMBER, COUNTY HALL, RUTHIN LL15 1YN on Wednesday, 25 January 2017 at 9.30 am.

PRESENT

Councillors Peter Duffy, Martyn Holland, Alice Jones and Jason McLellan (Chair) together with Lay Member Paul Whitham

Councillor Bobby Feeley, Lead Member for Social Care, Adult & Children's Services
Councillor Julian Thompson-Hill, Lead Member for Finance, Corporate Plan and Performance.

ALSO PRESENT

Head of Legal, HR & Democratic Services (GW), Head of Education and Children's Services (KIE), Principal Education Support Manager (GD), Head of Finance (RW), Head of Internal Audit (IB), Head of Highways & Environmental Services (TW), Traffic, Parking and Road Safety Manager (MJ) and Committee Administrators (SLW and SJ)

Wales Audit Office Representatives – Anthony Veale and Gwilym Bury.

1 APOLOGIES

Apologies for absence were received from Councillors Stuart Davies and Win Mullen-James

2 DECLARATION OF INTERESTS

Councillors Martyn Holland and Jason McLellan declared personal interests as they were both school Governors.

3 URGENT MATTERS

No urgent matters had been raised.

4 MINUTES

The minutes of the Corporate Governance Committee held on 23 November 2016 were submitted.

Accuracy –

Page 5: Declarations of Interest – the Chair referred to his declaration of interest as he “is” an employee of the Welsh Government and not “was” an employee.

The Chair commended the minutes as it had been a long meeting and the minutes detailed all the discussions which had taken place.

RESOLVED that, subject to the above, the minutes of the meeting held on 23 November 2016 be received and approved as a correct record.

5 INFORMATION MANAGEMENT AND IT MANAGEMENT IN SCHOOLS

The Principal Education Support Manager, introduced the report (previously circulated) to provide an update on the work undertaken in response to the report shared on 28 September, 2016 which provided details on Information Management and IT Management in schools that received a “Low” Assurance rating.

Information was provided as to how the Council was implementing improvements in the way schools were managing information since the issue of the Internal Audit report which had given a Low Assurance. The Corporate Governance Committee had requested a progress report to ensure issues were being addressed.

Improvements had been made through the implementation of a Statutory Audit Tool completed by all schools. The tool provided the schools and the Local Authority with information on the levels of assurance in different areas. The Audit process had been clear in highlighting targeted support in certain areas and with certain schools.

The content of the Information Management Audit was to be reviewed in July 2017, and sent out to schools again in September 2017. Both sets of results would be compared with an expectation that the improvements highlighted had been made.

The Information Commissioners Office were scheduled to deliver training to Head Teachers and Business Managers on 9 February, 2017. Training was also delivered on an annual basis to Governors.

A new Social Media Policy had been in consultation with the Trade Unions and would be distributed following agreement.

Further visits were to be undertaken to schools and there was an expectation, following a future audit, that all schools would be showing as green (Good / Excellent Quality). If not, schools would be questioned as they had been given all the information and provided with training. Schools had a responsibility to ensure processes were in place to fit in with legislative requirements.

RESOLVED that the Committee note the report and a further progress report to be presented at Corporate Governance Committee on 27 September 2017.

6 CHILD PRACTICE REVIEW

The Head of Education and Children’s Services introduced the report (previously circulated) to provide an update on the work undertaken in response to the report shared in July 2015 which provided members with details from the Child Practice Review regarding the tragic death of a Denbighshire child.

It had been stated at the July 2015 meeting the importance of the Committee receiving a reassurance that the Action Plan for the Child Practice Review had been fully implemented. The purpose of the Review had been to establish whether there were lessons to be learnt about the way in which professionals worked together to safeguard children and to identify those lessons and improve practice.

During discussion it was stated it was important to stress that the Local Authority were mindful and sensitive to the family at this time. There were lessons to be learnt which would need to be taken forward. It was confirmed that those functions would be supported as early intervention, as prevention was the key.

Members were in agreement that it had been an unfortunate accident which had led to a horrific loss of a child.

RESOLVED that the Committee noted the report and Action Plan and that no further action would be required by the Committee.

7 JOINING EDUCATION AND CHILDREN'S SERVICES UPDATE

The Head of Education and Children's Services introduced the report (previously circulated) to provide information on the progress made in the joining of Education and Children's Services. The two services had previously been operating as a single service but had joined together in January 2016.

In September 2014, there had been proposed changes to the Council's organisation structure which included the joining together of the Education Service and the children and Families Service to create a new service – Education and Children's Services.

The main outcome of the change had been an immediate improvement of the work between different groups. The new Service's promptness to respond to the needs of children and young people in the county, to ensure their safety and supporting them in attaining their potential through education and social opportunities had been extremely effective.

There was a joint Management Team with one service business plan. Objectives were recognised and it had brought positive benefits to the children and young people within Denbighshire.

Members expressed their approval of the joining of the two services together with their appreciation to the Head of Education and Children's Services and her staff for all their hard work.

RESOLVED that Members considered and noted the update regarding the Joining of Education and Children's Services.

8 SCHOOL FINANCE REGULATIONS REPORT (UPDATE)

The Head of Finance, introduced the report (previously circulated) to provide an update regarding financial regulations in place across Denbighshire schools.

Further to a Corporate Governance meeting on 15 June 2016, a report had been presented on proposed updates to the Authority's own Financial Regulations. During discussions at the meeting, a question had been raised regarding Financial Regulations in Schools and whether they worked to the Authority's own Financial Regulations.

A survey had taken place of all Denbighshire schools, results of which were shown in Appendix 1 of the report. Responses had been received which revealed all Denbighshire schools worked within the Denbighshire's Scheme for Financing Schools. The Scheme contained requirements relating to financial management and associated issues and was binding on both the Authority and schools.

During discussion the issue regarding school Governors arose and whether they were given guidelines on the Financial Regulations. It had been confirmed that the information would be generated through the school Finance or Business Manager but the Governors would be required to approve the regulations.

At this juncture, the Head of Education and Children's Services explained the Local Authority together with the Business and Finance Managers, met on a regular basis and that this item would be added on to the next Agenda for discussion. Meetings between Headteachers and the Local Authority took place on a term basis. Schools should be ensuring that their regulations were reviewed periodically and that staff and Governors were aware of them.

The Head of Internal Audit confirmed that his staff did a separate report in 2016 and developed a new set of guidance, the draft of which would be available in approximately one weeks' time. The draft guidelines were to go out to cluster for their opinion as they were required to be in place by April 2017.

The Internal Audit Department did not audit Denbighshire schools but the Head of Internal Audit suggested a quality control exercise could be carried out.

The Chair, Councillor Jason McLellan requested that the school funds guidance be presented to the Scrutiny Chairs and Vice Chairs group for discussion at a Scrutiny Committee.

It was agreed that School Finance Regulations be added to the 29 November 2017 work programme for an update report.

RESOLVED that the report be noted and an update be added to the Forward Work Programme in November 2017 for further discussion.

9 NOTIFICATION OF THE CERTIFICATION OF THE 2015/16 ACCOUNTS

The Lead Member for Finance, Corporate Plan and Performance, Councillor Julian Thompson Hill introduced the report (previously circulated) to provide the Committee with formal notification that the audit certification process for 2015/16 Statement of Accounts had been completed.

Following public inspection of the accounts an objection had been raised from a member of the public to the Wales Audit Office on 27 September 2016.

It could now be confirmed that all correspondence had been concluded and matters resolved. None of the objections raised under the public inspection process resulted in changes to the figures or supporting notes disclosed in the 2015/16 accounts.

RESOLVED that Members noted that the audit certification process had been formally concluded in respect of the 2015/16 Statement of Accounts.

10 TREASURY MANAGEMENT REPORT

The Head of Finance introduced the report (previously circulated) which showed how the Council would manage its investments and its borrowing for the coming year and set out the Policies within which the Treasury Management function operated. The report also outlined the likely impact of the Corporate Plan on the strategy and on the Prudential Indicators. The Treasury Management Update Report provided details of the Council's Treasury Management activities during 2016/17.

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (the "CIPFA TM Code") required the Council to approve the Treasury Management Strategy Statement (TMSS) and Prudential Indicators annually. The Corporate Governance Committee were required to review the report prior to its approval at Council in February 2017.

Financial planning and decision making ensured that proper regard was given to the requirements of the Wellbeing of Future Generations Act.

During discussion the following points were raised:

- The Council set aside money each year to repay debt – Minimum Revenue Payment (MRP). The MRP Policy received an annual review.
- The Corporate Governance Committee had responsibility for scrutiny of the treasury management function. Annual training requirements would be agreed with the Committee.
- The Department of Communities and Local Government (CLG) had confirmed that HM Treasury (HMT) would be taking the necessary legislative steps to abolish the Public Works Loan Board. The CLG stated that it would have no impact on existing loans held by Local Authorities or the Government's Policy on Local Authority borrowing.
- It was confirmed that the Treasury Management Report would be presented at full Council in February 2017.

RESOLVED that the Committee note the Treasury Management Strategy Statement for 2017/18, the Prudential Indicators 2017/18 to 2019/20 and the Treasury Management Update Report 2016/17

At this juncture (11.25 a.m.) there was a 20 minute break.

The meeting reconvened at 11.45 a.m.

It was agreed by all present to vary the order of the remaining items of the Agenda.

EXCLUSION OF PRESS AND PUBLIC

***RESOLVED** that under Section 100A of the Local Government Act 1972, the Press and Public be excluded from the meeting for the following items of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 14 of Part 4 of Schedule 12A of the Local Government Act 1972.*

11 PARKING SERVICES AUDIT - SECOND UPDATE REPORT

The Traffic, Parking and Road Safety Manager, introduced the confidential report (previously circulated) to provide an update on the remedial actions taken since the publication of the Parking Services Audit in August 2016, and the initial update report that was presented to this Committee in November 2016.

The remedial actions were confirmed to Committee members.

The Chair, Councillor Jason McLellan, expressed thanks to the Traffic, Parking and Road Safety Manager in the fact that all the actions had been carried out and no further update would be required to the Corporate Governance Committee.

***RESOLVED** that the Committee note the contents of the report and confirm no further update would be required to the Corporate Governance Committee.*

At this juncture, the meeting reverted back to PART 1

The press and public are invited to attend this part of the meeting.

12 CORPORATE RISK REGISTER REVIEW, DECEMBER 2016

The Strategic Planning Team Manager introduced the report (previously circulated) to summarise how the Corporate Risk Register was monitored and managed and, therefore, represented an annual report for Corporate Governance Committee to consider how the Corporate Risk Register was managed in the Authority.

A formally updated version of the Corporate Risk Register had been agreed at Cabinet Briefing 9 January 2017 and would be presented for consideration at Performance Scrutiny on 26 January 2017.

The Corporate Risk Register was formally reviewed twice yearly by Cabinet and CET. However, any significant new or escalating risks were brought to the attention of CET (via the Strategic Planning Team) as and when they were identified. CET then took a view as to whether the risk should be included in the Corporate Risk Register.

RESOLVED that the Committee note how Corporate Risk is managed in the Authority.

