

To: Members of the Corporate
Governance and Audit Committee

Date: 12 March 2020

Direct Dial: 01824706204

e-mail: democratic@denbighshire.gov.uk

Dear Councillor

You are invited to attend a meeting of the **CORPORATE GOVERNANCE AND AUDIT COMMITTEE** to be held at **9.30 am** on **WEDNESDAY, 18 MARCH 2020** in **MEETING ROOM 4, 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 DECLARATION OF INTERESTS (Pages 5 - 6)

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 7 - 14)

To receive the minutes of the Corporate Governance Committee meeting held on 22 January 2020 (copy enclosed).

5 INTERNAL AUDIT STRATEGY AND CHARTER (Pages 15 - 42)

To consider a report by the Chief internal Officer (copy enclosed) providing the committee with the Internal Audit Charter and Strategy for 2020-21.

6 ANNUAL AUDIT LETTER (Pages 43 - 50)

To receive for information the Annual Audit Letter for Denbighshire County Council 2019-2020, from Wales Audit Office (copy enclosed).

7 INTERNAL AUDIT CONTRACT MANAGEMENT (Pages 51 - 68)

To consider a report by the Chief internal Officer (copy enclosed) providing details of a recent Internal Audit report on Contract Management.

8 INFORMATION REPORT - FINANCIAL SUSTAINABILITY ASSESSMENT
(Pages 69 - 84)

A report for information from the Welsh Audit Office on the Financial Sustainability Assessment (Copy enclosed).

9 CORPORATE GOVERNANCE COMMITTEE WORK PROGRAMME (Pages 85 - 88)

To consider the committee's forward work programme (copy enclosed).

PART 2 - CONFIDENTIAL ITEMS

It is recommended in accordance with Section 100A(4) of the Local Government Act 1972, that the Press and Public be excluded from the meeting during consideration of the following item(s) of business because it is likely that exempt information (as defined in paragraph 13 of Part 4 of Schedule 12A of the Act) would be disclosed.

10 ANNUAL REPORT ON WHISTLE BLOWING (Pages 89 - 114)

To consider a report by the Head of Legal, HR and Democratic Services (copy enclosed) to inform Members of activities in respect of the Whistleblowing Policy.

MEMBERSHIP

Councillors

Mabon ap Gwynfor
Tony Flynn
Martyn Holland

Alan James
Barry Mellor
Joe Welch

Lay Member

Paul Whitham

COPIES TO:

All Councillors for information
Press and Libraries
Town and Community Councils

This page is intentionally left blank

LOCAL GOVERNMENT ACT 2000

Code of Conduct for Members

DISCLOSURE AND REGISTRATION OF INTERESTS

I, *(name)*

a *member/co-opted member of

*(*please delete as appropriate)*

Denbighshire County Council

CONFIRM that I have declared a ***personal / personal and prejudicial** interest not previously declared in accordance with the provisions of Part III of the Council's Code of Conduct for Members, in respect of the following:-

*(*please delete as appropriate)*

Date of Disclosure:

Committee *(please specify)*:

Agenda Item No.

Subject Matter:

Nature of Interest:

*(See the note below)**

Signed

Date

*Note: Please provide sufficient detail e.g. 'I am the owner of land adjacent to the application for planning permission made by Mr Jones', or 'My husband / wife is an employee of the company which has made an application for financial assistance'.

This page is intentionally left blank

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Minutes of a meeting of the Corporate Governance and Audit Committee held in Council Chamber, County Hall, Ruthin on Wednesday, 22 January 2020 at 9.30 am.

PRESENT

Councillors Tony Flynn, Martyn Holland (Vice-Chair), Alan James, Barry Mellor (Chair) and Joe Welch

Councillor Julian Thompson Hill, Lead Member for Finance, Performance and Strategic Assets was in attendance.

ALSO PRESENT

Legal Services Manager (LJ), Head of Finance and Property Services (Section 151 Officer) (SG), Chief Internal Auditor (LL), Auditor (IG), Lead Officer - Community Housing (GD), Legal and Procurement Operations Manager (HM), Wales Audit Officer (ME) and Committee Administrator (RTJ)

1 APOLOGIES

Apologies were received from lay member Paul Whittham.

2 DECLARATION OF INTERESTS

No declarations of interest had been raised.

3 URGENT MATTERS

No urgent matters had been raised.

4 MINUTES

The minutes of the Corporate Governance and Audit Committee meeting held on 20 November 2019 were submitted.

Matters Arising:

- Concerns which were raised with the lack of statistics from social services included in the Care Inspectorate Wales - Local Authority Performance Review were noted in the minutes.

RESOLVED that the minutes of Corporate Governance and Audit Committee meeting held on the 20 November 2019 be approved as a correct record.

5 INTERNAL AUDIT UPDATE

The Chief Internal Auditor (CIA), introduced the Internal Audit update report (previously circulated) updating members on the Internal Audit 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. The CIA guided members through the reports which provided an update as of the 31 December 2019:

- Internal audit reports recently issued;
- Payment card industry – data security standards (PCI DSS)
- General data protection regulations (GDPR) in Schools
- Traffic Regulation Orders
- Single Access Route to Housing (SARTH)
- Waste and Recycling Proposal Housing Tenancy
- Office Accommodation

Both the Payment card industry – data security standards (PCI DSS) and Housing Tenancy would be discussed later in the meeting.

- General data protection regulations (GDPR) in school - it was stated that since the last meeting e-learning training completion numbers had increased from 56% to 76%. Members commended the increase however felt that it would be beneficial for school governors to be aware of procedures and possibly have their own training.
- Traffic Regulation Orders (TRO) - members queried whether there could be more done in areas of Rhyl where the public either parked on double yellow lines or on the curbs. It was stated that work was being carried out however the capacity within the highways team caused issues. It was advised that Legal had offered to work alongside highways. The committee understood the issue was nationwide however queried whether Denbighshire was performing better than surrounding authorities, officers responded stating that it was similar across the counties.
- The Waste and Recycling Proposal – the project was at an early stage therefore assurance could not be given. Members were supportive of an audit to be carried out and the work scrutinised due to the climate emergency.
- Single Access Route to Housing (SARTH) - it was stated that there were good partnership arrangements between Flintshire and Denbighshire. However current arrangements needed to be more robust to ensure that the partnership continued to add value for partners and provided effective service to customers. Members queried where the contact centre for SARTH was located, members were informed the contact number was a Denbighshire number however the queries would be directed to a Flintshire office to deal with any queries.
- Office accommodation, the climate impact of each office was being monitored. A pilot case study had been carried out in Russell House revealed that savings and carbon emissions reductions could be achieved when staff were encouraged to switch off lights and turn off docking stations when they were no longer in use, and to leave thermostats as they have been set. There was a corporate Climate and Ecological Emergency Task

and Finish Group set up which aimed to raise staff awareness and to encourage staff to change their behaviour.

- County Hall had significant spare capacity and work was ongoing to see how this space can be used. The Asset Management Group met regularly to discuss and make decisions regarding the property portfolio.

RESOLVED that the Corporate Governance and Audit Committee receive the Internal Audit update report and note its contents.

6 INTERNAL AUDIT OF HOUSING TENANCY

The Chief Internal Auditor (CIA) introduced the Internal Audit of Housing Tenancy report (previously circulated) alongside the Lead Officer - Community Housing (LOCH).

The report provided details of a recent Internal Audit report of Housing Tenancy that received a 'Low' assurance rating. The scope of the audit which was carried out focused on data validity checks, policies and procedures, subletting and lodgers, and tenancy misuse. Within the review the issues which were highlighted were relating to system data inaccuracies and absence of tenancy audits to check that the terms of tenancy agreements were being met e.g. legitimate persons were living at the property with no unauthorised subletting or lodgers. During the review, the service confirmed that tenancy audits were due to commence and were in the process of being rolled out.

Procedures and guidelines around tenants verification checks, subletting, lodgers and tenancy misuse and potential tenancy fraud required development to ensure that a consistent process was applied. It was also outlined that whilst Housing staff reviewed National Fraud Initiative matches, there was little information sharing outside of this to assist with prevention and detection of fraud. Also, a more coordinated approach across different housing sections was needed to ensure that all key information relating to tenants and occupants were recorded to ensure that tenancy information was kept up-to-date and any potential misuse was addressed.

The following points were discussed further –

- Since the audit had been carried out a new IT system was being implemented, and it was assured that the information which was held would be kept up to date, and accurate.
- The visitation to tenants had proved difficult as some tenants were in occupation for several years and would not like any disturbances, it was also highlighted that unless there was legal cause to evict someone, they could only leave if they wished to. There would also be contact with the residents hopefully once a year.
- The matter of fraud was outlined, and it was clarified that there was a good community communication with the Council and if something seemed incorrect local residents would report the matter. Another method which was being rolled out was to ensure that tenants would supply photographic identification which ensure the identity of the tenant.

Members queried the following points with officers –

- Members commended the work which had been carried out since the audit, however as corporate landlords stated that the Council should ensure that the correct tenants reside in the houses.
- It was queried whether the photographic images of the tenants would be GDPR compliant. Members were informed that the taking images of the tenants were compliant and other Housing Associations used the practice.
- It was queried whether tenants would have to inform the Council if they had lodgers in the house with them. Responding members were informed that it was legal for tenants to have lodgers as long as the tenant lived in the house as well.
- Checks through systems and other agencies was queried. It was clarified that the National Fraud Initiative was used however with GDPR sharing information between agencies was not prohibited.
- It was queried whether the Housing team have good communication with local elected members, as they had a good understanding of the wards and the people. Communication would be carried out with local members.
- Members were informed that the Housing team had a good working relationship with the local Police.

RESOLVED –

- (i) That the Corporate Governance and Audit Committee note the audit on the Internal Audit of Housing Tenancy*
- (ii) A follow up report be returned to the Corporate Governance and Audit Committee in September 2020.*

At this juncture there was a break 11:20am.

The meeting resumed at 11:35am

7 INTERNAL AUDIT OF PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS (PCI-DSS)

The Chief Internal Auditor (CIA) introduced the Internal Audit of Payment Card Industry Data Security Standards (PCI-DSS) (previously circulated).

The report provided members with details on the recent Internal Audit report of PCI-DSS that received a 'Low' assurance rating. The review which was carried out of the PCI-DSS was to check compliance with the information security standard for handling credit or debit card payments. While compliance was not a legal requirement, card merchants and software suppliers often ask for compliance as part of their contractual agreements.