13 WEST RHYL COASTAL DEFENCE SCHEME UPDATE

The Head of Internal Audit introduced the report (previously circulated) with an update for the Committee on progress with implementing the action plan that formed part of Internal Audit's report arising from its review of West Rhyl Coastal Defence Scheme Phase 3.

The original Internal Audit report on West Rhyl Coastal Defence Scheme Phase 3 was discussed at the Committee meeting of 27 April 2016, where the Committee requested an update on implementing improvements in January 2017.

It was confirmed that, in the future, if an amber result was produced by Internal Audit, then it would be the responsibility of the service to present a report to the Corporate Governance Committee together with explanations.

The process had worked extremely well in relation to the West Rhyl Coastal Defence Scheme.

The Head of Highways and Environmental Services (HofH&ES) responded to the Independent Member, Paul Whitham's query regarding Risk 4 – Procurement training and assurances this would not be overlooked. The content of the training was to be reviewed and the training would be planned and available from February.

The HofH&ES confirmed a great deal of work had been undertaken to attend to the issues and robust procedures were now in place. He confirmed he now had a lot more confidence in the processes of the service.

The Chair, Councillor Jason McLellan confirmed the Committee were satisfied the risks had been identified, actioned and completed and no further update would be required by the Committee.

RESOLVED that the Committee note the report and progress made to date and were satisfied no further update would be required.

14 INTERNAL AUDIT UPDATE

The Head of Internal Audit introduced the report (previously circulated) to provide an update on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.

The report provided information on work carried out by Internal Audit since the last Committee meeting. It allowed the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee could receive assurance on other Council services and corporate areas.

Follow up of previous Internal Audit reports were to be monitored and measured to improve the follow up timings.

At this juncture, the Head of Internal Audit informed the Committee that he would be leaving the Authority in May and his replacement, Lisa Lovegrove, had been appointed. Lisa was currently on maternity leave and due back in June 2017.

Councillor Alice Jones and the Committee wished him good luck for the future.

RESOLVED that the report be received and noted.

15 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME

The Corporate Governance Committee Forward Work Programme was presented for consideration and members noted the following additions –

- 27 September 2017 - Information Management and IT Management in Schools
- 29 November 2017 - School Finance Regulations

RESOLVED that, subject to the above additions, the Corporate Governance Committee's forward work programme be approved.

The meeting concluded at 12.30 p.m.

Report To:	Corporate Governance Committee
Date of Meeting:	22 nd March 2017
Lead Member / Officer:	Councillor Julian Thompson-Hill / Richard Weigh, Head of Finance
Report Author:	Steve Gadd, Chief Accountant
Title:	2017 Audit Plan Denbighshire County Council

1. What is the report about?

A report entitled '2017 Audit Plan – Denbighshire County Council' has been prepared by the Wales Audit Office (WAO) and is attached. The report sets out the planned programme of work for both the WAO's financial audit and performance audit programme. The report also deals with matters such as the fee for the work, details in respect of the audit team and the timetable for the work.

2. What is the reason for making this report?

The external auditors are required to prepare and present this report in order to discharge their requirements under auditing standards and proper audit practices. The report is provided for information.

3. What are the Recommendations?

It is recommended that the Committee consider the content of the WAO report. WAO representatives will attend the meeting to answer questions in relation to the report.

4. Report details

The WAO report provides the Council with an outline of the financial audit and performance audit work programme. The financial audit programme covers their work in respect of the 2016-17 financial statements. It also provides information on the audit approach including the key audit risks that have been identified during the initial planning process and the actions proposed to address them. The financial audit work on these risk areas will be used to inform the audit opinion on the financial statements.

The performance audit work programme covers their work in respect of the Local Government Measure. Both financial and performance audit work also reviews the arrangements put in place by the Council to secure economy, efficiency and effectiveness in its use of resources.

5. How does the decision contribute to the Corporate Priorities?

The audit service is a statutory provision. The Appointed Auditor, under the Public Audit (Wales) Act 2004 as amended by the Public Audit (Wales) Act 2013, is required to examine and certify the financial statements of the Council. The Appointed Auditor is also required to satisfy himself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 6. What will it cost and how will it affect other services?**
The fees for work undertaken by the WAO in respect of the financial and performance audit work programme are included in the report.
- 7. What are the main conclusions of the Well-being Impact Assessment?**
Not applicable.
- 8. What consultations have been carried out with Scrutiny and others?**
The broad content of the report has been discussed with the Chief Finance Officer and senior members of the Finance Department.
- 9. Chief Finance Officer Statement**
The annual audit is a statutory provision. The fees are an existing budget commitment for the authority.
- 10. What risks are there and is there anything we can do to reduce them?**
The audit process should highlight any significant risks and the management response to addressing or minimising the risk or impact.
- 11. Power to make the Decision**
Section 151 of the Local Government Act 1972 requires that the council has proper financial management arrangements in place. The Appointed Auditor is required by the Public Audit (Wales) Act 2004 (as amended by the Public Audit (Wales) Act 2013) to examine and certify the accounts of the council and must be satisfied that the accounts have been completed in compliance with the Accounts and Audit (Wales) Regulations 2005.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2017 Audit Plan – Denbighshire County Council

Audit year: 2016-17

Date issued: March 2017

Document reference: 227A2017

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

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2017 Audit Plan

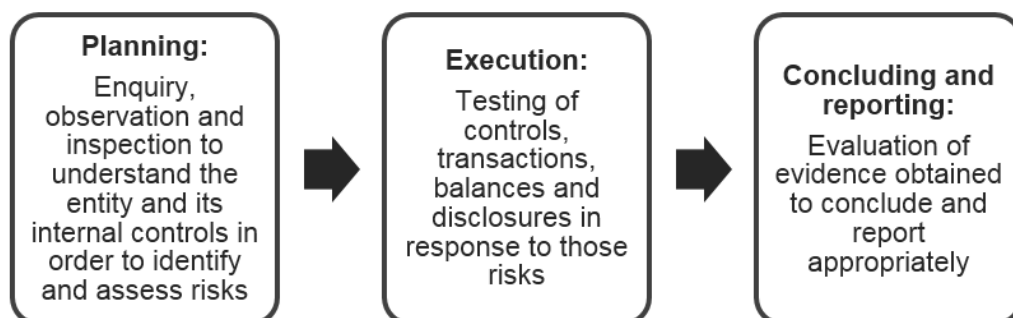
Summary

- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Public Audit (Wales) Act 2004, the Local Government (Wales) Measure 2009 (the Measure), the Local Government Act 1999, and the Code of Audit Practice, namely to:
 - examine and certify whether your financial statements are ‘true and fair’;
 - assess whether you have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - audit and assess whether you have discharged duties and met the requirements of the Measure; and
 - undertake studies to enable me to make recommendations for improving economy, efficiency and effectiveness or for improving financial or other management arrangements.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

Audit of accounts

- 5 It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on their ‘truth and fairness’.
- 6 I also consider whether or not Denbighshire County Council (the Council) has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and report by exception if the Annual Governance Statement does not comply with requirements.
- 7 [Appendix 1](#) sets out my responsibilities in full.
- 8 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows me to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

Exhibit 1: my audit approach



9 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration are set out in [Exhibit 2](#) along with the work I intend to undertake to address them.

Exhibit 2: financial statements risks

Financial statements risk	Proposed audit response
The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk in accordance with International Standard on Auditing (ISA) 240.	<p>We will:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; and • evaluate the rationale for any significant transactions outside the normal course of business.
<p>The financial statements are prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting (the Code).</p> <p>There are a number of significant changes for 2016-17, including a requirement for a new Expenditure and Funding Analysis in addition to a revised expenditure analysis in the Consolidated Income and Expenditure Account (CIES). A restatement of the previous year's (2015/16) CIES is also required.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> • continue to work with and support the Council and its staff to agree the most appropriate presentation in the financial statements; • undertake early audit work on proposals to address the new Code requirements; and • agree improvements to the methodology and working papers supporting the financial statements, where necessary.
In 2016-17, the Council is planning to revalue its housing stock as part of the Council's rolling programme of revaluing Property Plant and Equipment (fixed assets).	We will design audit tests to ensure that the revaluation exercise has been undertaken appropriately and the required revaluations are correctly accounted for in the 2016-17 financial statements.

Financial statements risk	Proposed audit response
The preparation of the Statement of Accounts will involve the estimation of a number of account figures such as provisions for the Council's liabilities.	<p>We will review:</p> <ul style="list-style-type: none"> • the basis on which significant accounting estimates are made for 2016-17; and • ensure that appropriate accounting and disclosure requirements are included within the financial statements.
We have identified a number of disclosures as being material by nature. These include the disclosure of Related Parties and Senior Officers' Remuneration.	<p>We will:</p> <ul style="list-style-type: none"> • review all notes and disclosures that are material by nature; and • test these disclosures to ensure that they are consistent with supporting evidence and in line with the Code.

- 10 I do not seek to obtain absolute assurance on the truth and fairness of the financial statements and related notes, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Corporate Governance Committee prior to completion of the audit.
- 11 For reporting purposes, I will treat any misstatements below a 'trivial' level (5% of materiality) as not requiring consideration by those charged with governance and therefore I will not report them.
- 12 My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
 - appropriate accommodation and facilities are provided to enable my audit team to deliver the audit in an efficient manner;
 - all appropriate officials will be available during the audit;
 - you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
 - Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.
- 13 In addition to my responsibilities in respect of the audit of the Council's statutory financial statements set out above, I am also required to certify a return to the Welsh Government which provides information about the Council to support preparation of Whole of Government Accounts.

Certification of grant claims and returns

- 14 I have been requested to undertake certification work on the Council's grant claims and returns. A total of 13 grant claims were audited in 2015-16 and while the final programme of grants and returns requiring certification for 2016-17 is yet to be finalised, I anticipate the number of claims requiring audit to be of a similar number.
- 15 My audit fee for this work is set out in [Exhibit 6](#).
- 16 A separate report, Certification of Grants and Returns 2015-16, is due to be issued which summarises the more significant and/or recurring issues I identified when undertaking grant certification work in 2015-16.

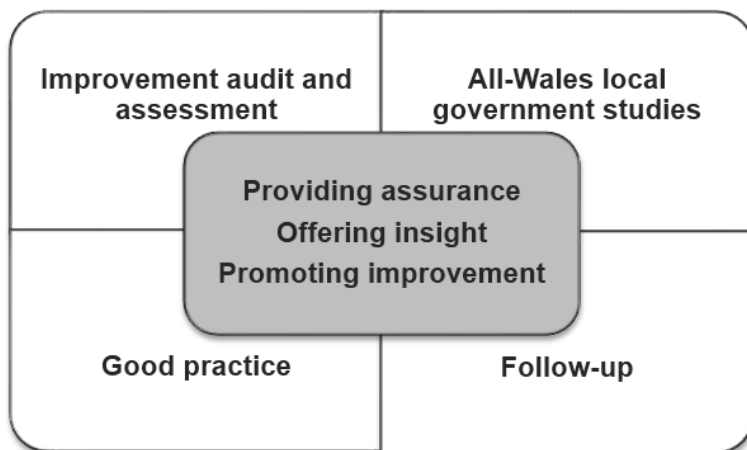
Other work undertaken

- 17 I am also responsible for the independent examination of the Area of Outstanding Natural Beauty (AONB) Joint Committee. There are no specific risks that I have identified in relation to the Joint Committee. My audit fee for this work is set out in [Exhibit 6](#).
- 18 You will be aware that the CIPFA/LASAAC Local Authority Accounting Code Board (Code Board) has deferred the planned move to measuring the local authority highways network asset at depreciated replacement cost. The Code Board will consider whether the central Gross Replacement Cost rates and central assurance processes will be delivered in a timely manner to enable successful implementation in 2017/2018 at its meeting in March 2017. The requirements will be introduced in the 2017-18 Code.
- 19 Any required additional audit work in relation to the highways network asset cannot be contained within existing fees. The additional audit cost will be agreed based on the quality of the Council's systems and records and the availability of central assurances. I anticipate that the additional fees related to the highways network asset will be reflected in the audit fee for 2017-18.
- 20 It will however be important for authorities to maintain their momentum in preparing for this significant change and may wish to engage with their external auditor as they make progress. I will discuss with you the scope of any additional preparatory work required in 2017 and any additional audit fee for such work.

Performance audit

21 The components of my performance audit work are shown in [Exhibit 3](#).

Exhibit 3: components of my performance audit work



- 22 Local government in Wales is going through an unprecedented period of change. Austerity continues to bite, audited bodies are required to adopt the principle of sustainable development from April 2016, and Local Government Reform remains under consideration.
- 23 For 2017-18 the Measure will still be in place, and I will still need to examine whether authorities will meet their duty to make arrangements for continuous improvement. The challenge for me in these uncertain times is to balance my existing, new and proposed statutory duties with the need to continue to undertake meaningful, risk-based and proportionate audits and assessments.
- 24 During 2016 I consulted with public service bodies on how I can best discharge my various duties whilst striking the most appropriate balance and adding value by:
- providing assurance on the governance and stewardship of public money and assets;
 - offering insight on the extent to which resources are used wisely in meeting people's needs; and
 - identifying and promoting ways by which the provision of public services may be improved.
- 25 In addition to the annual programme of audit and assessment work, the Wales Audit Office also undertakes a programme of Local Government Studies. This work is included within the Wales Audit Office estimates for funding from the Welsh Consolidated Fund and not local fees. [Exhibit 4](#) summarises the present position on the current programme of studies. These studies primarily lead to a national report augmented by good practice and shared learning outputs rather than by

local reports. Local findings, where relevant, will be captured in improvement assessment work and reported in Annual Improvement Reports depending on the timing and the focus of conclusions.

Exhibit 4 Local Government Studies

Study	Status
2015-16 studies	
Community safety	Published October 2016
Income generation and charging	Published November 2016
Council funding of third sector services	Published January 2017
2016-17 studies	
How local government manages demand	Fieldwork
Strategic commissioning	Fieldwork
Improving well-being through housing adaptations	Fieldwork

26 Taking all these factors into consideration, my 2017-18 programme of work will comprise:

Exhibit 5: performance audit programme

Performance Audit Programme	Brief description
Improvement audit and assessment work including: <ul style="list-style-type: none"> • Improvement Planning and reporting audit • Follow-up of local and national proposals for improvement/recommendations • Local risk based projects –to be confirmed • Annual Improvement Report 	Basic certification of improvement plan and annual report. Follow-up review of a sample of local and national proposals for improvement/recommendations. Project Briefs will be shared prior to commencement of project work. Summary of performance audit work undertaken in the year.
Well-being of Future Generations (WFG) Year one work	The Year One Commentary: We will gather evidence on how the 44 bodies are beginning to respond to the requirements of the WFG Act and identify examples of notable emerging practice. The work will be designed to support improvement and inform future audit work under the WFG Act.

Performance Audit Programme	Brief description
WFG Scrutiny review	This review will examine the impact of the WFG Act on the work of scrutiny committees, including PSB scrutiny, facilitating improvement and the sharing of good practice.
Service User Perspective review	Building on work undertaken on the Addressing Dependency and Demand Local Government Study, this project will test the service-user interface at all authorities. The review will evaluate what it feels like (as a member of the public) to deal with Council services, involving a selection of services and scenarios.

- 27 The performance audit projects included in last year's Audit Plan, which are either still underway or which have been substituted for alternative projects in agreement with you, are set out in [Appendix 2](#).

Fee, audit team and timetable

Fee

- 28 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees charged may not exceed the full cost of exercising the function to which the fee relates. The fee rates are set at a level to recover that full cost. My fee rates have been held static for 2017 and my audit teams will continue to look for efficiencies in their audits and welcome working with you constructively on this.
- 29 Your estimated fee of £272,272 for 2017 is set out in [Exhibit 6](#). The audit fee has been kept at the same level as last year in line with the Wales Audit Office fee setting policy.

Exhibit 6: audit fee

Audit area	Proposed fee (£)	Actual fee last year (£)
Audit of accounts²	178,234	178,234
Performance audit work:³	93,882	93,882
Total fee	272,116	272,116
Grant certification work⁴	60,000	60,000
Other financial audit work⁵		
Area of Outstanding Natural Beauty (AONB) Joint Committee	1,134	1,134

Notes:

- 1 The fees shown in this document are exclusive of VAT, which is no longer charged to you
 - 2 Payable November 2016 to October 2017
 - 3 Payable April 2017 to March 2018
 - 4 Payable as work is undertaken
 - 5 Payable as work is undertaken and subject to the level of testing required.
- 30 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Council.
- 31 Further information on my fee scales and fee setting can be found on the [Wales Audit Office website](#).

Audit team

- 32 The main members of my team, together with their contact details, are summarised in [Exhibit 7](#).

Exhibit 7: my team

Name	Role	Contact number	E-mail address
Anthony Veale	Engagement Director and Engagement Lead – Financial Audit	02920 320585	anthony.veale@audit.wales
Huw Rees	Engagement Lead – Performance Audit	0290 320599	huw.rees@audit.wales
Michelle Phoenix	Financial Audit Manager	07966 073281	michelle.phoenix@audit.wales
Gareth Evans	Financial Audit Team Leader	02920 320500	gareth.evans@audit.wales

Name	Role	Contact number	E-mail address
Jeremy Evans	Performance Audit Manager	07825 052861	jeremy.evans@audit.wales
Gwilym Bury	Performance Audit Lead	07813 564432	gwilym.bury@audit.wales

33 I can confirm that my team members are all independent of the Council, its officers and the AONB joint committee. I can confirm that there are no known threats to the independence of the Appointed Auditor or other audit staff and I have complied with the Wales Audit Office rotation policy.

Timetable

34 I will provide reports, or other outputs as agreed, to the Council covering the areas of work identified in this document. My key milestones are set out in [Exhibit 8](#).

Exhibit 8: timetable

Planned output	Work undertaken	Report finalised
2017 Audit Plan	January to March 2017	March 2017
Financial accounts work: <ul style="list-style-type: none"> • Audit Deliverables • Audit of Financial Statements Report • Opinion on Financial Statements • Whole of Government Accounts submission 	February to September 2017	March 2017 September 2017 September 2017 October 2017
Performance work: Programme will be finalised as soon as practicable: See paragraphs 22 to 26 above	To be confirmed	To be confirmed
Annual Improvement Report	Throughout the year	June 2018
Annual Audit Report	May to November 2016	November 2017
2018 Audit Plan	December 2017 to February 2018	March 2018

* Subject to timely clearance of draft findings with the Council.

Future developments to my audit work

Well-being of Future Generations (Wales) Act 2015

35 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report before the next National Assembly election on how public bodies are acting in accordance with the sustainable development principle when setting their well-being objectives and taking steps to meet them. In 2017, I will conduct my first work under the Act – the Year One Commentary – to understand how bodies are beginning to respond to the requirements. I will also work collaboratively with a small number of public bodies, including the central government sector, to develop an audit approach that is meaningful and proportionate and can be adopted in subsequent years.

Other

- 36 Details of other future developments including changes to key IFRS and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 4](#).
- 37 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates. Forthcoming events include:
- The challenges posed by indirectly provided, publicly funded services in Wales
 - How you Manage Risk around Organisation Change, Service Transformation and Innovation
 - Measuring Outcomes: who's doing it and how (linked to the WFG Act)

Appendix 1

Respective responsibilities

Audit of accounts

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the financial statements which includes an opinion on:

- their 'truth and fairness', providing assurance that they:
 - are free from material misstatement, whether caused by fraud or error;
 - comply with the statutory and other applicable requirements; and
 - comply with all relevant requirements for accounting presentation and disclosure.
- the consistency of information in the Annual Report with the financial statements.

I must also state by exception if the Annual Governance Statement does not comply with requirements, if proper accounting records have not been kept, if disclosures required for remuneration and other transactions have not been made or if I have not received all the information and explanations I require.

The Public Audit (Wales) Act 2004 requires me to assess whether Denbighshire County Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. To achieve this, I consider:

- the results of the audit work undertaken on the financial statements;
- Denbighshire County Council's system of internal control, as reported in the Annual Governance Statement and my report thereon;
- the results of other work carried out including work carried out under the Local Government (Wales) Measure 2009 (the Measure), certification of claims and returns, and data-matching exercises;
- the results of the work of other external review bodies where relevant to my responsibilities; and
- any other work that addresses matters not covered by the above, and which I consider necessary to discharge my responsibilities.

The Public Audit (Wales) Act 2004 sets out the rights of the public and electors to inspect Denbighshire County Council's financial statements and related documents, to ask me, as the Appointed Auditor questions about the accounts and, where appropriate, to challenge items in the accounts. I must also consider whether in the public interest, I should make a report on any matter which comes to my notice in the course of the audit.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;

- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within Denbighshire County Council from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Performance audit

The Measure places a general duty on improvement authorities to ‘make arrangements to secure continuous improvement in the exercise of [their] functions’. It also places specific requirements on authorities to set improvement objectives, and to publish annual improvement plans and assessments of performance. Improvement authorities are defined as county and county councils, national park authorities, and fire and rescue authorities.

The Measure also requires me to carry out an improvement assessment for each improvement authority every year, to determine whether the authority is likely to comply with its general duty and requirements of the Measure. The Auditor General must also carry out an audit of whether the authority has discharged its improvement planning and reporting duties.

The Auditor General may also in some circumstances carry out special inspections (under section 21), in respect of which he will provide a report to the relevant authorities and Ministers, and which he may publish (under section 22). The Auditor General will summarise audit and assessment reports in his published Annual Improvement Report (under section 24). This will also summarise any reports of special inspections.

Appendix 2

Performance work in last year's audit outline still in progress

Exhibit 9: Position against 2015-16 performance audit work included in the 2015-16 Audit Outline

Performance audit project	Status	Comment
Transformation Theme	Not started	Expected to conclude by June 2017
Local Projects	Fieldwork underway	To be reported in the Annual Improvement Report – May 2017
Savings planning	Complete	Report expected early March 2017
Good governance when determining significant service changes	Report drafting	Draft reports expected to be issued in March 2017

Appendix 3

National value-for-money studies

The Council may also be interested in the national value-for-money examinations which I undertake, some of which will be of particular relevance to, and may involve evidence gathering across, local government. These studies are supported by funds approved by the National Assembly. Reports are presented to the National Assembly's Public Accounts Committee to support its scrutiny of public expenditure and potentially support scrutiny by other National Assembly committees.