The review focused on: roles and responsibilities, policy and procedures, training, payment card environment, processing card payment data, third party processor compliance and compliance testing and self-assessment. The review highlighted issues relating to the lack of a programme or strategy to ensure compliance with the PCI-DSS. Training was inconsistent across services and awareness of proper

practices was weak in some areas due in part to the absence of corporate policy or procedures to direct consistency.

The council has various agreements with card providers making the card payment environment more complex than it needed to be and therefore difficult to manage and demonstrate value for money. Also, PCI-DSS compliance was not considered as part of some historic procurement and contractual agreements with suppliers that take card payments on behalf of the council. As a result, some contracts do not state that compliance with the standards was required. It was stated that cooperation across all services was required to drive the necessary improvement and so the results of this review has been reported to the Information Governance Group and to the Senior Leadership Team to obtain their backing.

The following points were discussed in detail –

- The card systems which were used in leisure centres were queried and whether the Alternative Delivery Model (ADM) would be compliant with the PCI-DSS. Members were informed that the ADM would be required to comply with the PCI-DSS.
- Members commended that a task and finish group would be set up to implement the changes required.
- Member queried the deadlines within the action plan and queried whether the matter would be dealt with by the deadlines. Members were informed that the first steps to deal with the matter would be created by the end of March.
- Members queried whether there would be any cost savings with complying with the PCI-DSS. Officers responding stating that there were uncertainties with the procedures so whether there would be any savings was unknown.

RESOLVED that

- (i) That the Corporate Governance and Audit Committee note the audit on the Internal Audit of Payment Card Industry Data Security Standards (PCI-DSS)*
- (ii) A follow up report be returned to the Corporate Governance and Audit Committee, either in September*

8 ANNUAL TREASURY MANAGEMENT STRATEGY

The Lead Member for Finance, Performance and Strategic Assets presented the Treasury Management Strategy Statement (TMSS) 2020/21 and Prudential Indicators 2020/21 to 2022/23 (previously circulated) alongside the Head of Finance and Property Services (Section 151 Officer).

The report was split into two sections, these covered the Treasury Management Strategy Statement (TMSS) 2020/21 and Prudential Indicators 2020/21 to 2022/23 as well as the Treasury Management (TM) Update Report 2019/20. The committee were reminded that the Council was responsible for its Treasury Management decisions and activity which involved looking after the Council's cash. This was a vital part of the Council's work because approximately £0.5bn passes through the Council's accounts every year. The CIPFA Code of Practice on Treasury Management requires the Authority to approve a treasury management strategy

statement (TMSS) before the start of each financial year. The report was being discussed in Corporate Governance prior to the report being debated in full Council on the 25th February

Members queried the following points –

- The flood defences in Rhyl were discussed by members were informed that the amount which was borrowed to enable work to be carried out, would be repaid by the Welsh Government.
- Members raised concerns with the risk involved with large projects. They were reassured that projects were monitored regularly through the Finance reports which were discussed monthly in Cabinet.
- The 21st Century School project would be grant funded.
- With the increasing risk and very low returns from short-term unsecured bank investments, the Council would continue to hold a minimal amount of investments for short-term cash flow purposes and would continue to place a far greater emphasis on investing with the UK Government's Debt Management Office and other local authorities in order to minimise these risks.
- Approaching challenges were known such as Ash Dieback and the appropriate measures would be taken to deal with the matters as they arise. These issues would likely be dealt with using Capital and investments.

RESOLVED that

- (i) That the Corporate Governance and Audit Committee review and note the Treasury Management Strategy Statement for 2020/21 and the Prudential Indicators for 2020/21, 2021/22 and 2022/23.*
- (ii) That the Corporate Governance and Audit Committee note the Treasury Management Update Report 2019/20*
- (iii) The Corporate Governance and Audit Committee has read, understood and taken account of the Well-being Impact Assessment.*

9 ANNUAL REVIEW COLLABORATIVE PROCUREMENT SERVICE

The Legal and Procurement Operations Manager introduced the Annual Review Collaborative Procurement Service report (previously circulated).

The report detailed how the Council has a collaborative procurement service with Flintshire County Council. Denbighshire County Council acts as the host authority and provided the service to Flintshire County Council. The Service had been in place since 2014 and Cabinet agreed to renew the Service Level Agreement (SLA) in 2019 for a further 3 years. The SLA established a Procurement Joint Management Board (PJMB) consisting of senior officers and the Cabinet Member from each Council. The PJMB holds the Service to account, monitors performance and resolves issues relating to the delivery of the Service.

The SLA states that the Councils would split the costs based on their share of the combined overall spend of both Councils. Spending would vary from year to year depending on capital projects but the Council broadly spends 45% and so its share

of the running costs was 45%. The report covered all aspects of the service such as budget and structure, as well as performance against its Key Performance Indicators. The trends noted that over 60% of procurements for quarters 1 to 3 of 2019 have delivered savings on the existing budget. There was still improvement to be made on the number of collaborative procurements, with only an average of 13 % of procurements being carried out collaboratively.

The number of contracts including community benefits dipped in quarter 3. It was anticipated that with the Community Benefits Hub and the appointment of a Community Benefits Manager, there would be an increase in the number and type of Community Benefits delivered by contracts.

The following points were discussed in further detail –

- The committee highlighted that Lay Member Paul Whitham could not attend the meeting however he suggested that the matter be discussed in either Partnerships or Performance Scrutiny Committee alongside being discussed in Corporate Governance. Members agreed the matter be discussed in Scrutiny chairs and vice chairs to decide which scrutiny would be best for the matter to be discussed.
- Officers agreed with members that the matter would benefit from being discussed in a Scrutiny committee and the governance aspect of the Collaborative Procurement Service be discussed annually in the Corporate Governance and Audit Committee.

RESOLVED that

- (i) The Corporate Governance and Audit Committee note the report and endorse the proposed actions to improve performance*
- (ii) The committee refer the annual performance report be sent to Scrutiny chairs and vice chairs for the report be sent to the appropriate scrutiny committee.*

10 CORPORATE GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

The Corporate Governance and Audit committee's Forward Work Programme (FWP) was presented for consideration (previously circulated).

18 March 2020 –

- The committee agreed that the meeting had a lot of items to be discussed and agreed for the following items to be moved –
 - Section 106 Audit Follow up Report and the Support Budgets and Direct Payments Audit Follow up Report to be discussed in April.
- The Head of Finance and Property Services (Section 151 Officer) suggested that the finance items could be moved to a later meeting.
- Two items were agreed to be included which were the Annual Audit Letter by the Wales Audit Office. The Internal Audit Contract Management was also agreed to be included for the 18 March meeting.

RESOLVED – that, subject to the above, the Corporate Governance and Audit committee approves the Forward Work Programme.

| | |
|------------------------------|---|
| Report to | Corporate Governance & Audit Committee |
| Date of meeting | 18 March 2020 |
| Lead Member / Officer | Lisa Lovegrove – Chief Internal Auditor |
| Report author | Lisa Lovegrove – Chief Internal Auditor |
| Title | Internal Audit Charter & Strategy 2020-21 |

1. What is the report about?

This report provides the Committee with the Internal Audit Charter and Strategy for 2020-21. The Charter defines Internal Audit’s purpose, authority and responsibility in line with the Public Sector Internal Audit Standards. The Strategy provides details of the proposed Internal Audit projects for the year that will allow the Chief Internal Auditor to provide an ‘opinion’ on the adequacy and effectiveness of the Council’s framework of governance, risk and control during the year

2. What is the reason for making this report?

Local Authorities subject to the Account and Audit (Wales) Regulations must maintain an adequate and effective system of internal audit of its accounting records and of its system of internal controls. The Charter has been updated to capture recent changes relating to the Chief Internal Auditor undertaking temporary responsibility for the Project Management Team. In accordance with the Public Sector Internal Audit Standards (PSIAS), safeguards have been put in place to maintain Internal Auditors’ independence and objectivity.

The Strategy contains a risk-based internal audit plan that takes into account the PSIAS requirement to deliver an annual internal audit opinion and report that the organisation can use to inform its governance statement. This Committee’s terms of reference require it to consider internal audit’s plans.

3. What are the Recommendations?

The Committee approves the Internal Audit Charter (Appendix 1) and the Internal Audit Strategy 2020-21 (Appendix 2)

4. Report details

The main changes to the Internal Audit Charter in Appendix 1 are included in the 'Positioning & Reporting Lines' section as follows:

- The Chief Internal Auditor will ensure that the Internal Audit service remains free from all conditions that threaten the ability of Internal Auditors to perform their work in an unbiased manner.
- The Chief Internal Auditor has recently taken on a temporary role to manage the Project Management Team that sits within the Business Improvement & Modernisation Service. In order to maintain the independence of the Internal Audit service, the Senior Auditors will undertake responsibility for reviewing audits relating to this team. This will include the matter of audit selection, scope, frequency, timing and report content and the Senior Auditors will report directly to the Section 151 Officer on audits that fall within the responsibility of the Chief Internal Auditor.

The Internal Audit Strategy in Appendix 2 provides background to the internal audit service as well as its proposed plan of work for the year based on an assessment of risk and consultation with services.

The proposed plan of work will allow the Chief Internal Auditor to provide an overall 'opinion' for the annual internal audit report for 2020-21 and inform the Annual Governance Statement. This Committee will receive regular information reports on progress.

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

There is no decision required with this report. There is no direct contribution to the Corporate Priorities, but some projects in the audit plan will review Corporate Priority areas and will provide assurance on their delivery.

6. What will it cost and how will it affect other services?

Not applicable - there is no decision or costs attached to this report.

7. What are the main conclusions of the Well-being Impact Assessment?

This report does not require a decision or proposal for change, so there is no impact on people who share protected characteristics.

8. What consultations have been carried out with Scrutiny and others?

The Chief Internal Auditor has consulted with Corporate Directors, Section 151 Officer, senior management and their management teams and the Wales Audit Office.

9. Chief Finance Officer Statement

There are no financial implications attached to this report.

10. What risks are there and is there anything we can do to reduce them?

Failure to deliver an adequate level of internal audit may mean that the Chief Internal Auditor cannot provide an annual 'opinion' on the adequacy and effectiveness of the Council's framework of governance, risk and control during the year. This would potentially lead to a significant governance issue being raised in the Council's 'annual governance statement' at the end of the financial year.

11. Power to make the decision

Not applicable - there is no decision required with this report.