The table below covers all of the value-for-money studies work currently programmed. The programme includes all-Wales summaries of audit work undertaken locally in the NHS and reactive examinations into specific issues of public concern that have been raised with me. In addition to the work outlined below, I may decide during the year to prepare other national reports summarising local audit work or based on the findings of reactive examinations.

I am also currently consulting with the Public Accounts Committee and other stakeholders about the inclusion in my programme of a number of new value-for-money studies to be rolled out during 2017-18. For example, I have already indicated to the Committee that, following my July 2016 report on the Welsh Government's funding of Kancoat Ltd., I am considering a broader examination of the Welsh Government's support for business.

Further updates on my programme of value-for-money studies will be provided to you within the regular progress reports prepared by my team.

Exhibit 10: Position against National Value for Money studies currently programmed

Topic	Anticipated publication (as at 3 January 2017)
Outpatient follow-up appointments	February 2017
Governance and oversight of arms-length bodies (discussion paper)	February 2017
Welsh Government oversight of further education institutions' finances and delivery	March 2017
Circuit of Wales	February 2017
Emergency ambulance services commissioning	February 2017
21st century schools and education programme	March 2017
Public procurement landscape review	April to July 2017
Waste management (waste prevention)	April to July 2017

Topic	Anticipated publication (as at 3 January 2017)
Waste management (municipal recycling) ¹	April to July 2017
Implementation of the NHS Finances (Wales) Act 2014 (integrated medium term planning)	April to July 2017
Supporting People programme	April to July 2017
NHS Wales informatics services	April to July 2017
Access to public services with the support of specialist interpretation and translation	August to October 2017
Preparations for the implementation of fiscal devolution in Wales (follow-on report)	August to October 2017
Early intervention and behaviour change	To be confirmed ²

¹ In addition to the work on waste prevention and municipal recycling, I will be taking forward a review of waste treatment infrastructure in early 2017.

² My programme of good practice work has included a project exploring behaviour change work across Welsh public services and opportunities to improve practice, deliver better outcomes for citizens, and achieve better value for money. I still anticipate that the information and evidence gathered through this work will support the production of a report on this topic, although this is unlikely to be a traditional audit report and plans for its production are still to be confirmed.

Appendix 4

Other future developments

Forthcoming key IFRS changes

Exhibit 11: Forthcoming IFRS changes

Standard	Effective date	Further details
IFRS 9 Financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 Revenue from contracts with customers	2018-19	IFRS 15 Revenue from contracts with customers introduces a principles based five step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 Leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on balance sheet as an asset based on a 'right of use' principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

Good Practice Exchange

The Wales Audit Office's Good Practice Exchange (GPX) helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face-to-face and resources shared on line.

The focus of GPX events includes financial management, public sector staff and governance.

Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX website](#). Registration for all events will open two months prior to the event.

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Savings Planning – Denbighshire County Council

Audit year: 2016-17

Date issued: March 2017

Document reference: 659A2016

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding

disclosure or re-use of this document should be sent to the Wales Audit Office at

info.officer@audit.wales.

The team who delivered the work comprised Charlotte Owen and Jeremy Evans, under the direction of Alan Morris

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Savings Plan 2016-17	
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The Council forecasts that it is likely to achieve 70% of its 2016-17 savings targets in year and appropriate monitoring arrangements are in place, contingency savings proposals are prepared should they be required	12
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Summary report

Summary

- 1 Good financial management is essential for the effective stewardship of public money and the continual delivery of efficient public services. The current financial climate and the reduced settlements for local government mean that good financial planning, with well-considered savings plans, is critical to financial resilience.
- 2 This review focuses on answering the following question: **Do the council's financial savings planning arrangements support financial resilience?**
- 3 Good financial planning:
 - helps councils take the right decisions for the short, medium and long term;
 - helps councils deliver services to meet statutory obligations and the needs of local communities;
 - is essential for good corporate governance;
 - is about managing performance and achieving strategic objectives as much as it is about managing money;
 - underpins service quality and improvement;
 - is the basis of accountability to stakeholders for the stewardship and use of resources; and
 - is a key management discipline.
- 4 Financial planning for the medium to long term involves understanding future demand, assessing the impact of probable changes, reviewing the gaps between funding needs and possible income and, where necessary, developing appropriate savings strategies.
- 5 A council's strategic priorities and its financial health should be the basis for deciding what is practicable. Well-considered and detailed long-term financial strategies and Medium-Term Financial Plans can ensure the delivery of strategic priorities by enabling appropriate financial choices. Conversely, short-term annual budget planning encourages an incremental and process-driven approach that is too inflexible in a period of rapid external change.
- 6 Councils receive about 80% of their net income from Welsh Government, the exact amount is only known 4-5 months before the start of the financial year. Whilst this has an impact on financial planning councils can use a range of information to anticipate changing circumstances, set priorities, make choices and manage service delivery. They can calculate how much they would need to deliver services (at current or future prices) and review alternative income and spending scenarios to identify gaps and prepare for the future by investigating different approaches.

- 7 During 2015-16 the Wales Audit Office undertook work at all councils to assess the adequacy of their financial planning, control and governance arrangements. Local reports were issued and a national summary report published in August 2016. The national summary report concluded that **strategic planning arrangements are improving but councils have difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.**
- 8 In this assessment, undertaken during the period June to September 2016, we have focused on work to identify, plan for and deliver savings. We examined the extent to which Denbighshire County Council (the Council) achieved its 2015-16 savings plans, the quality of its medium term financial plans and the robustness of its 2016-17 savings plans.
- 9 We sampled three savings proposals for 2016-17 and looked at the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale.
- 10 We followed up our 2015-16 work to determine what the Council did as a consequence of what it learnt and how it has responded to our proposals for improvement in relation to financial planning if we made any.
- 11 In this report we have described some key characteristics of effective financial planning – **What good looks like**. Auditors have used these and other factors to reach a balanced view on the effectiveness of a council's financial planning arrangements and to evaluate the ability of a council to deliver its Medium-Term Financial Plan (MTFP) and planned savings.
- 12 In our 2015-16 review we concluded that **the Council had appropriate financial management arrangements but needed to strengthen its approach to income generation.**
- 13 In this review we concluded that **the Council has an effective and well-considered savings planning approach, which is supporting future financial resilience.**

Proposals for improvement

Exhibit 1: proposals for improvement

It would be unusual if we did not find things that can be improved and, where we do, The Auditor General can take a variety of steps. In this case a proposal for improvement has been made and we would expect the Council to do something about it.

Proposals for improvement

- P1 Strengthen financial planning arrangements by:
- developing an Income Generation/Charging Policy; and
 - formally risk rating savings according to achievability and identify sustainable mitigating actions for those classified as high risk.

Detailed report

The Council has an effective and well-considered savings planning approach, which is supporting future financial resilience

Context

- 14 Since 2010, the UK government has reduced spending on public services as part of its plan to reduce the deficit. With cuts to its budget, the Welsh Government has had to make difficult choices as to how to allocate those funding cuts across devolved public services. As a result, the amount of core funding made available by the Welsh Government to local councils has reduced each year. So far, most local councils have managed to reduce expenditure and balance budgets, but the scale of annual reductions is likely to continue. Our analysis shows that between 2013-14 and 2016-17, there is a real-terms reduction of £483 million (10.9%) in this core funding¹.
- 15 The impact of the decision to leave the European Union may represent a threat to local councils and the wider public sector in Wales. In the immediate aftermath of the decision there was reaction across financial markets resulting in volatility in, for example, share prices, currency exchange rates, oil prices and bond yields, and the UK continues to face a great deal of uncertainty on top of significant questions regarding future economic and trading relationships with Europe. The Welsh Local Government Association (WLGA) has expressed concerns over the implications of the European Union referendum outcome, calling it a 'seismic change in UK public policy'² especially as local councils are collectively the largest employer in Wales and the deliverer of many important public services.

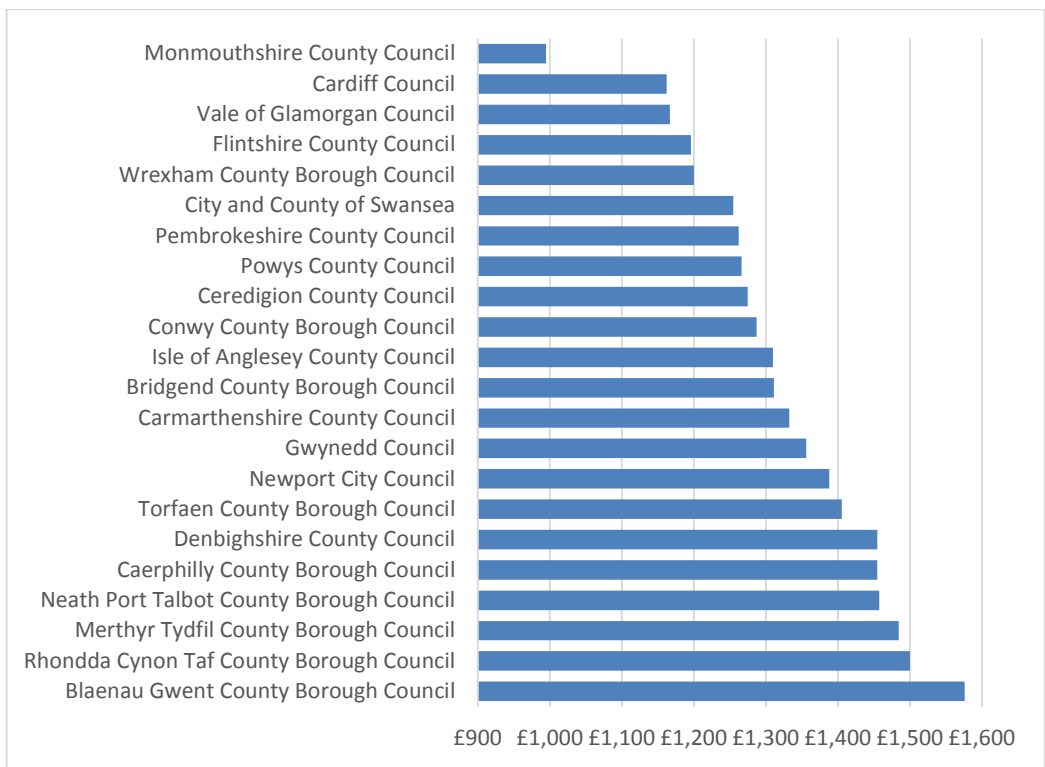
¹ Comparing core funding (Aggregate External Finance (AEF)) across the period 2013-14 to 2016-17 is complicated for two main reasons. Firstly, the Welsh Government has incorporated into core funding grants that were previously provided separately. While this 'de-hypothecation' of grants results in an increase in core funding, it is not necessarily a net increase in funding. The net value of grants incorporated into core funding since 2013-14 is around £76 million in real terms (adjusted for inflation).

² Welsh Local Government Association, **Councils voice concern over service impacts of EU referendum**, 24 June 2016

- 16 Whilst the overall Welsh Government funding has reduced, councils have been expected to protect schools and social care from the bulk of the pressures. Social care in particular has struggled even with this protection as for example demographic changes have led to increased demand. However, this does mean that other services have borne the majority of the cuts and have seen reductions in budgets of 30% or more in real terms since 2013-14.
- 17 The Council received £140 million in support from Welsh Government in 2016-17. This represents £1,455 per person in the county, above the average for Wales but a real-terms reduction of 10.9%³ per head since 2013-14. There are other key issues that impact on any councils overall financial position, for example the overall Council tax base, the ability to generate income locally and the levels of deprivation.

Exhibit 2: Welsh Government support in 2016-17

The graph below illustrates the amount of money each council gets per head of population from the Welsh Government.



Source: Stats Wales (www.statswales.gov.wales)

³ The percentage reduction per head figure varies from the 2013-14 core funding reduction due to population variation over the same period.

Savings achievement 2015-16

The Council has reported achievement of 91% of its planned 2015-16 savings in year and can demonstrate that individual savings have been delivered

What good looks like

- 18 Councils that have a good track record of delivering the majority of planned in-year savings should have well developed savings and delivery plans in place which are underpinned by robust monitoring processes. These councils do not have to continually bridge the gap year on year, by identifying alternative savings, using unplanned one-off funding from earmarked reserves, general reserves, contingency funds or fortuitous unplanned income received during the year.

What we found

- 19 In our 2015-16 review we found that the Council achieved approximately 99% of its planned savings in 2014-15.
- 20 In our 2016-17 review we found that achievement of planned savings is lower than in previous years. Our findings are detailed below.
- 21 The Council delivered a net overspend of £25,000 on its 2015-16 budget and achieved 91% of its planned savings. Although there was a collective net underspend of £1.6 million on service and corporate budgets, there was a significant overspend of nearly £2 million on schools' delegated budgets. School reserves were used to fund the school overspend, enabling the Council to transfer service and corporate underspends to earmarked reserves.
- 22 The Council's planned budget strategy for 2015-16 included the use of £500,000 from general balances. However, the Council did not need to utilise these balances, which will instead be used as part of the planned budget strategy for 2017-18.
- 23 The Council achieved 91% of its 2015-16 savings plans and expects to achieve the majority of the remaining 9% in 2016-17. Savings plans are embedded in the base budget and form part of the budget monitoring process. Regular budget monitoring reports to Cabinet include a section on achievement of savings, and where problems with achieving savings proposals are identified, further narrative is provided.
- 24 The Council's process for identifying savings is evolving and a new approach that increased member involvement was taken for the 2015-16 plan. The Freedoms and Flexibilities programme identified savings for a two year period by focusing on what a service does, analysing its expenditure, and identifying whether service provision is statutory, aligned to a corporate priority, or discretionary.

Financial planning arrangements

The Council has an effective financial planning framework but it still needs to develop a corporate approach to income generation

What good looks like

- 25 The MTFP is a key component of an effective, integrated corporate planning framework. Good medium-term financial planning and annual budgeting should reflect the council's strategic objectives and priorities for the year, and over the longer term. MTFPs typically span a three-to-five year period and should identify how resources will be allocated to both the delivery of services and the council's priorities. The impact on citizens and other stakeholders should also be considered.
- 26 Good MTFPs include consideration of key financial risks together with their mitigation. Councils have to make assumptions around inflation, income levels, demographics, future demand for services and the costs of delivering services, and these need to be based on reasonable predictions. The council should also use financial modelling to assess the likely impacts on financial plans and required savings for a range of different scenarios and risks. The MTFP should be frequently reviewed and updated to reflect changes in assumptions and risks.
- 27 Councils should operate within a level of reserves and balances (including earmarked reserves and the general fund balance), approved by Members, and appropriate to the strategic, operational and financial risks it faces. Councils should include details on how reserves will be used over the period of the MTFP.
- 28 The council must demonstrate that it understands its sources of income and the risks arising from these, and that it has reviewed its approach to fees and charges, for its services, to achieve value for money.

What we found

- 29 In our 2015-16 review, we found that the Council had effective controls in place to ensure its financial processes and management were robust, but it needed to strengthen its approach to income generation.
- 30 In our 2016-17 review, we found that the Council continues to have an effective financial planning framework but it still has no formal income generation policy.
- 31 There are good links between the Council's corporate and medium term financial planning processes. The Corporate Plan sets out the Council's priorities and identifies how they will be funded. The Council's Medium Term Financial Plan (MTFP) links to service and corporate plans and priorities set out during the budget planning process.

- 32 The MTFP demonstrates some of the ways the Council is considering the long term impact of its budgetary decisions, eg impact assessments and monitoring the impact of budget decisions post-implementation.
- 33 The Council's MTFP is up to date. A formal update rolling the MTFP forward is approved by Cabinet every autumn. Medium term financial planning assumptions are regularly reviewed and communicated to take account of changes in key variables and other emerging issues.
- 34 The MTFP covers a four year period. The MTFP forecasts are comprehensive and include sensitivity analysis and are modelled on a range of scenarios. The MTFP 2017-18 to 2019-20 identifies a budget gap of £26 million. The Council has identified indicative savings over the period of £3.6 million and plans to use £3.5 million of general reserves, leaving a budget gap of £19 million.
- 35 The MTFP includes some indicative savings for the remainder of the MTFP term, but the Council has not yet fully identified how it will meet the total forecast budget gap.
- 36 The MTFP is also underpinned by reasonable and appropriate assumptions for key variables such as pay awards, price inflation, and funding and council tax levels. The impact of demographic changes, changes in demand and known commitments are also assessed.
- 37 At the end of 2015-16, the Council held approximately £7.6 million as a working balance in its general reserve. Reserves and balances are reviewed annually as part of the budget setting process and both the annual budget report and MTFP set out planned use of reserves over the term of the MTFP.
- 38 The Council does not have a standalone reserves policy but its reserves protocol is clearly set out within the Council's Financial Regulations and reserves are regularly reviewed. The Council's budget strategy since 2015-16 includes the planned use of general balances; the Council did not make use of the additional funds in 2015-16 and will instead use these unused balances as part of its 2017-18 budget strategy. During 2015-16, the Council established a budget delivery contingency reserve of £1.5 million. Almost £500,000 of this reserve is available to mitigate against delays in achieving proposed savings in 2016-17.
- 39 As reported in 2015-16, the Council lacks a corporate policy on income generation and charging. Responsibility for assessing and setting charges is devolved to Heads of Service and although fees and charges are reviewed as part of the budget process, opportunities could be missed without a corporate policy in place. The Council is taking steps to ensure there is a more consistent approach between services by collating fees and charges data as part of the 2017-18 budget process.
- 40 The Council has robust arrangements in place to report progress against budget, but monthly finance reports could be strengthened by including updates on the use and level of reserves. This would enable members to have sight of reserves levels, and the opportunity to challenge them, throughout the year.

Savings Plan 2016-17

The Council forecasts that it is likely to achieve 70% of its 2016-17 savings targets in year and appropriate monitoring arrangements are in place, contingency savings proposals are prepared should they be required

What good looks like

41 Councils that deliver savings effectively have well-considered savings plans that sit within longer-term savings strategies which are underpinned by well-developed fully costed individual savings and delivery plans aligned with the MTFP. Savings proposals should be specific and risk assessed in terms of likelihood of achievement.

What we found

- 42 In our 2015-16 review we found that the Council's future plans and arrangements to deliver savings were fit for purpose and were being effectively managed.
- 43 In our 2016-17 review we found that the percentage of savings likely to be achieved in year is falling, suggesting a weakness in assessing deliverability risks, although monitoring arrangements remain robust. The Council has alternative savings proposals in hand. Our findings are detailed below.
- 44 The Council has identified savings plans to meet the savings required for 2016-17 and it has classified its costed savings plans into efficiencies and technical budget reductions which have no impact on services or the public; alternative delivery, commissioning and procurement; service level changes (including reduction or withdrawal); and increased income. The Council's emphasis to date has been on efficiency savings, limiting the impact of cuts on service users. As efficiency savings become increasingly difficult to find, adequate levels of transformational savings will help the Council develop sustainable approaches to service delivery that provide ongoing savings.
- 45 The latest financial monitoring report to Cabinet forecasts that only 70% of the Council's savings plans for 2016-17 will be achieved in-year; a further 25% are delayed and will be achieved in 2017-18.
- 46 In September, Cabinet approved the use of reserves and corporate budget underspends to mitigate against the impact of savings identified as deferred and unachievable. Although the Council has sufficient reserves and available corporate budget to fund the savings shortfall in 2016-17, there is an expectation that the short fall could be covered by service underspends. Furthermore, if required the Council has alternative savings proposals in place that it could use to replace the original planned savings. The Council will decide whether it needs to use any of the savings proposals as the year progresses.

- 47 The Council's savings proposals are risk assessed as part of the budget setting process and during in-year monitoring. Although risks relating to the deliverability of proposed savings are discussed as part of the process for identifying and approving savings, there is no formal procedure to risk rate savings plans according to achievability. There is scope, therefore, for the Council to strengthen its approach by incorporating a formal risk rating process to identify those savings which carry a greater risk of delay or non-achievement and sustainable mitigating actions.
- 48 Equality Impact Assessments are carried out for all savings proposals that impact on citizens or stakeholders, but the quality of completion is inconsistent. A new web-based impact assessment tool addresses the Council's duties under the Wellbeing of Future Generations (Wales) Act 2015. The Council has further strengthened its processes by assessing the impact of selected savings proposals on the public following implementation.
- 49 The Council's savings plan is specific, listing individual savings projects by service area. The plan is supported by more detailed, underlying plans.
- 50 Effective monitoring arrangements are in place to manage savings. Monthly reports to Cabinet set out whether each saving has been achieved, is in progress or has been deferred or not achieved. Where savings will not be achieved in year, a brief narrative is provided detailing the proposed mitigating actions.
- 51 The three savings proposals for 2016-17 we sampled to test the underlying assumptions and whether there are adequate mechanisms to ensure they can be delivered in the planned timescale were:
- CCTV service – £200,000 (service reductio/withdrawal);
 - better take Up of green waste scheme – £75,000 (income generation); and
 - accommodation strategy – £258,000 (efficiency saving).
- 52 In each case we found that options appraisals were underpinned by reasonable assumptions, delivery plans had clear timescales and the proposals were supported by appropriate approval and consultation processes. The Accommodation Strategy saving has been delayed but the Council is confident that the saving will be achieved in full in 2017-18.

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Report To: Corporate Governance Committee
Date of Meeting: 22 March 2017
Lead Member / Officer: Ivan Butler – Head of Internal Audit
Report Author: Ivan Butler – Head of Internal Audit
Title: Internal Audit Update

- 1. What is the report about?**
This report provides an update for Corporate Governance Committee on Internal Audit's latest progress in terms of its service delivery, assurance provision, reviews completed, performance and effectiveness in driving improvement.
- 2. What is the reason for making this report?**
This reports provides information on work carried out by Internal Audit since the last Committee meeting. It allows the Committee to monitor Internal Audit's performance and progress as well as providing summaries of Internal Audit reports so that the Committee can receive assurance on other Council services and corporate areas.
- 3. What are the Recommendations?**
The Committee considers the report content, assesses Internal Audit's progress and performance, and decides whether it needs any further assurance on audit reports.
- 4. Report details**
Full details are provided in the attached update report.
- 5. How does the decision contribute to the Corporate Priorities?**
Not applicable - there is no decision required with this report.
- 6. What will it cost and how will it affect other services?**
Not applicable - there is no decision required with this report.
- 7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision? The completed EqIA template should be attached as an appendix to the report**
Not applicable - there is no decision required with this report.
- 8. What consultations have been carried out with Scrutiny and others?**
Not applicable - there is no decision required with this report.
- 9. Chief Finance Officer Statement**
Not applicable - there is no decision required with this report.
- 10. What risks are there and is there anything we can do to reduce them?**
Not applicable - there is no decision required with this report.
- 11. Power to make the Decision**
Not applicable - there is no decision required with this report.