Internal Audit Charter 2020-21

Internal Audit Charter

Contents

| | |
|--|----|
| Contents | 2 |
| Introduction | 3 |
| Our Purpose | 4 |
| Definition of internal auditing: | 4 |
| Our Mission | 4 |
| Our Objectives | 5 |
| Code of Ethics | 5 |
| Core Principles for the Professional Practice of Internal Auditing | 6 |
| Internal Audit Positioning and Reporting Lines | 7 |
| Authority | 8 |
| Scope of Internal Audit Activity | 8 |
| Resources | 10 |
| Internal Audit Plan | 10 |
| Quality Assurance and Improvement | 11 |
| Internal Assessments | 12 |
| External Assessments | 12 |

Internal Audit Charter

Introduction

This Charter defines the purpose, authority and responsibility of internal audit. The Internal Audit Charter establishes the internal audit activity's position within the Council; authorises access to records; and defines the scope of internal audit activities.

All UK public sector internal audit service providers work to the Public Sector Internal Audit Standards (PSIAS).

The PSIAS use generic terms that, in Denbighshire County Council's case, are translated as:

| PSIAS | DCC |
|-----------------------|--|
| Chief Audit Executive | Chief Internal Auditor |
| Senior Management | Senior Leadership Team (SLT) |
| The Board | Corporate Governance & Audit Committee |

The PSIAS require the Chief Internal Auditor to develop and maintain an up to date Internal Audit Charter to establish:

- Internal Audit's purpose, mission and position within the Council
- The Chief Internal Auditor's functional reporting relationship with the CEO and Corporate Governance & Audit Committee
- Authorisation for Internal Audit to access records, personnel and physical properties relevant to the performance of its work
- The scope of Internal Audit's work, including the nature of its assurance role, consultancy services and its involvement in anti-fraud and corruption work
- Arrangements for resourcing the Internal Audit service
- Arrangements for avoiding conflicts of interest within the Internal Audit service

The Chief Internal Auditor will review the Charter each year and present it to the Corporate Governance & Audit Committee for final approval.

Internal Audit Charter

Our Purpose

The PSIAS include mandatory elements of the Chartered Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF):

- Definition of Internal Auditing
- Core Principles
- Code of Ethics
- International Standards for the Professional Practice of Internal Auditing

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”. *(PSIAS)*

Within the Council, Internal Audit is one of the cornerstones of effective governance. Our annual internal audit opinion and other reports are a key element of the framework of assurance that is used to complete the Annual Governance Statement. We give assurance to elected members and management, highlighting areas for improvement.

Our role is a unique one, providing effective challenge and acting as a catalyst for positive change and continual improvement in governance in all its aspects. Our role is particularly important when the Council is facing uncertain and challenging times.

Our Mission

“To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight” *(PSIAS)*

Internal Audit Charter

Our 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 modernise the Council and deliver efficiencies and improve services for our customers
- Add value in all areas of our work, providing excellent service to our customers

Code of Ethics

All members of the Internal Audit service make an annual declaration that they agree to comply with the IIA Code of Ethics as follows:

| Ethic | Principle |
|------------------------|--|
| Integrity | The integrity of internal auditors establishes trust and this provides the basis for relying on their judgement. |
| Objectivity | Internal auditors demonstrate the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interest or by others in forming judgements. |
| Confidentiality | Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. |
| Competency | Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services. |

In addition, our annual declaration states that we will declare any interests we may have in any services that we review; and have read the PSIAS, Code of Ethics, Council's Code of Conduct for Officers and have due regard to the Nolan Principles of Public Life.

Internal Audit Charter

Core Principles for the Professional Practice of Internal Auditing

Our internal audit approach is underpinned by the following Core Principles:

- Demonstrate integrity
- Demonstrate competence and due professional care
- Is objective and free from undue influence (independent)
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive, and future-focused
- Promotes organisational improvement

In addition, the Chief Internal Auditor will be appropriately experienced and hold a professional qualification (CCAB or CMIIA) and is responsible for:

- Developing an annual internal audit plan based on an understanding of the significant risks to which the Council is exposed.
- Submitting the plan to the Corporate Governance & Audit Committee and Senior Leadership Team for review and agreement.
- Implementing the plan and reporting any amendments that may occur.
- Ensuring compliance with the Standards.
- Developing and maintaining co-operative relationships with management, other internal auditors, external auditors and other review bodies to ensure the most effective audit coverage is achieved.
- Maintaining a professional internal audit team with sufficient knowledge, skills and experience to carry out the plan.
- Providing an annual opinion as to the adequacy and effectiveness of the Council's control environment including any issues which should be considered for inclusion in the Council's Annual Governance Statement.

Internal Audit Charter

Internal Audit Positioning and Reporting Lines

The Chief Internal Auditor has a functional reporting line to the Head of Business Improvement & Modernisation, but also has direct access on internal audit issues to the Council's S151 Officer, the CEO, Cabinet, Corporate Governance & Audit Committee and Scrutiny Committees.

These extended reporting lines provide Internal Audit with sufficient independence of the activities that it reviews to enable our auditors to perform their duties objectively, allowing us to make impartial and effective professional judgements and raise issues for improvement.

The Head of Business Improvement & Modernisation annually appraises the Chief Internal Auditor's performance with input and feedback from the CEO and Chair of the Corporate Governance & Audit Committee. This ensures that the Chief Internal Auditor's opinion and scope of work cannot be limited or affected by his functional line management position within the Council.

Corporate Governance & Audit Committee monitor the effectiveness of Internal Audit's activities. It should be involved in the selection process when/if an internal audit service provider changes, the appointment or termination of the Chief Internal Auditor and in ensuring that internal audit is adequately resourced.

The Chief Internal Auditor will ensure that the Internal Audit service remains free from all conditions that threaten the ability of Internal Auditors to perform their work in an unbiased manner. Internal Auditors have no direct operational responsibilities or authority over any of the activities audited. In the exceptional circumstance where this is required, the approval of the Corporate Governance & Audit Committee will be obtained and safeguards put in place to protect our independence and objectivity.

The Chief Internal Auditor has recently taken on a temporary role to manage the Project Management Team that sits within the Business Improvement & Modernisation Service. In order to maintain the independence of the Internal Audit service, the Senior Auditors will undertake responsibility for reviewing audits relating to this team. This will include the matter of audit selection, scope, frequency, timing and report content and the Senior

Internal Audit Charter

Auditors will report directly to the Section 151 Officer on audits that fall within the responsibility of the Chief Internal Auditor.

Authority

The Council's Financial Regulations stipulate Internal Audit's rights of access, providing the service with authority to:

- Access all Council premises at reasonable times
- Access all assets, records, documents, correspondence and systems
- Receive any information and explanation considered necessary concerning any matter made under consideration
- Require any employee of the Council to account for cash or any other Council asset under his or her control
- Access records belonging to third parties, such as contractors, when required.

The Chief Internal Auditor attends Corporate Governance & Audit Committee and will meet independently with the Chair of Corporate Governance & Audit Committee periodically and has right of access to all Corporate Governance & Audit Committee members.

Scope of Internal Audit Activity

The Internal Audit service is very proactive and innovative, constantly aiming to improve. We have a customer-focused approach to audit planning, project scoping and service delivery, involving elected members, senior management and operational staff.

Our Internal Audit Assurance Plan links closely to the Council's Governance Assurance Framework, taking account of other assurances that the Council may receive, internal or external, to prevent duplication and co-ordinate regulatory work. It also takes account of discussions with senior management.

Our work provides a risk-based approach that allows the Chief Internal Auditor to form and evidence her opinion on the control environment to support the Council's Annual Governance Statement.

Internal Audit Charter

Internal Audit is not responsible for managing the risk of fraud – this lies with the Council’s senior management. Internal Auditors have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the Council, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

The Council’s Financial Regulations and investigation procedures require managers to inform the Chief Internal Auditor of any suspected financial irregularities. The Chief Internal Auditor retains the right to decide on an appropriate course of action, which may mean a joint investigation or investigation by the service. All investigation reports should be sent to the Chief Internal Auditor for inclusion in a report on fraud investigations within the Internal Audit Annual Report. We will also consider any control issues identified in the fraud investigation in terms of the impact on current and future internal audit activity.

Internal Audit occasionally provide guidance and advice e.g. on new systems or may help to develop new processes using our specific skills. Services may also occasionally ask us to carry out specific projects on a consultancy basis for a fee. The Chief Internal Auditor will accommodate such requests only where there is sufficient capacity to carry out the work to the required standard. We make it clear from the outset that we are working on a consultancy basis and are not giving audit assurance on these occasions.

The PSIAS permit assurance services to be provided where internal audit has previously performed consulting services. This will only be the case where the consulting/advisory work completed has not impaired objectivity. Individual objectivity will be managed when assigning resources to the engagement.

Internal Audit Charter

Resources

The Corporate Governance & Audit Committee has the responsibility to ensure the internal audit function is sufficiently resourced and has the required skills and competencies required to meet the Council's audit needs.

The service structure remains the same, so the team continues to be 6FTE. This comprises of the Chief Internal Auditor, three Senior Auditors and two Auditors.

We have a well-qualified and experienced team, mainly following the Chartered Institute of Internal Auditors qualification route (CIA) at Senior Auditor level and Association of Accounting Technicians (AAT) for the Auditor role. The Chief Internal Auditor holds the CMIIA and is a Certified Information Systems Auditor (CISA).

In accordance with the Public Sector Internal Audit Standards, the Chief Internal Auditor will advise senior management and the Corporate Governance & Audit Committee of any changes to resources that are likely to affect the completion of the planned work which may impact the ability to provide the necessary assurance.

Internal Audit Plan

At least annually, the Chief Internal Auditor will submit to senior management and the Corporate Governance & Audit Committee an internal audit plan for review and approval. The internal audit plan will consist of a list of audit priorities as well as budget and resource requirements for the next financial year. The Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to senior management and the Corporate Governance Committee.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of senior management and the Corporate Governance & Audit Committee. The Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Corporate Governance & Audit Committee through the Internal Audit Update Report.

Internal Audit Charter

Reporting and Monitoring

A written report will be prepared and issued by the Internal Auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Corporate Governance & Audit Committee.

The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings. Management's response will be incorporated into an action plan which will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will follow-up all low assurance and no assurance areas and report the results to the Corporate Governance & Audit Committee. A representative from the Service will be asked by the Committee to attend to explain the action taken to address identified weaknesses.

The Chief Internal Auditor will periodically report to senior management and the Corporate Governance & Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Corporate Governance & Audit Committee.

Quality Assurance and Improvement

The Chief Internal Auditor maintains the quality assurance and improvement programme which covers all aspects of Internal Audit's activities. The programme includes internal and external assessments to evaluate Internal Audit's conformance with the Mission Statement, the Core Principles of Internal Auditing and the International Standards and application of the Code of Ethics.