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

Corporate Governance Committee Update

March 2017



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 the end of February 2017 on:
 - Internal Audit reports recently issued
 - Follow up of previous Internal Audit reports
 - Progress in delivering the Internal Audit Operational Plan 2016/17
 - 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	Significant issues to be brought to the attention of SLT, CET, Cabinet Lead Members and Corporate Governance Committee

Housing Rents – February 2017

High Assurance	
0	Moderate Risks/Issues
0	Major Risks/Issues
0	Critical Risks/Issues

4. Since our previous review, Housing Rents has relocated its office base from Rhyl to Denbigh and, although this is a significant change for all the members of staff involved, the move has had no impact on their ability to maintain service standards.
5. The implementation of the new ‘OPEN Contractor’ and migration from ‘Capita Housing’ to ‘OPEN Housing’ is due in June 2017, and it is expected that this will integrate with other Council functions in providing a better service for customers, e.g. improving access via the internet to rent account information, housing applications and repairs requests
6. Our previous review highlighted a weakness in the reconciliation of the rental income. This has now been addressed with the introduction of a training schedule for relevant members of staff and contingency arrangements are now in place to cover leave or any sickness absences. The main housing rents system is reconciled annually and accounts monitored regularly throughout the year.
7. Although the collection of income over the counter has reduced since the service relocated, controls are in place to ensure that any income is kept secure until banked.
8. We have no concerns relating to the separation of duties that are required in the collection and allocation of income, and there are still robust access controls to IT systems, with passwords being changed regularly and members of staff being reminded to log out of systems when not in use.
9. Overall, the management of arrears is good, with regular monitoring taking place. Arrears levels have reduced and the Council’s performance is good when benchmarking with other local authorities and housing providers. Arrears written-off is approved in accordance with the Council’s Financial Regulations.

10. While the monitoring of credit balances on tenants' accounts is not considered to be a high priority for the service, we noted a refund that had been paid to a tenant twice in error and payments were being made to an account that had previously been written off, creating a credit balance. Although these errors were identified by the service, we advise that regular monitoring takes place to eliminate the risk of errors occurring. Additionally, former tenant accounts that have been previously written-off for non-payment are not being reinstated once the tenant restarts paying off the debt. This does not provide a true picture of the balance on the account and can also distort the total amount of arrears shown as outstanding; however, having identified this, the service is to ascertain the processes in place in other local authorities and housing providers at the next Former Tenant Forum hosted by Catrefi Conwy, in order to establish a more consistent approach across North Wales.
11. In terms of responding to new legislation, the Renting Home Wales Act 2016 will introduce changes in 2017 that are not expected to affect tenants and tenancy agreements until 2018. Housing officers are well aware of these changes in legislation and are awaiting guidance from the Welsh Government. The service has adopted the Welsh language standards in part, as new tenants are asked whether they have a preferred language and all answering of phones and e-mail 'out of office' messaging is bilingual. However, there is some room for improvement as not all forms of correspondence sent to tenants are bilingual.
12. We have not raised any issues that require any management attention and, although there are some areas that would benefit from some minor improvement, we are confident that the service is taking steps to address these. We are therefore able to provide a high assurance rating.

Welsh Government 6th form funding & PLASC (Pupil Level Annual School Census) Review – Denbigh High School – March 2017

13. The School has adequate controls in place to ensure that the PLASC return is completed accurately and within the prescribed timescales. Common Transfer Forms (CTFs) are

High Assurance	
0	Moderate Risks/Issues
0	Major Risks/Issues
0	Critical Risks/Issues

in place and have been received for those pupils from another site who registered for subjects at the School.

14. During our review, we found that enrolment forms had not been completed for pupils covered by this PLASC return; however, there is evidence that this is now in place for the current school year.
15. While there is good monitoring of pupil attendance, there were inaccuracies with the pupil data held on SIMS. Pupils were registered as dual site users when they should be single site users and vice versa. We acknowledge that this could be a result of a change in subjects for the second year of post-16 education, as limitations with the system only allow for the status for the current school year to be seen. However, this was not true for all cases and, while it does not impact on the PLASC return, data held should be accurate.
16. During our review there was no evidence of the Head Teacher authorising the final PLASC return submitted to WG due to the original authorised submission having to be resubmitted at a later date. The technical issues that affected most schools in Wales did not affect the contents of the PLASC return but we would have expected to see a signed copy of the final PLASC return, which would confirm its accuracy.
17. As the above minor issues do not affect the PLASC return, based on the review carried out we are giving a 'high' assurance rating.

Welsh Government 6th form funding & PLASC (Pupil Level Annual School Census) Review – St Brigids School – March 2017

	High Assurance
0	Moderate Risks/Issues
0	Major Risks/Issues
0	Critical Risks/Issues

18. Overall, there are effective controls in place to ensure that the PLASC return is completed accurately and submitted within the agreed timescales. Key people involved in the process are fully aware of their roles and responsibilities when completing the PLASC return.
19. There are good controls in place to monitor pupils' attendance and the accuracy of the data retained on SIMS. The School has also introduced additional controls to monitor that the relevant Common Transfer Forms (CTF) have been received or sent to the appropriate school as part of the process. The School has also

incorporated enrolment forms following our review carried out last year, which record the subjects that pupils have enrolled on for the school year.

- 20. However, during our review there was no evidence of the Head Teacher authorising the final PLASC return submitted to WG due to the original authorised return having to be resubmitted at a later date. The technical issues that affected most schools in Wales did not affect the contents of the PLASC return but we would have expected to see a signed copy of the final PLASC return, which would confirm its accuracy.
- 21. Given that the School has introduced additional controls to improve the accuracy of the data and we only identified one weakness in the process, we are able to provide a ‘high’ assurance.

Follow up of previous Internal Audit reports

- 22. Most of our Internal Audit reports identify risks and control weaknesses, rated as critical, major or moderate risk. Management agrees actions to address the risks, including responsibilities and timescales.
- 23. The Head of Internal Audit reports to Corporate Governance Committee on all instances where management fails to respond to the service’s follow up work or where there are unacceptable delays in implementing improvements. The Committee decides whether it needs to take further action, e.g. by calling the relevant people to its next meeting or asking for a written report to explain lack of progress.

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	4	0	0	1	0	2	3	Jul 17	•2 follow ups carried out
Cefndy Healthcare	0	0	7	0	0	6	0	0	1	Jan 17	•2 nd follow up now due
Payments to External Providers	0	0	2	0	0	2	0	0	0	n/a	•Now complete
POVA	0	0	7	0	0	5	0	0	2	Mar 17	•2 nd follow up now due
Education & Children's Services											
Governance in Schools	0	0	19	0	0	12	0	0	7	Jan 17	•2 nd follow up in progress
Ysgol Mair RC	0	2	20	0	2	19	0	0	1	Jan 17	•3 rd follow up in progress
IT & IM Management in Schools	0	0	17							Feb 17	•1 st follow up in progress
Facilities, Assets & Housing											
Housing Rents	0	0	5	0	0	4	0	0	1	Jul 17	•1 follow up carried out
Housing Allocations & Voids	0	0	5							Jan 17	•1 st follow up now due
Industrial Estates	0	0	1							Jan 17	•1 st 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	2	0	0	2	Mar 17	•2 nd follow up now due
Rhyl Harbour – Review of Operational Management	0	0	4							Mar 17	•2 nd follow up now due
Finance											
Revenues Services – in Partnership with Civica	0	0	16							Jan 17	•Follow up being reported as part of 2016/17 audit
Financial services	0	2	8							Mar 17	•Follow up being reported as part of 2016/17 audit

Highways & Environmental Services											
Street Works	0	0	5	0	0	2	0	0	3	Apr 16	•2 follow ups carried out
Corporate Fleet Management	0	7	12	0	6	7	0	1	5	Apr 17	•2 follow ups carried out
Passenger Transport	0	0	5							Apr 17	•Not yet due
Legal, HR & Democratic Services											
HR Management in Schools	0	1	5							Jan 17	•1 st follow up in progress
Management & Administration of Legal Services	0	5	7	0	3	7	0	2	0	Apr 17	•2 follow ups carried out
Planning & Public Protection											
Community Enforcement	0	0	9							Jan 17	•1 st follow up in progress
Housing Enforcement	0	0	2							Jan 17	•1 st follow up in progress
Parking Services	0	0	13	0	0	11	0	0	2	Apr 17	•1 follow up carried out
Corporate Reviews											
Corporate Procurement	0	0	4							Jan 17	•Follow up being reported as part of 2016/17 audit
Developing the Local Economy	0	1	2							Mar 17	•1 st follow up now due
IT Access Management	0	2	9	0	1	0	0	1	9	Jan 17	•2 nd follow up in progress
Physical Security of information	0	3	3	0	1	2	0	2	1	Jan 17	•2 nd follow up in progress
Sickness Absence	0	0	9	0	0	5	0	0	4	Feb 17	•3 rd follow up now due
Corporate Safeguarding	0	0	19	0	0	14	0	0	5	Apr 17	•2 follow ups carried out

Progress in delivering the Internal Audit Operational Plan 2016/17

24. This year's plan has been amended during the year and reported to the Committee due to changes in capacity arising from maternity leave. The service currently has two Senior Auditors on maternity leave, although one Auditor is now 'acting up' in a Senior Auditor role until December 2017.
25. Despite the capacity changes, the service will complete enough of the original audit plan to allow the Head of Internal Audit to provide an annual audit opinion at the end of the financial year.
26. The following table shows progress in completion of the latest Operational Plan, providing assurance ratings and number of issues raised for the completed reviews, and an indication of when the remaining projects are scheduled to commence.