Internal Audit Charter

Internal Assessments

The Accounts and Audit Regulations (Wales) 2014 places a statutory obligation on the Council to conduct a review of effectiveness of internal audit at least once a year. This comprises of:

- Ongoing monitoring of the performance of the internal audit activity
- Periodic self-assessment of the internal audit activity against the PSIAS.

External Assessments

PSIAS require an External Assessment to be conducted at least once every five years by a qualified, independent assessor from outside the Council.

An external assessment was carried out in 2017-18 on a peer review basis organised through the Welsh Chief Auditors Group. The results were reported to Corporate Governance & Audit Committee in November 2018 which concluded that:

“The overall opinion following the external validation of Denbighshire County Council Internal Audit Service is that it generally conforms with the PSIAS. Some opportunities for further improvement have been identified as shown in this report but none of the items of partial or non-conformance are considered to be a significant failure to meet the Standards”.

Actions to address items of partial conformance are monitored by the Corporate Governance & Audit Committee.

Any known instances of non-conformance with the PSIAS will be reported to the Corporate Governance & Audit Committee and any significant deviations will be considered for inclusion in the Council’s Annual Governance Statement.

Internal Audit Strategy 2020-21

Internal Audit Strategy 2020-21

Contents

| | |
|--|----|
| Contents | 2 |
| Introduction | 3 |
| High Level Audit Plan | 4 |
| Anti-Fraud and Corruption Work including NFI | 5 |
| Proposed Audit Priorities for 2020-21 | 7 |
| Internal Audit Performance Monitoring | 10 |
| Public Sector Internal Audit Standards (PSIAS) | 11 |

Internal Audit Strategy 2020-21

Introduction

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 and control arrangements.

Internal Audit will continue to deliver its services in accordance with the Public Sector Internal Audit Standards and the Internal Audit Charter which sets out its purpose, authority and principle responsibilities.

The Internal Audit Strategy for 2020/21 aims to support the council in making the best use of its resources and takes into account strategic risks and the corporate priorities. 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 achieve its objectives and be valued by stakeholders.

This Internal Audit Strategy contains the proposed internal audit activity for the year and gives an outline scope of coverage for each area of work. The plan must retain sufficient flexibility to allow us to react to changes in the risk environment. Any changes will be agreed with management and reported to the Corporate Governance & Audit Committee.

The plan of work provides the council with objective opinions on the effectiveness of the organisation's risk management, governance and control arrangements. These are key elements of the evidence which informs the:

- Internal Audit Annual Report; and
- Annual Governance Statement.

The service maintains a resource of six full-time equivalent (FTE) members of staff, comprising the Chief Internal Auditor, 3 Senior Auditors and 2 Auditors (the vacant Auditor post was filled in June 2019). The annual resource available for Internal Audit is therefore 907 days, which are the number of productive days available after allowing for "non-productive" days such as annual leave, training, illness, management and meetings.

Internal Audit Strategy 2020-21

High Level Audit Plan

The Audit Strategy 2020/21 takes into account the:

- Council's corporate and service risk registers;
- corporate assurance requirements, including the Annual Governance Statement;
- the outcome of previous audits and those of other assurance providers,
- discussions with service management teams.

The plan remains flexible to ensure that it reflects any emerging or changes to risks and priorities of the Council. It will be regularly reviewed with services, and updated as necessary, to ensure it remains valid and appropriate so that internal audit resource is deployed effectively.

The table below shows a summary of planned audit coverage for the year.

| Core Areas for Internal Audit Review | Coverage (in days) |
|--|-------------------------------|
| Business Improvement & Modernisation | 40 |
| Community Support Services | 55 |
| Corporate areas and corporate risks | 115 |
| Communities & Customers | 35 |
| Education & Children's Services inc. Schools | 75 |
| Denbighshire Leisure | 60 |
| Finance & Property Services (inc. key financial systems) | 90 |
| Highways, Facilities & Environmental Services | 25 |
| Legal, HR & Democratic Services | 60 |
| Planning, Public Protection & Countryside Services | 55 |
| Anti-fraud and corruption work including National Fraud Initiative (NFI) – <i>see next section</i> | 70 |
| Grant certification work | 35 |
| Follow up work | 50 |

Internal Audit Strategy 2020-21

| | |
|---|------------|
| Consultancy work, committee meetings, Corporate Governance Framework & Annual Governance Statement etc. | 142 |
| Total Internal Audit Plan | 907 |

Anti-Fraud and Corruption Work including NFI

Counter fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. As per the Internal Audit Charter, Internal Audit is not responsible for managing the risk of fraud – this lies with the Council’s senior management.

Internal Audit will continue to investigate instances of potential fraud and irregularities referred to it by management, and will also carry out pro-active anti-fraud and corruption testing of systems considered to be most at risk of fraud. This is informed by CIPFA’s ‘Code of Practice on managing the risk of fraud and corruption’. Notable areas of fraud nationally include: Housing Benefit, Council Tax, Housing and Tenancy, Procurement, Insurance, Abuse of Position, Blue Badges and Direct Payments (Social Care).

The Wales Audit Office runs a national data matching exercise (National Fraud Initiative – NFI) every two years. Work on the 2018/19 exercise is nearing completion and a summary of the results to date was reported to the Corporate Governance & Audit Committee in January 2020. The 2020/21 exercise will commence later in the year and Internal Audit engages with relevant Council services to ensure system reports are extracted accurately and on time, and that data matches are reviewed and resulting action is taken as necessary. Progress will be reported to Corporate Governance & Audit Committee periodically as part of the Internal Audit Update report.

Internal Audit captures details of referrals where there are allegations/suspensions of fraud or corruption taking place and this is reported to the Corporate Governance & Audit Committee as part of the Internal Audit Update Report. An Annual Fraud Report will be produced shortly to summarise and reflect on the work that has taken place during 2019/20.

Internal Audit Strategy 2020-21

Internal Audit Strategy 2020-21

Proposed Audit Priorities for 2020-21

The audit plan has been developed to align with the corporate priorities and strategic risks. All audit areas identified as high priority within the plan will be undertaken within the financial year 2020-21 together with annual audits of financial areas for the Section 151 Officer. Audit areas rated as medium priority will be kept under review and any changes or emerging risks will be captured and the audit plan updated as necessary.

The following list shows the current priority projects for 2020-21 that has been agreed between the CIA and each service management team and directors. The Corporate Governance & Audit Committee will continue to receive a regular progress update on Internal Audit work actually undertaken, which will include a list of upcoming work from the project priority schedule.

| Audit Project | Audit Brief |
|--------------------------------|---|
| Risk Management | Review will focus on the corporate risks in the Corporate Risk Register that have not been covered elsewhere in the Audit Plan; with a specific review of the effectiveness of the mitigating controls and further actions specified against each risk. |
| Adoption Service | Review partnership arrangements for the Adoption Service to ensure the council is achieving value for money and assess the effectiveness of the council's processes. |
| Community Mental Health Team | Joint audit with Betsi Cadwaladr University Health Board's Internal Audit team. |
| Programme & Project Management | Review of a sample of key council programmes or projects to give assurance over governance, risks management, and controls. |
| Financial Systems | Annual assurance r for the S151 Officer. Include Capital Management and Budget Setting/Monitoring. |
| Revenues & Benefits | Annual Assurance for the S151 Officer. Focus on Universal Credit impact and the council's response. Also Council Tax Reduction Scheme. |

Internal Audit Strategy 2020-21

| Audit Project | Audit Brief |
|------------------------------|--|
| Safeguarding | Implementation of the National Safeguarding Procedures. Also, Deprivation of Liberty Safeguards (DOLS) and Deprivation of Liberty in a Domestic Setting (DIDS). |
| Denbighshire Leisure Limited | Review of governance arrangement and management of key risks and controls following transition of services to the newly formed council owned company. |
| Procurement & Supply Chains | Council's arrangements to manage procurement and supply risks. |
| Youth Service | Review effectiveness of the council's arrangements and its response to the recent WG's Youth Work Strategy. |
| Highways Maintenance | Review implementation of the Highways Code of Practice: "Well-Managed Highways Infrastructure". |
| Works in Default | Request by senior management to review the process for works in default. |
| Access to Information | Review of council's arrangements for handling requests relating to Data Protection, Freedom of Information and Environmental Information Regulations. |
| Workforce Development | Review follows on from audit of recruitment and retention of staff with particular focus on social care workers. |
| Individual School Audits | Continuation of reviews of individual schools providing assurance over: governance, financial management, safeguarding and other key areas. |
| Community Safety | Review effectiveness of current arrangements including partnership and links with the Public Services Board. |
| ICT Capacity & Resources | Service risk register. Review looking at "How well is the existing ICT resource supporting service delivery?" |
| Heritage Services | Carried forward from 2019-20. Assurance that heritage assets owned by the council are protected and review effectiveness of current arrangements in line with corporate priorities and legislative requirements. |

Internal Audit Strategy 2020-21

| Audit Project | Audit Brief |
|--|--|
| Blue Badges | Proactive counter fraud audit. Provide assurance that processes for awarding and monitoring use of blue badges are robust. |
| Additional Learning Needs Implementation | Following on from previous review, assurance that ALN requirements are being implemented. |
| Empty Homes | Review of effectiveness of the Housing into Homes loan scheme and the financial arrangements for allocation and recovery. |
| Housing Maintenance | Carried forward from 2019/20. Review implementation of new OPEN Housing system module. Also, review management of stores and effectiveness of current processes. |
| Exceptions and Exemptions from CPRs | Assurance that exceptions and exemptions are authorised and used appropriately in line with Contract Procedure Rules (CPRs). |
| Equalities/ Wellbeing Impact Assessments | Assurance that the council is meeting the requirements of the Public Sector Equalities Duty. |
| Pupil Development Grant | Annual grant certification work. |
| Post 16 Education Grant | Assurance over the grant claim preparation and authorisation process. |
| Housing Support Grant | Assurance on the preparation of the grant claim and authorisation process. |
| AONB Grant Certification | Annual grant certification work. |

Internal Audit Strategy 2020-21

Internal Audit Performance Monitoring

Internal Audit will continue to use the following performance measures from 1 April 2020 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. Some of the actions have been amended to enable comparison with Welsh Chief Auditor's Group benchmarking information.

| Service Standards | Target |
|---|-----------------------------|
| 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 as soon as possible after that meeting. | Avg. Days (less than 10) |
| Internal Audit will issue a final audit report as soon as possible after agreeing the report and its action plan with services. | Avg. Days (less than 5) |
| Using performance management system (Verto), Internal Audit will monitor and report on the % of agreed improvement actions that have been implemented by services to show that Internal Audit's service is effective in helping to deliver improvement. | 75% |

Internal Audit Strategy 2020-21

Public Sector Internal Audit Standards (PSIAS)

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 CIA] 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.”

This external assessment was completed in 2017-18 by the arrangement of the Welsh Chief Auditors Group through a peer review by a local authority Internal Audit Service. Denbighshire’s assessment was carried out by Gwynedd County Council’s Internal Audit Service and reported that Denbighshire Internal Audit Services:

“...generally conforms with the PSIAS. Some opportunities for further improvement have been identified ... but none of the items of partial or non-conformance are considered to be a significant failure to meet the Standards”.

The CIA has updated the self-assessment to capture the partial conformance items raised in the external assessment. The Quality Assurance Improvement Plan was reported to Corporate Governance & Audit Committee in November 2018 and an update was provided as part of the Annual Internal Audit Report in June 2019.

Since then, the Internal Audit Charter has been updated to capture the requirements highlighted in the report and a review of Ethics & Culture has recently been completed which means that all improvement actions arising from the external assessment have been completed. A further update will be provided to the Corporate Governance & Audit Committee in June 2020 as part of the Annual Internal Audit Report.

This page is intentionally left blank

| | |
|------------------------------|--|
| Report to | Corporate Governance and Audit Committee |
| Date of meeting | 18th March 2020 |
| Lead Member / Officer | Councillor Julian Thompson-Hill / Steve Gadd, Head of Finance and Property |
| Report author | Steve Gadd |
| Title | Annual Audit Letter, from Wales Audit Office |

1. What is the report about?

The Annual Audit Letter for Denbighshire County Council produced by Wales Audit Office and sent to the Leader and Chief Executive of the Council.

2. What is the reason for making this report?

To introduce for information the Annual Audit Letter for Denbighshire County Council, from Wales Audit Office (Appendix 1).

3. What are the Recommendations?

It is recommended that CGC note the Annual Audit Letter for Denbighshire County Council, from Wales Audit Office.

4. Report details

The report is to introduce the Annual Audit Letter to the Committee. Wales Audit Office will be present at the meeting to present the findings and central messages. DCC welcomes the letter and looks forward to continue the excellent working relationship we have with our External Auditors.

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

The provision of timely and accurate financial information contributes to the modernising of the council to deliver efficiencies and allows residents to scrutinise the Council's activities.

6. What will it cost and how will it affect other services?

There are no additional resources associated with this report.

7. What are the main conclusions of the Well-being Impact Assessment?

It is the professional judgement of the Section 151 Officer that a Well-being Impact Assessment is not required for this report.

8. What consultations have been carried out with Scrutiny and others?

WAO work closely with DCC throughout the audit process and DCC are kept fully up to date with any issues that arise from WAO audit work.

9. Chief Finance Officer Statement

The production of the Annual Audit Letter is the final part of providing assurance that the Statement of Accounts for the preceding year provides a true and fair view of financial position of the Council. It's pleasing to note again that the audit was unqualified.

The letter highlights the ongoing difficult financial environment that the council has to work within, as with all local government across Wales and the UK. Cabinet and Council Members are kept fully up to date on the Council's proposals to deal with the situation.

10. What risks are there and is there anything we can do to reduce them?

The ultimate risk is that the Statement of Accounts are not produced on time, or that they are produced with material and/or significant errors in them which would result in WAO qualifying the accounts. Such an outcome would have severe adverse reputational impact on DCC.

11. Power to make the decision

The letter summarises the key messages arising from WAO's statutory responsibilities under the Public Audit (Wales) Act 2004 and their reporting responsibilities under the Code of Audit Practice. In particular the 2004 Act requires WAO to

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that they have completed the audit of the accounts.

This page is intentionally left blank



Councillor Hugh Evans
Mrs Judith Greenhalgh
Denbighshire County Council
County Hall
Wynnstay Road
Ruthin
LL15 1YN

24 Cathedral Road / 24 Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Reference: 1622A2019-20
Date issued: November 2019

Dear Hugh and Judith

Annual Audit Letter – Denbighshire County Council 2018-19

This letter summarises the key messages arising from my statutory responsibilities under the Public Audit (Wales) Act 2004 and my reporting responsibilities under the Code of Audit Practice.

The Council complied with its responsibilities relating to financial reporting and use of resources

It is the Council's responsibility to:

- put systems of internal control in place to ensure the regularity and lawfulness of transactions and to ensure that its assets are secure;
- maintain proper accounting records;
- prepare a Statement of Accounts in accordance with relevant requirements; and
- establish and keep under review appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Public Audit (Wales) Act 2004 requires me to:

- provide an audit opinion on the accounting statements;
- review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- issue a certificate confirming that I have completed the audit of the accounts.

Local authorities in Wales prepare their accounting statements in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This Code is based on International Financial Reporting Standards.

On 13 September 2019 I issued an unqualified audit opinion on the accounting statements confirming that they present a true and fair view of the Council's financial position and transactions. My report is contained within the Statement of Accounts. The key matters arising from the accounts audit were reported to members of the Corporate Governance Committee in my *Audit of Financial Statements report* on the 11 September 2019.

From 2020-21 onwards, Committee dates will need to be brought forward to incorporate the earlier statutory deadlines whereby the draft financial statements need to be prepared and signed by the responsible finance officer (S151 officer) by 31 May 2021 and the financial statements need to be approved by the Council and published by 31 July 2021. We will continue to work closely with Council officers over the Autumn to identify and implement further improvements to the preparation and audit of the 2019-20 financial statements, with the aim of meeting the revised deadlines by 2020-21.

I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources

My consideration of the Council's arrangements to secure economy, efficiency and effectiveness has been based on the audit work undertaken on the accounts as well as placing reliance on the work completed under the Local Government (Wales) Measure 2009 and under the Well-being of Future Generations (Wales) Act 2015.

I am satisfied that the Council has appropriate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, although in June 2019 I set out in my Annual Improvement Report¹ some areas where improvements could be made.

Notwithstanding the above conclusion, I wish to highlight that I am currently undertaking a review of the Council's financial sustainability, on which I expect to report to the Council in early 2020. My report will set out any specific areas where improvements could be made.

I issued a certificate confirming that the audit of the accounts has been completed on 13 September 2019

Having given an audit opinion on the financial statements and concluded on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, I was able to certify that the audit was complete when I issued my audit opinion.

¹ <http://audit.wales/publication/denbighshire-county-council-annual-improvement-report-2018-19>

My work to date on certification of grant claims and returns has not identified significant issues

A more detailed report on my grant certification work will follow early in 2020 once this year's programme of certification work is complete.

Financial audit fee

The financial audit fee for 2018-19 is currently expected to be in line with the agreed fee set out in the Annual Audit Plan.

Yours sincerely



Derwyn Owen

Engagement Lead

For and on behalf of the Auditor General for Wales

This page is intentionally left blank

| | |
|------------------------------|---|
| Report to | Corporate Governance Committee |
| Date of meeting | 18 March 2020 |
| Lead Member / Officer | Lisa Lovegrove – Chief Internal Auditor |
| Report author | Lisa Lovegrove – Chief Internal Auditor |
| Title | Internal Audit of Contract Management |

1. What is the report about?

This report provides details of a recent Internal Audit report of Contract Management that received a 'Low' assurance rating.

2. What is the reason for making this report?

Corporate Governance & Audit Committee has agreed that it will receive and discuss all Internal Audit reports receiving a 'Low' assurance rating so that they can discuss the outcome and receive assurance that improvements will be made.

3. What are the Recommendations?

That the Committee comments on the report and decides whether it requires any further update reports on progress with the improvement action plan.

4. Report details

The Internal Audit teams in Flintshire County Council and Denbighshire County Council agreed to carry out a joint audit looking at the robustness of contract management activity across both Councils.

A questionnaire was issued to staff involved in contract management activity across both councils and the collective results from the questionnaire were used to scope the audit and focus the detailed testing.

Our audit concluded that, overall, contract management is not being managed well within council services. In general, staff do not fully understand their roles and responsibilities, key contract management information is not maintained, monitoring meetings are often not being documented, and outcomes are not being reported. There were pockets of good practice, with a couple of service areas which could demonstrate that contracts were managed effectively.

Other key issues highlighted include:

- While a contract register continues to be populated with historic contracts, some signed contracts were difficult to locate.
- No corporate contract management training has been provided to staff in recent years and, as a consequence, staff have relied on “on-the-job” training.
- The council’s Contract Procedure Rules (CPRs) set out the high level requirements for contract management, but staff were not fully aware of them. This has resulting in non-compliance in a number of cases.

We consider that strengthening training, providing guidance notes and improving monitoring arrangements will ensure that the council’s contract management arrangements improves to gain the best performance from the council’s many contracts. It also ensures suitable evidence is maintained should a contract enter difficulties so that further action can be taken.

On the back of this review, a paper is being prepared for the Senior Leadership Team in March 2020 to highlighting the weakness identified with contract management and non-compliance with CPRs in order to gain their backing to drive forwards the necessary improvements with each service area.

A copy of the full audit report is included as Appendix 1.

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 Well-being Impact Assessment?

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.

This page is intentionally left blank



Contract Management

**January
2020**



**Low
Assurance**

Purpose & Scope of Review

The Internal Audit teams in Flintshire County Council and Denbighshire County Council agreed to carry out a joint piece of work looking at the robustness of contract management activity across both Councils. This is to provide assurance to senior management, S151 Officer, Corporate Governance Committee and will be used to inform the Annual Internal Audit Report and Annual Governance Statement.

A questionnaire was issued to staff involved in contract management activity across both councils and the collective results from the questionnaire were used to scope the audit and focus the detailed testing.

Using the results of the staff questionnaire, our review focused on the following:

- If signed contracts are in place for all contracts over £25k and are being actively managed.
- If all contracts over £25k (or renewable contracts less than £25k) are recorded on the Proactis contract management module or other contract management records/systems.
- Whether contract managers have received appropriate training, guidance and support to allow them to effectively discharge their contract management obligations.
- The processes in place to ensure consistency of contract management activity (across contracts managed by individual contract managers and across the council as a whole).
- The inclusion of appropriate performance measures within contracts to facilitate effective contract management.
- The reporting of contract management outcomes through existing management reporting structures.
- The robustness of the Risk Registers in place to support medium and high risk contracts.
- Whether community benefits / social values included in contracts are regularly monitored and actively managed.