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	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
Corporate Priorities Assurance									
Developing the local economy	25	25	25	Complete - Sep 16	Medium	0	1	2	
Improving performance in education & the quality of our school buildings	20	9	9	Complete - Jan 17	N/A	N/A	N/A	N/A	No report necessary. Work will continue on corporate priorities.
Improving our roads	15	0	15	Prepared					Due in quarter 4
Vulnerable people are protected and are able to live as independently as possible	10	9	9	Complete - Sep 16	Medium				Days used for continued review of Corporate Safeguarding
Ensuring access to good quality housing	10	0	10	Prepared					Due in quarter 4
Modernising the Council to deliver efficiencies and improve services for our customers	15	1	5	Prepared					Due in quarter 4 but likely to continue into 2017-18
Corporate Risks Assurance									
Corporate risk management assurance	9	3	9	In progress					Due in quarter 4
Corporate Programmes & Projects Assurance									

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	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
Well-being of Future Generations Act Programme	5	5	5	Complete					Implementation of Internal Audit work stream to revise approach to projects
Ruthin Area Review – New Area School for Ysgol Carreg Emlyn	10	3	3	Complete					Projects will continue to be monitored during 2017-18
Ruthin Area Review – Ruthin Town School Modernisation	10	5	5	Complete					
Alternative Service Delivery Models Assurance									
Revenues Services	44	92	93	Draft report					Review taking longer than anticipated due to problems obtaining system reports
Citizens Advice Bureau	5	0	0	Not started					Project will be carried out in 2017/18
Financial Assurance									
Financial services assurance	70	67	70	In progress					Nearing completion
AONB Grant	2	2	2	Complete					Certification of grant – no report issued
Housing Rents	20	22	22	Complete – Feb 17	High	0	0	0	
Welsh Government Assurance									

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	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
WG education grant certification	9	4	4	Complete					Certification of grant - no report issued
WG 6th Form Funding/PLASC - Denbigh High School	30	4	4	Complete	High	0	0	0	Scope reduced to reduce plan days to account for maternity leave
WG 6th Form Funding/PLASC - Denbigh High School		6	6	Complete	High	0	0	0	
Other Annual Areas of Work									
IA report follow up work	75	93	100	In progress					
Corporate Anti-fraud & Corruption	79								
Managing the risk of fraud & corruption		1	10	In progress					
Catering Services - continued review of reconciliation process		7	7	Complete					Full service review to be carried out in 2017-18
National Fraud Initiative Work		30	32	In progress					
Review of housing tenancies		0	0	Not started					Will be carried out in 2017-18
General fraud enquiries		3	3	In progress					
Projects brought forward from 2015/16 to complete -	162								
- Financial assurance		15	15	Complete - Jul 16	Medium	0	2	8	

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	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		7	7	Complete - Jun 16	Various	0	0	16	Separate audit opinions provided for different elements of the service
- West Rhyl coastal defence scheme		8	8	Complete - Apr 16	Low	0	1	5	
- Risk management		11	11	Complete - Jun 16	n/a	n/a	n/a	n/a	Summary progress report - no formal audit opinion
- IT access control management		1	1	Complete - Jun 16	Medium	0	1	6	
- Industrial estates		15	15	Complete - Jun 16	High	0	0	1	
- Protection of Vulnerable Adults (POVA)		12	12	Complete - Jun 16	Medium	0	0	3	
- Direct payments / supported budgets		1	1	Complete					Ongoing advice to Community Support Services
- Community living schemes		22	22	Complete					
- Parking services		32	32	Complete - Aug 16	High Med	0	0	8	Separate assurance ratings for partnership and parking operations
- Community enforcement		8	8	Complete - Jun 16	Medium	0	0	9	
- Housing enforcement		21	21	Complete - Jun 16	High	0	0	2	

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	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
- Schools IT & information management		8	8	Complete - Sep 16	Low	0	0	6	
Rhyl Cash Office		1	1	Complete - Apr 16	Medium	0	0	4	
GwE		9	9	Draft report					Delays in agreeing draft report - consultancy project
Ruthin Craft Centre		1	1	Complete - Apr 16	Medium	0	0	4	
Management of Voluntary School Funds		1	1	Complete - May 16	Low	0	0	8	
2016/17 Corporate & Service Assurance									
Corporate petty cash accounts	0	2	5	In progress					
Cash receipting processes	60	67	67	Complete					Consultancy on project to modernise service
Voluntary School Fund management	5	7	8	In progress					Development of guidance for schools
Recoupment, Out of County Placement & Additional Learning Needs	8	8	8	Postponed					Project postponed to reduce plan days to account for maternity leave
Payments to external providers - Community Support Services	20	21	21	Complete - Oct 16	Medium	0	0	2	

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	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 allocations & voids	35	37	37	Complete - Nov 16	Medium	0	0	5	
Rhyl Harbour	25	28	28	Complete - Nov 16	Medium	0	0	4	
Procurement	20	49	50	Draft report					
Flood risk management	3	3	3	Complete					Review of risk only - no formal report
Public transport	30	38	38	Complete - Oct 16	Medium	0	0	5	
Registrars	15	0	0	Not started					Project will be completed in 2017/18 after service relocates
Early Departures	15	24	24	Complete					No report - feedback on improvement areas provided
Building control	6	6	6	Complete					Consultancy advice on proposals to review service
Sub-totals	867	854	916						
Contracted Work									
North Wales Police	200	207	208	In progress					Final year of contract
School Funds	30	20	22	In progress					Fewer requests for school fund audits

Internal Audit Assurance Plan Areas of Work	Revised Plan Days	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
Sub-totals	230	227	230						
Corporate Support									
Corporate Governance Framework	12	5	12						
Consultancy & corporate areas	41	53	55						
Sub-totals	53	58	67						
IA Support & Management									
Team Meetings / 1:1s	47	40	45						
Management	53	46	50						
Training & development	50	51	50						
Sub-totals	150	137	145						
Grand Totals	1300	1276	1358						

Internal Audit performance standards

27. Internal Audit measures its performance in two key areas:

- Provision of 'Statutory Assurance' – These projects ensure that the Council delivers its statutory obligations so that the Head of Internal Audit can provide an opinion on governance, risk management and internal control in the Internal Audit Annual Report.
- 'Customer Standards' – A range of indicators to ensure that Internal Audit delivers a good service to its customers.

28. The table below shows Internal Audit's performance to date for 2016/17.

Review of agreed Statutory Assurance areas in Assurance Plan by 31/03/17

Target 100% – 63% – revised target – 94%

Contact customers at least 2 weeks in advance to arrange a date for our visit

Target 100% – Current performance 100%

Send customers the agreed Project Scoping Document before we commence work

Target 100% – Current performance 100%

Send the customer a draft report within 10 working days of the closing meeting

Target 90% – – Current performance 100%

Send the customer our final audit report within 5 working days of draft agreement

Target 90% – Current performance 100%

Report To: Corporate Governance Committee
Date of Meeting: 22 March 2017
Lead Member / Officer: Ivan Butler – Head of Internal Audit
Report Author: Ivan Butler – Head of Internal Audit
Title: Internal Audit Strategy 2017-18

- 1. What is the report about?**
This report presents the Internal Audit Strategy for 2017-18.
- 2. What is the reason for making this report?**
The Corporate Governance Committee's terms of reference require it to consider the Internal Audit planning strategy.
- 3. What are the Recommendations?**
The Committee considers and comments on the Internal Audit Strategy 2017-18.
- 4. Report details**
Full details are provided in the attached Strategy.
- 5. How does the decision contribute to the Corporate Priorities?**
Not applicable - there is no decision required with this report.
- 6. What will it cost and how will it affect other services?**
Not applicable - there is no decision required with this report.
- 7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision? The completed EqIA template should be attached as an appendix to the report**
Not applicable - there is no decision required with this report.
- 8. What consultations have been carried out with Scrutiny and others?**
Not applicable - there is no decision required with this report.
- 9. Chief Finance Officer Statement**
Not applicable - there is no decision required with this report.
- 10. What risks are there and is there anything we can do to reduce them?**
Not applicable - there is no decision required with this report.
- 11. Power to make the Decision**
Not applicable - there is no decision required with this report.

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

Internal Audit Strategy 2017-18

March 2017



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Introduction

1. The Internal Audit Service is an independent and objective internal team that provides assurance and advice to all levels of management and elected members on the quality of operations within the Council. We particularly focus on governance, risk management, performance, improvement, efficiency, and operational and financial control.
2. The service operates to the Public Sector Internal Audit Standards (PSIAS), which defines internal auditing as:

PSIAS definition of internal auditing...

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3. An important aspect of internal auditing is the extent to which it helps the organisation to achieve its objectives and improve. This means that the internal audit plan and the work of internal audit must focus on the things that matter to the organisation, and the opinions and improvement suggestions that internal audit provide must help the organisation and be valued by stakeholders.
4. The service's objectives are therefore as follows:

Internal Audit's objectives...

Provide independent assurance and advice to management and elected members on risk management, governance and internal control.

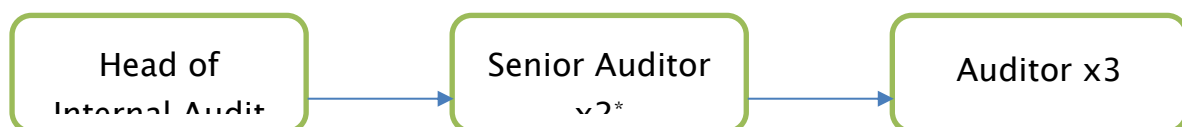
Develop and promote our role to make a significant contribution to the Council's aim to modernise and deliver efficiencies and improve services for our customers.

Add value in all areas of our work, providing excellent service to our customers.

Service structure and capacity

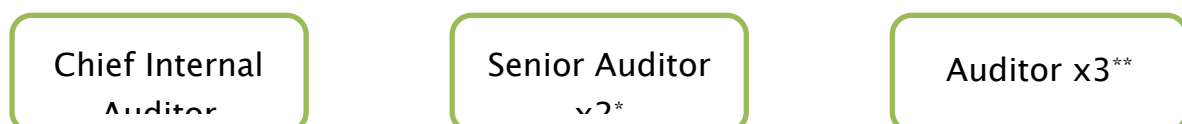
5. The Internal Audit Service has undergone significant change in recent years and this will continue during 2017–18. The Head of Internal Audit (HIA) retires at the end of May 2017 but a replacement has already been appointed to allow for business continuity and handover to be managed efficiently and effectively. The new post is entitled Chief Internal Auditor (CIA).
6. A further change during the year is the retirement of one of the Auditors in October, which will leave the service with six full-time equivalent (FTE) members of staff. It is considered that this is the optimum number to allow the new CIA to provide a robust opinion in the Internal Audit Annual Report, while delivering a cost-effective service.
7. One further complication for 2017–18 is that two of three Senior Auditors are on maternity leave for part of the year. One of these Senior Auditors has been appointed as the new CIA and returns to work in July 2017 but the other Senior Auditor will be on maternity leave for most of the financial year.
8. To cover this absence, one of the service's Auditors is currently 'acting up' in a Senior Auditor role until 31 December 2017 and a temporary replacement will be sought to provide cover for that Auditor role.
9. The organisation charts below show the structure to take account of the above changes and the planned structure for the future.

Structure to 29/05/17



*One Auditor acting up as Senior Auditor while two Senior Auditors on maternity leave

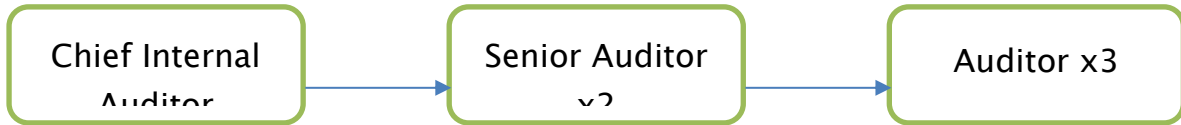
Structure from 01/06/17





*One Auditor acting up as Senior Auditor while one Senior Auditor on maternity leave
**One Auditor appointed to provide cover during maternity leave period

Future Planned Structure



External assessment of the Internal Audit Service

10. PSIAS 1312 states that “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The CAE [Chief Audit Executive, which is Denbighshire’s case is currently the HIA] must discuss with the board:
 - The form and frequency of external assessments.
 - The qualifications and independence of the assessor or assessment team, including any potential conflict of interest.”
11. This external assessment must be completed by 31 March 2018. The Welsh Chief Auditors Group has arranged for these assessments to be carried out through peer review by local authority internal audit services. Denbighshire’s assessment will be carried out by Gwynedd County Council’s internal audit service during 2017–18.
12. The HIA carried out a self–assessment two years ago but this needs to be updated before the external assessment is carried out. The results of the external assessment will be reported to the Corporate Governance Committee, which will also monitor implementation of any resulting improvement plan.