Audit Opinion

Our overall opinion is that contract management is not being managed well within the council. In general, staff do not fully understand their roles and responsibilities, key contract management information is not maintained, monitoring meetings are often not being documented, and outcomes are not being reported. Only a couple of service areas could demonstrate that contracts were managed effectively, with information being retained in a central place, notes/minutes of contract meetings being taken, annual certificates checked and outcomes being reported. These officers either had previous experience of managing medium and large contracts or they had received prior training as part of their professional qualification e.g. Design and Construction team.

Signed contracts were difficult to locate because service based contract management registers did not have the functionality to upload a copy. For those services using the Proactis contract management system, there is the facility to save a signed contract within the system, but this is not being used by the majority of services. Staff surveyed indicate that a lack of training on the contract management module is the main reason and although training has been provided, it has not taken place recently due to lack of resources. The Procurement Business Partners are now assisting services to move contracts over £25k, or renewable contracts less than £25k, into the Proactis contract management module.

No corporate contract management training has been provided to staff in recent years and, as a consequence, staff have relied on “on-the-job” training. We noted that only two service areas had produced a contract management training manual, but both manuals had not been revised for several years. The council’s Contract Procedure Rules (CPRs) set out the high level requirements for contract management, but staff were not fully aware of them. This has resulting in non-compliance in a number of cases.

The level of monitoring carried out by the services around contract management is inconsistent. Monitoring ranged from no evidence being recorded through to agendas being produced, minutes taken and the closing contract meeting being held. This could be attributed to the lack of corporate contract management training and absence of guidance.

The majority of contract management staff confirmed that they do not complete a risk assessment for each new contract and would, therefore, not consider including high/medium risk contracts onto the service risk register. However, a couple had identified contracts as a high risk and included them on the service risk register. Without a risk register in place for high and medium risk contracts, major risks that are not adequately managed may materialise and result in adverse consequences that, otherwise, could have been avoided.

Staff are not including community benefits and social values into all contracts awarded over £25,000; according to CPRs, community benefits is mandatory for contracts over £1m and encouraged for contracts below £1m. This is an area where staff have not been provided with training and, as a consequence, are not sure what is expected of them. This has resulted in the council missing out on potential community benefits. The Council is in the process of establishing a Community Benefits Hub so the council maximises the community benefits available through procurement.

We conclude that services, in the main, are not complying with contract management requirements often with little or no contract monitoring taking place. In general, outcomes are not being reported and performance measures are not being quantified. Contract management is a recognised corporate issue and features as a Corporate Support Services Review (CSSR) work-stream which will review the current arrangements in order to identify and make the necessary improvements. The results of our review have been shared with the relevant CSSR project team.

We consider that strengthening training, providing guidance notes and improving monitoring arrangements will ensure that the council's contract management arrangements improves to gain the best performance from the council's many contracts. It also ensures suitable evidence is maintained should a contract enter difficulties so that further action can be taken.

| | |
|----------------------|---|
| Low assurance | Significant weaknesses in management of risks and/or controls that put achievement of objectives at risk. |
|----------------------|---|

Action Plan

Audit Review of: Contract Management

Date: January 2020

| Corporate Risk/Issue Severity Key | |
|-----------------------------------|---|
| 0 | Critical – Significant issues to be brought to the attention of SLT, Cabinet Lead Members and Corporate Governance & Audit Committee |
| 4 | Major – Corporate, strategic and/or cross-service issues potentially requiring wider discussion at SLT. |
| 2 | Moderate – Operational issues that are containable at service level |

| | | | |
|--------------------------|--|--|-----------------|
| Risk Issue 1 | There is a general lack of coordination and central responsibility around the way contract management is being carried out by services. | | |
| Background Detail | Our review highlighted several weaknesses with contract management within services as detailed in this action plan. Overall ownership of contract management across the organisation is unclear, with no one overall responsible for driving organisation-wide contract management performance, consistent arrangements and adherence to CPRs. | | |
| Action (Ref) | Agreed Management Action | Responsibility | Deadline |
| 1.1 | Report to SLT highlighting the weakness identified with contract management and non-compliance with CPRs with a view to SLT reviewing arrangements in their own services to ensure: <ul style="list-style-type: none"> - All contracts are recorded on the Proactis contract management module or other suitable systems (until a decision is taken to replace it); - Signed contracts are obtained for all contracts over £25,000 and held on the Proactis system (or suitable approved contract management system); - Contract management activity is recorded in the contract management module within Proactis, or other method as agreed corporately; - Ensure that the delivery of community benefits is monitored; - Ensure appropriate performance indicators are included within contracts with suitable monitoring of the contractor's performance; | Head of Legal, HR & Democratic Services / Head of Finance & Property | 31/03/2020 |

Page 59

| | | | |
|--|--|--|--|
| | - Ensure that contract risks are considered within the procurement and contract monitoring activity. Also, that significant risks are captured on the service risk register. | | |
|--|--|--|--|

| | | | |
|--------------------------|--|---|-------------------------------------|
| Risk Issue 2 | Lack of training and guidance has been identified as an issue for staff who carry out contract management as part of their role and this has occasionally resulted in non-compliance with CPRs. | | |
| Background Detail | <p>Our survey of staff who carry out contract management duties shows that they have not received sufficient corporate contract management training. This has led to staff learning the role whilst performing their jobs and with the support and advice from colleagues which has resulted in inconsistent approaches being developed.</p> <p>This issue has been further compounded by services not documenting their contract management procedures into a user manual. Due to staff not being trained/fully understanding contract management, this has resulted in non-compliance with CPRs.</p> | | |
| Action (Ref) | Agreed Management Action | Responsibility | Deadline |
| 2.1 | Ensure staff involved with managing contracts are suitably trained on the Proactis Contract Management module & contract management principles. Training will be rolled out across the council to all staff who are involved in contract management. | Legal & Procurement Operations Manager | 31/12/2020 (and ongoing thereafter) |
| 2.2 | Flowcharts will be produced to document the stages of contract management and prompt users to complete standard templates attached. | CSSR Commissioning, Procurement & Contract Management Leads | 31/03/2021 |
| 2.3 | A user friendly manual should be developed to provide staff with additional information around contract management. | CSSR Commissioning, Procurement & | 31/03/2021 |

Page 60

| | | | |
|--|--|---------------------------|--|
| | | Contract Management Leads | |
|--|--|---------------------------|--|

| | | | |
|-----------------------------|--|--|-----------------|
| Risk Issue 3 | All new contracts over £25k (or renewable contracts under £25k) are now moved onto the Proactis contract management module, but services are still storing key contract management information elsewhere, if at all. | | |
| Page 6 Background Detail | <p>Although all contracts over £25k or renewable contracts less than £25k are now being moved into the Proactis contract management module, key contract management information is not being attached. Services are storing information in various other locations, if at all, and this has meant that key information such as signed contracts are difficult to locate.</p> <p>Staff have received training on using Proactis for its procurement function, but not all staff received training on the contract management module. A programme of training is due to be rolled out across services soon.</p> <p>For this to be effective, monitoring or reporting including an escalation process will be required to highlight where officers are not attaching contract documents/evidence.</p> | | |
| Action (Ref) | Agreed Management Action | Responsibility | Deadline |
| 3.1 | Progress with uploading contracts to be monitored via service management teams. | Head of Legal, HR & Democratic Services / Head of Finance & Property | 31/03/2020 |

| | | | |
|-----|--|---|------------|
| 3.2 | A review of the current contract management system (Proactis) to be undertaken to establish if the system is still fit for purpose. If the current system is considered unfit, then a business case will be formed to justify replacement. | CSSR Commissioning, Procurement & Contract Management Leads | 31/03/2021 |
| 3.3 | See also Actions 1.1 to 1.4 | N/a | N/a |

| | | | |
|--------------------------|---|---|-----------------|
| Risk Issue 4 | The level of performance monitoring around contracts is weak with staff not recording meetings, maintaining performance records and completing information around KPIs (key performance indicators). | | |
| Background Detail | <p>A common theme that has been identified across the services is the level of information that is being documented and retained. In the majority of services: agendas are not being produced, minutes are not being taken of meetings held and contract performance is not being reported.</p> <p>The lack of information recorded could make it difficult to take action against a contractor for poor performance as no evidence would be available to demonstrate the contractor had been notified of underperformance.</p> | | |
| Action (Ref) | Agreed Management Action | Responsibility | Deadline |
| 4.1 | Review the commissioning form to include a section on KPIs to prompt for their inclusion in relevant contracts e.g. high and medium risk/strategic contracts. | Legal & Procurement Operations Manager | 31/03/2020 |
| 4.2 | To explore the possibility of introducing a system to enable sending out reminders if monitoring is not completed/uploaded. | CSSR Commissioning, Procurement & Contract Management Leads | 31/3/2021 |
| 4.3 | See Actions 1.1 to 1.4. The CSSR work-stream leads will include a review of the commissioning form process. | N/a | N/a |

| | | | |
|--------------------------|--|---|-----------------|
| Risk Issue 5 | Significant contracts in a number of cases did not have a risk assessment so that major risks identified could be managed accordingly. Without this, major risks could materialise and cause significant impact where it could have been avoided. For those contracts that had been assessed, there is little evidence to show they are updated regularly. | | |
| Background Detail | Discussion with the various services identified the majority of services do not complete a risk assessment for every new significant contract and attach a risk rating. However, those that have assessed their contracts, we noted very little evidence that the contracts were being re-assessed periodically and the risks updated accordingly. In the main, high / medium risk contracts were not being reported to the senior management team, and no contingency measures had been produced. | | |
| Action (Ref) | Agreed Management Action | Responsibility | Deadline |
| 5.1 | Review the contract management system for functionality to record contract risks. | CSSR Commissioning, Procurement & Contract Management Leads | 31/03/2021 |
| 5.2 | All risks associated with operating a contract need to be recorded on a pre-contract risk form. The form should follow the RAG rating used by the Strategic Planning & Performance Team. | CSSR Commissioning, Procurement & Contract Management Leads | 31/03/2021 |
| 5.3 | Review that contract risks identified (e.g. within the procurement commissioning form) are considered in the contract specification and contract T&Cs, where relevant. Details to be included in the flow chart (action 1.3) and user guidance (action 1.4). | CSSR Commissioning, Procurement & Contract Management Leads | 31/03/2021 |
| 5.4 | Prompt services to consider contract related risks so that significant risks are captured on the service risk register or corporate risk register where appropriate. | CSSR Commissioning, Procurement & Contract | 31/03/2021 |

| | | | |
|--|--|--|--|
| | | Management Leads & CSSR Business, Planning, Performance Research, Information & Data Leads | |
|--|--|--|--|

| | | | |
|---------------------------------|--|---|-----------------|
| Risk Issue 6 | Currently, services are not including community benefits into contracts worth between £25k and £1m. Where it has been included, very little monitoring is being carried out. | | |
| Background Detail Page 65 | <p>Similar to the issues raised in our recent review of Section 106 (report issued May 2019), this review highlights that there is no community benefit strategy or policy in place to provide staff with guidance on what is expected of them.</p> <p>Community benefits is an area currently being underutilised by services as they have not been properly briefed on what can be included. Those services that have included community benefit have struggled to either use the benefit provided or have not been monitoring the benefit due to lack of knowledge/understanding.</p> <p>Discussion with the Framework Manager – Legal, HR & Democratic Services has confirmed these issues have already been identified and the team are looking at how they can best be addressed through the Community Benefits Hub which is being set up.</p> | | |
| Action (Ref) | Agreed Management Action | Responsibility | Deadline |
| 6.1 | Community Benefit Hub will monitor all community benefits centrally to coordinate and ensure that they are delivered. <i>Links to Internal Audit review of Section 106 agreements</i> | Framework Manager – Legal, HR & Democratic Services | 31/03/2020 |
| 6.2 | <i>See also Actions 1.1 to 1.4</i> | <i>N/a</i> | <i>N/a</i> |

Appendix 1 – Risk Matrix and Assurance Ratings

| | | | | | | | | | | |
|-------------------|--|--------|-----------------------|----------|----------------------------|--|--|---|---|--|
| Likelihood | Event is almost certain to occur in most circumstances | >70% | Almost Certain | A | | | | | | |
| | Event likely to occur in most circumstances | 30–70% | Likely | B | | | | | | |
| | Event will possibly occur at some time | 10–30% | Possible | C | | | | | | |
| | Event unlikely and may occur at some time | 1–10% | Unlikely | D | | | | | | |
| | Event rare and may occur only in exceptional circumstances | <1% | Rare | E | | | | | | |
| | | | | | 5 | 4 | 3 | 2 | 1 | |
| | | | | | Very Low | Low | Medium | High | Very High | |
| | | | | | Service Performance | Minor errors or disruption | Some disruption to activities/ customers | Disruption to core activities/ customers | Significant disruption to core activities. Key targets missed | Unable to delivery core activities. Strategic aims compromised |
| | | | | | Reputation | Trust recoverable with little effort or cost | Trust recoverable at modest cost with resource allocation within budgets | Trust recovery demands cost authorisation beyond existing budgets | Trust recoverable at considerable cost and management attention | Trust severely damaged and full recovery questionable and costly |
| | | | | | Financial Cost (£) | < £50k | £50k – £250k | £250k – £1m | £1 m – £5 m | > £5m |
| | | | | | Impact | | | | | |

| Levels of Assurance | Definition | Management Intervention |
|---------------------|------------------|--|
| | High Assurance | Risks and controls well managed and objectives being achieved. |
| | Medium Assurance | Minor weaknesses in management of risks and/or controls but no risk to achievement of objectives. |
| | | Minimal action required, easily addressed by line management. |
| | | Management action required and containable at service level. Senior management and SLT may need to be kept informed. |

| | | | |
|--|---------------|--|---|
| | Low Assurance | Significant weaknesses in management of risks and/or controls that put achievement of objectives at risk. | Management action required with intervention by SLT. |
| | No Assurance | Fundamental weaknesses in management of risks and/or controls that will lead to failure to achieve objectives. | Significant action required in a number of areas. Require immediate attention from SLT. |

Report Recipients

- Chief Executive Officer
- Head of Business Improvement & Modernisation
- Head of Legal, HR & Democratic Services
- Head of Finance & Property Services / S151 Officer
- Finance & Assurance Manager
- Legal & Procurement Operations Manager
- Strategic Planning Team Manager
- Lead Officer, Destination, Marketing & Communication
- Framework Manager Legal, HR & Democratic Services (report extract)
- Strategic Planning & Performance Officer
- Scrutiny Co-ordinator
- Chair - Performance Scrutiny Committee
- Lead Member for Finance, Performance & Strategic Assets
- Corporate Governance & Audit Committee

Internal Audit Team

| | | |
|---------------|----------------|---|
| Bob Chowdhury | Senior Auditor | 01824 706988 bob.chowdhury@denbighshire.gov.uk |
|---------------|----------------|---|

Key Dates

| | |
|--|----------------|
| Review commenced | July 2019 |
| Review completed | September 2019 |
| Reported to Corporate Governance Committee | 18 March 2020 |
| Proposed date for 1st follow up review | April 2020 |



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Financial Sustainability Assessment – **Denbighshire County Council**

Audit year: 2019-20

Date issued: March 2020

Document reference: 1713A2020-21

This document has been prepared for the internal use of Denbighshire County Council as part of work performed/to be performed in accordance with Section 17 of the Public Audit (Wales) Act 2004 and section 18 of the Local Government Wales Measure 2009.

No responsibility is taken by the Auditor General or the staff of the Wales Audit Office in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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.

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.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who delivered the work comprised Gareth Evans, Dave Wilson and Jeremy Evans under the direction of Huw Rees.

Contents

The Council is in a relatively strong financial position, but needs to strengthen its Medium Term Financial Strategy and control some service overspending to support future financial sustainability

Summary report 4

Detailed report

The Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of £30 million between 2020-21 and 2022-23 7

Although the Council underspent its overall revenue budget in 2017-18 and 2018-19, significant service overspends were offset by underspends in other areas, and the 2019-20 revenue budget is forecast to overspend 8

The Council has a good track record of delivering planned savings although it is finding this more challenging as the balance shifts from making efficiencies to more impactful service change 10

The Council uses its reserves strategically, retains healthy balances, and some important earmarked reserves are almost fully used as planned 11

The Council has had historically higher than average income from Council Tax and collection rates are good 12

The Council has a prudent approach to borrowing and does not borrow to fund commercial investment 13

Summary report

Summary

What we reviewed and why

- 1 The project sought to assess the sustainability of councils' short to medium-term financial position.
- 2 This included a focus on the financial strategy of each council as well as reviewing financial 'indicators' of each council's financial position in relation to:
 - Performance against budget;
 - Delivery of savings plans;
 - Use of reserves;
 - Council tax; and
 - Borrowing.

Exhibit 1: about the Council

This exhibit sets out some background information on the Council's net revenue budget, the number of staff it employs and the value of its fixed assets



The Council's net revenue budget for 2019-20 was £199m



The Council employs around 4,300 people



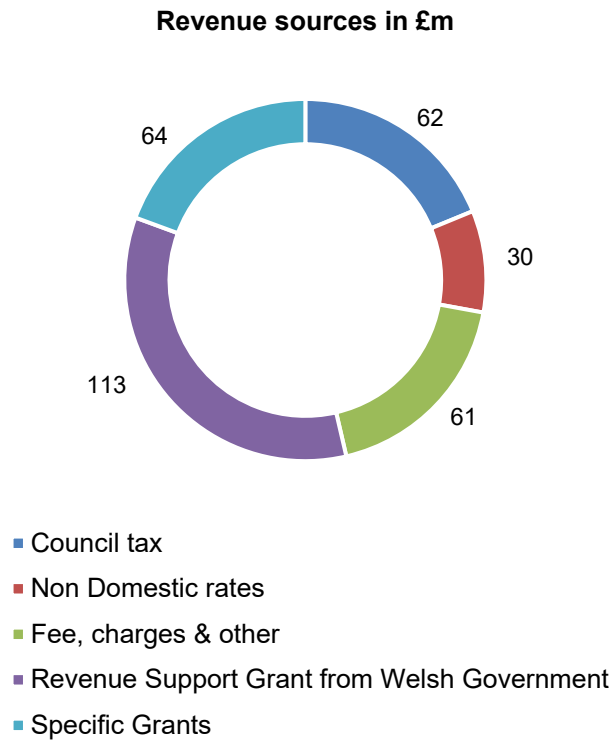
The Council's fixed assets as at 31 March 2019 were £537m

Source: Denbighshire County Council audited 2018-19 Statement of Accounts and Approval of the 2019-20 Budget report to Council, 29 January 2019

- 3 We undertook this assessment because we identified financial sustainability as a risk to councils putting in place proper arrangements to secure value for money in the use of resources. In part, this was informed by the recent experiences of some councils in England, our knowledge of the financial situation in councils in Wales, and the general trend of decreasing resources for local government combined with rising demand for some services.

Exhibit 2: the Council's sources of revenue

The pie chart below shows how much money the Council received from different funding sources during 2018-19



Source: Denbighshire County Council audited 2018-19 Statement of Accounts

4 We undertook the review during the period July 2019 to November 2019.

What we found

- 5 Overall we found that: the Council is in a relatively strong financial position, but needs to strengthen its Medium Term Financial Strategy and control some service overspending to support future financial sustainability. We reached this conclusion because:
- the Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of £30 million between 2020-21 and 2022-23;
 - although the Council underspent its overall revenue budget in 2017-18 and 2018-19, significant service overspends were offset by underspends in other areas, and the 2019-20 revenue budget is forecast to overspend;

- the Council has a good track record of delivering planned savings although it is finding this more challenging as the balance shifts from making efficiencies to more impactful service change;
- the Council uses its reserves strategically, retains healthy balances, and some important earmarked reserves are almost fully used as planned;
- the Council has had historically higher than average income from Council Tax and collection rates are good; and
- the Council has a prudent approach to borrowing and does not borrow to fund commercial investment.

Detailed report

The Council is in a relatively strong financial position, but needs to strengthen its Medium Term Financial Strategy and control some service overspending to support future financial sustainability

The Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of £30 million between 2020-21 and 2022-23

Why strategic financial planning is important

- 6 A clear and robust financial strategy is important to identify the likely level of funding available to a council, as well as the anticipated level of demand for, and cost of, providing services. Given the recent and anticipated funding pressures facing all councils it is also important to identify how it intends to respond to those pressures, and particularly how they will meet projected funding gaps.