Assurance planning

13. There are various requirements of PSIAS to be satisfied when carrying out the planning of internal audit's work:
- PSIAS 2010 – “The CAE must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals.”
 - PSIAS 2120 – “The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.”
 - PSIAS 2120 – “The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.”
 - PSIAS 2130 – “The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.”
14. The HIA has developed a Corporate Assurance Map that includes all of the Council's activities and the assurance that is provided by Internal Audit and other assurance sources for those activities. The process includes a weighted audit risk scoring mechanism that allows the HIA to develop an audit risk score for each activity so that the Internal Audit Service can focus on those areas of greatest priority. The assurance mapping process also ensures that any assurance gaps are filled and that there is not 'over-assurance' in any activity.
15. The HIA met with all service management teams prior to developing this Strategy to discuss the assurance mapping process and its results. Services were therefore able to feed into the process and prioritise audit reviews of their own, which allows Internal Audit to add value to these services. One of the aims of Internal Audit is to help services to improve, so it is possible that some of these reviews will not be traditional audits and may take the form of consultancy projects. If that is the case, the resulting report will make it clear that this is not an audit and will not contain an audit opinion in the usual way.

16. The HIA may also provide assurance to other organisations that work in partnership with the Council if the Internal Audit Service has carried out work in that area of service, particularly if the other organisation is the lead partner.

Internal Audit's priorities for 2017-18

17. Historically, the assurance planning process in Denbighshire has led to an agreed annual audit plan, which is then developed into an annual plan of work by month. This means that the HIA was predicting the audit reviews that needed to be undertaken a year in advance, which in an ever-changing environment is no longer appropriate.
18. To allow the Internal Audit Service to provide a more flexible approach to internal auditing to take account of changes in the organisation, the HIA has developed a new 'organic' planning approach. This approach means that the Corporate Assurance Map will be updated regularly and the new CIA will meet with service management teams three or four times a year to discuss their latest risks, concerns, requirements etc. In this way, Internal Audit will be fully up to date with, and aware of, emerging issues and will be able to focus its resources in areas of greatest priority and risk at that time. The HIA has discussed this approach with services during his recent visits and all services welcomed the new approach and the improved customer service and focus that this will provide.
19. This 'organic' planning approach means that, rather than have a traditional annual audit plan, the Internal Audit Service will operate a 'pot' of projects that have the highest audit risk score, which may change during the year following the CIA's visits to service management teams. Therefore, this Strategy does not provide a definitive list of the projects that will be carried out during 2017-18 but provides the latest 'pot' of projects that have been identified as the main priorities at the moment. Once the Council's new corporate priorities have been agreed, these will also be fed into the Corporate Assurance Map as priority areas for Internal Audit review.
20. Also, the traditional planning approach included an estimate of the number of days that would be spent on each project but this would often change during the year once work started, so had no real benefit at the initial planning stage. The new approach means that no indicative days are shown at present, but will be agreed with services once the first project scoping meeting takes place and Internal Audit knows exactly what the project will entail.

21. The following list shows the current ‘pot’ of projects that has been agreed between the current HIA and each service. Some of these projects were included in 2016–17’s plan but we have been unable to complete them due to changing capacity. We will therefore prioritise these in 2017–18.
22. Corporate Governance Committee will continue to receive a regular progress update on Internal Audit work actually undertaken, which will in future include a list of upcoming work from the current ‘pot’ of projects.

Current Priority Projects for 2017-18

Audit Project	Reason for Priority
Modernising the Council to deliver efficiencies and improve services for our customers	Current corporate priority area. IA review planned for 2016–17 but unable to complete due to changing capacity.
Review of corporate risks in the Corporate Risk Register (those risks not covered during other IA reviews during the year)	IA is required to report on how the Council manages its risks each year as part of the HIA’s annual report and for the Annual Governance Statement.
Highways asset management – Improving our roads	Current corporate priority area. IA review planned for 2016–17 but unable to complete due to changing capacity.
Records management	Service manager request for review of corporate records management and retention.
Corporate communications	A key corporate area that has not been audited previously and is important in 2017/18 with elected member elections and new corporate priorities.
Additional Learning Needs and inclusion, recoument and out of county placement, special education	IA review planned for 2016–17 but unable to complete due to changing capacity. Head of service has requested review to be prioritised for 2017–18.
Effective governance in schools	Head of service request for a review of how well school governing bodies manage investigations and complaints.

Audit Project	Reason for Priority
Catering services	Head of service request for a review of entire catering service to ensure that it is efficient, effective and adopting modern methods.
Employee relations and settlement agreements	Service manager request for a review of how robust the Council's and schools' procedures are to prevent disputes, complaints, grievances etc. that may lead to tribunals and/or settlement agreements.
Housing tenancy fraud	Specific fraud-related project to ensure that the Council has robust controls to avoid sub-letting of its properties and to detect whether this is happening.
Citizens Advice Bureau	Review of governance arrangements to ensure that they are robust and the Council is not at risk.
Public conveniences	Head of service request for review of service that has previously been an area where fraud has been committed to ensure that controls are robust.
Travel & subsistence	Review of the new electronic expenses claim process to ensure that controls are effective and that the project roll-out is being managed effectively
Business Support Grants	Service manager request for a review of the system for managing business support grants within Economic & Business Development.
Welsh Government Highways Grants	Service manager request for a review of the system for managing highways grants within Traffic & Parking Services
Revenues Services	Annual review of Council Tax, NNDR, Benefits, Sundry Debtors etc. within the terms of the Civica contract.
Registrars	Head of service request for review of service once it has moved to its new office location to ensure that it is effective and efficient.
CCTV Partnership	Head of service review of new partnership arrangements to ensure that they are robust and the Council is not at risk.

Audit Project	Reason for Priority
Financial services assurance	Annual review of payroll, accounts payable, treasury management etc. to provide S151 Officer assurance.
Project, performance and risk management	Review of the use of the corporate Verto system for key corporate areas of operation.
Cashiers / income / banking controls etc.	Head of service request for continued work on the changes being made to the Rhyl Cash office operations.
Business continuity / disaster recovery	Review of progress on new corporate business continuity and emergency planning arrangements to ensure that critical Council services will continue to be delivered effectively in an emergency situation.
Financial management in schools	Head of service request for a review of central processes in place to manage situations when schools face financial difficulties.
Corporate procurement	<p>Three separate projects in partnership with Flintshire County Council's (FCC) Internal Audit Service to look at:</p> <ul style="list-style-type: none"> - aggregate spend with contractors - collaborative procurement working arrangements with FCC - management and monitoring of contracts
School transport	Agreed with service management team to carry out a corporate review to include Education, Transport and Licensing to ensure that the Council has a robust and efficient approach to school transport.
Project management	<p>Review of specific capital projects to ensure that there is robust project management in place:</p> <p>Ongoing review of two projects from 2016-17:</p> <ul style="list-style-type: none"> - Ruthin Town: Glasdir Development - Relocation of Ysgol Pen Barras & Rhos Street School - Ruthin Area Review - New Area School for Ysgol Carreg Emlyn <p>Plus one new project:</p> <ul style="list-style-type: none"> - Rhyl Waterfront Development

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Internal Audit performance monitoring

23. Internal Audit will operate two sets of performance measures from 1 April 2017 to measure its customer service and its efficiency and effectiveness in following up action plans and ensuring that agreed improvement is delivered by services following an internal audit review.

Customer Service Standard	Target
Internal Audit will contact services at least 2 weeks in advance to arrange a suitable date for its visit.	100%
Internal Audit will discuss, agree and send services the Internal Audit Project Scoping Document before it commences work.	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 within 10 working days of that meeting.	90%
Internal Audit will issue a final audit report within 5 working days of agreeing the report and its action plan with services.	90%

Follow Up Action Plans & Service Improvement	Target
Internal Audit will carry out its follow up projects on the due dates to ensure that agreed service improvements are being implemented promptly.	80%
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%

Corporate Governance Committee Forward Work Programme

21 JUNE 2017			
		Standing Items	
	1	Issues Referred by Scrutiny Committees (if any)	Scrutiny Coordinator – Rhian Evans
	2	Recent External Regulatory Reports Received (if any)	Head of Business, Planning and Performance – Alan Smith, Nicola Kneale
	3	Internal Audit Update	Head of Internal Audit – Ivan Butler
	4	Forward Work Programme	Democratic Services
		Reports	
	5	Fleet Management	Head of Internal Audit – Ivan Butler
	6	Domiciliary Care Services Actions Update	Head of Community Support Services – Phil Gilroy
	7	Corporate Safeguarding Progress Report	Corporate Director Communities – Nicola Stubbins / Head of Internal Audit – Ivan Butler
	8	Loggerheads Car Park Project	Head of Highways & Environmental Services- Tony Ward
19 JULY 2017			
		Standing Items	
	1	Issues Referred by Scrutiny Committees (if any)	Scrutiny Coordinator / Rhian Evans
	2	Recent External Regulatory Reports Received (if any)	Head of Business, Planning and Performance – Alan Smith, Nicola Kneale
	3	Internal Audit Update	Head of Internal Audit – Ivan Butler
	4	Forward Work Programme	Democratic Services
		Reports	
27 SEPT 2017			
		Standing Items	
	1	Issues Referred by Scrutiny Committees (if any)	Scrutiny Coordinator – Rhian Evans
	2	Recent External Regulatory Reports Received (if any)	Head of Business, Planning and Performance – Alan Smith, Nicola Kneale

Corporate Governance Committee Forward Work Programme

	3	Internal Audit Update	Head of Internal Audit – Ivan Butler
	4	Forward Work Programme	Democratic Services
		Reports	
	5	Information Management and IT Management in Schools <i>Progress report requested at meeting held on 25 January 2017</i>	Head of Education and Children’s Services (Karen Evans) and Principal Education Manager (Geraint Davies)
29 NOV 2017		Standing Items	
	1	Issues Referred by Scrutiny Committees (if any)	Scrutiny Coordinator – Rhian Evans
	2	Recent External Regulatory Reports Received (if any)	Head of Business, Planning and Performance - Alan Smith, Nicola Kneale
	3	Internal Audit Update	Head of Internal Audit – Ivan Butler
	4	Forward Work Programme	Democratic Services
		Reports	
	1	School Finance Regulations <i>Progress report requested at meeting held on 25 January 2017</i>	Head of Finance - Richard Weigh

NB The exact date of publication of occasional reports by for example Wales Audit Office or Annual Reports by the Ombudsman are not presently known. They will be assigned a meeting date as soon as practicable.

Corporate Governance Committee Forward Work Programme

Revised 10.03.2017 SJ

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