What we found

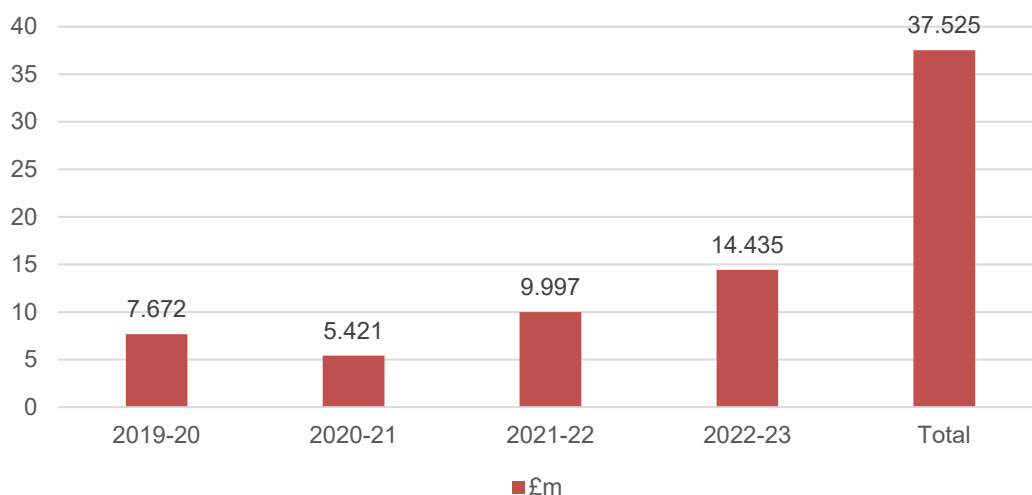
- 7 We found that the Council's Medium Term Financial Strategy does not set out how it will meet the projected cumulative deficit of £30 million between 2020-21 and 2022-23. We reached this conclusion because:
 - The Council's published Medium Term Financial Strategy (MTFS) 2019-2023, assumes no increase in Revenue Support Grant and National Non-Domestic Rates (NNDR) in 2020-21 but reflects reductions of 1.5% in 2021-22 and 2022-23, and 3.8% increases in Council Tax for 2020-21, 2021-22 and 2022-23. This identifies an income to the Council of around £199 million for the latter three years with no planned use of reserves.
 - The MTFS assumes that with pay and inflation increases and additional service pressures, there is a funding shortfall over the three years 2020-2023 of almost £30 million.
 - To date, the Council has managed within its reduced funding levels without significant cuts in services but realises that this approach is unsustainable. It has established a corporate 'Reshaping the Council Budget Board' to set the strategic direction that determines the shape and size of the Council at the end of 2022-23.
 - The Council is also in the early stages of developing a 'commercialisation' strategy which it hopes will help the Council operate more efficiently and effectively. Whilst there is an appetite for collaborative working and service

remodelling, there are currently no firm proposals to meet the scale of the challenge and contribute to financial sustainability and resilience.

- At this stage the MTFS is incomplete. Whilst it identifies the gap between assumed funding and likely expenditure, it does not reflect how spending will change over the coming years until the Reshaping the Council Budget Board completes its work and it is clear how the commercialisation strategy will contribute to closing the gap.

Exhibit 3: projected funding gap

The following graph shows the funding gap that the Council has identified for this year, and the following three years.



Source: Denbighshire County Council – Medium Term Financial Strategy 2019-2023 published February 2019

Although the Council underspent its overall revenue budget in 2017-18 and 2018-19, significant service overspends were offset by underspends in other areas, and the 2019-20 revenue budget is forecast to overspend

Why accurately forecasting expenditure is important

- 8 It is important that overspending and underspending are kept under control and that actual expenditure is as close to the levels planned as possible. A council that is unable to accurately forecast and plan expenditure runs the risk of creating unforeseen financial pressures that may compromise the ability to set a balanced budget. Significant patterns of underspending may be reducing the ability of a council to deliver its key objectives or meet its statutory responsibilities.

What we found

9 Although the Council underspent its overall revenue budget in 2017-18 and 2018-19, significant service overspends were offset by underspends in other areas, and the 2019-20 revenue budget is forecast to overspend. We reached this conclusion because:

- In 2017-18, the Council experienced sizeable variations in spending against revenue budgets and underspent its budget overall by approximately £1.2 million. Significant overspends in Community Support Services, Education & Children's Services and Highways & Environment were offset by savings in other services, most notably Schools and Corporate services which underspent by over £0.7 million and £0.9 million respectively.
- In 2018-19, the sizeable variations continued and the Council underspent its revenue budget overall by approximately £0.5 million. Significant overspends in Community Support Services, Education & Children's Services and Highways & Environmental Services amounted to approximately £4.3 million.
- During 2018-19, the Council allocated additional funding from planned earmarked reserves of approximately £2.6 million resulting in an overall unplanned overspend in these services of approximately £1.7 million. This was offset by underspends in other services totalling approximately £0.3 million and corporate savings of approximately £2.7 million which included a variance between the estimated and actual pension contribution recovery rates. Schools underspent their budgets by approximately £0.2 million.
- The budget monitoring report in December 2019 forecasts an overall overspend of nearly £1.7 million at 31 March 2020, indicating that the budget is still not aligned with operational activity. Forecast overspends are noted in Community Support Services (£0.7 million), Education & Children's Services (£1.4 million) Planning & Public Protection (£0.7 million) and Highways, Facilities & Environmental Services (£0.5 million).

Exhibit 4: amount of overspend/underspend relative to total net revenue budget

The following exhibit shows the amount of overspend or underspend for the council's overall net revenue budget for the last two years and also the year to date as at 30 November 2019.

| | Original Budget net revenue budget | Actual/forecast Outturn net revenue budget | Amount of overall surplus/ overspend | Percentage difference from net revenue budget |
|---------|---|---|---|--|
| 2017-18 | £189.3m | £188.1m | £1.2m surplus | 0.6% surplus |
| 2018-19 | £194.4m | £193.9m | £0.5m surplus | 0.3% surplus |
| 2019-20 | £198.5m | £200.2m | £1.7m overspend | 0.9% overspend |

Source: 2017-18 & 2018-19 Final Outturn Reports and Finance Report to Cabinet, 17 December 2019

The Council has a good track record of delivering planned savings although it is finding this more challenging as the balance shifts from making efficiencies to more impactful service change

Why the ability to identify and deliver savings plans is important

- 10 The ability to identify areas where specific financial savings can be made, and to subsequently make those savings, is a key aspect of ensuring ongoing financial sustainability against a backdrop of increasing financial pressures. Where savings plans are not delivered this can result in overspends that require the use of limited reserves whilst increasing the level of savings required in future years to compensate for this. Where savings plans are not delivered and service areas are required to make unplanned savings, this increases the risk either of savings not being aligned to the Council's priorities, or of 'short-term' solutions that are not sustainable over the medium term.

What we found

- 11 The Council has a good track record of delivering planned savings although it is finding this more challenging as the balance shifts from making efficiencies to more impactful service changes. We reached this conclusion because:
- In 2018-19 the Council approved savings totalling £4.6 million split between savings of £0.4 million, efficiencies of £1.2 million, corporate savings of £1 million and changes to the minimum revenue provision of £2 million. Many of these savings and efficiencies were relatively small scale and the Council advises that it delivered the savings target in total.
 - In 2019-20 the revenue budget assumed savings of £5.7 million as follows; corporate savings (£0.5 million), Schools savings (£1.3 million) and service efficiencies and savings (£3.9 million).
 - In December 2019, the Council reported that £0.6 million of these savings (almost 11%) would need to be funded by the Savings Achievement Contingency¹. The Council therefore expects to deliver almost 89% of its planned savings in 2019-20.

¹ The Savings Achievement Contingency is a base budget contingency that is retained corporately until required to fund in year non-achievement of efficiencies

Exhibit 5: savings delivered during 2018-19 as a percentage of planned savings

The following exhibit shows how much money the Council intended to save through planned savings during 2018-19 and how much of this it actually saved.

| | | | |
|-----------------------|---------------------------|-------------------------------|-----------------------------|
| £4.6m | £4.6m | £0 | 100% |
| Total planned savings | Planned savings delivered | Planned savings not delivered | Percentage savings achieved |

Source: Finance Report to Cabinet, 25 September 2018 and 2018-19 Final Outturn report.

The Council uses its reserves strategically, retains healthy balances, and some important earmarked reserves are almost fully used as planned

Why sustainable management of reserves is important

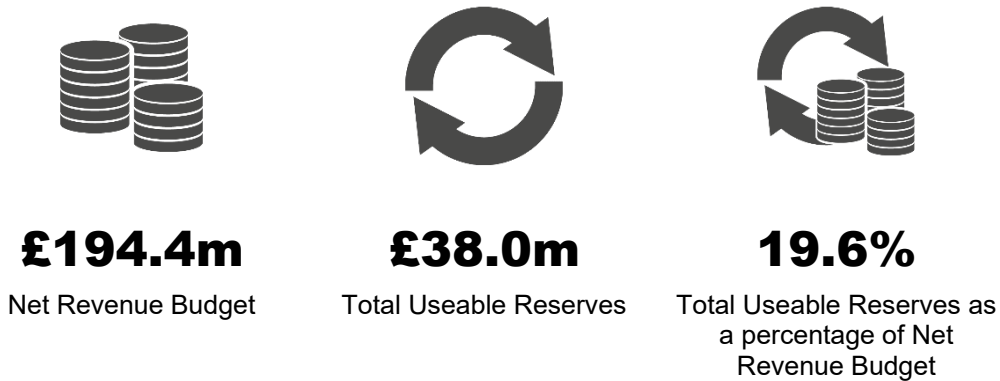
- 12 Healthy levels of useable reserves are an important safety net to support financial sustainability. As well as being available to fund unexpected funding pressures, useable reserves can also be an important funding source to support ‘invest to save’ initiatives designed to reduce the on-going cost of providing services. Councils that show a pattern of unplanned use of reserves to plug gaps in their revenue budget that result in reductions of reserve balances reduce their resilience to fund unforeseen budget pressures in future years.

What we found

- 13 The Council uses its usable reserves strategically, retains healthy balances, and some important earmarked reserves are almost fully used as planned. We reached this conclusion because:
- The Council has maintained an overall healthy level of reserves, using these in a planned way as part of its financial management. At the 31 March 2019, the Council held approximately £38 million of usable reserves.
 - The Budget Mitigation earmarked reserve reduced from £3.6 million at 31 March 2018 to £3.1 million at 31 March 2019 and is planned to reduce further to £1.1 million by 31 March 2020.
 - Schools balances reduced from £0.3 million at 31 March 2018 to a deficit of £0.2 million at 31 March 2019. The position has further deteriorated during 2019-20 with the Council projecting, in November 2019 a deficit of £1.3 million to be carried forward into 2020-21.
 - The Adult Social Care reserve, set up to provide the service with resilience and cope with in-year budget pressures, reduced from £1.6 million at 31 March 2018 to £0.8m at 31 March 2019.

Exhibit 6: amount of reserves vs annual budget, 2018-19

This exhibit shows the amount of usable reserves the Council had during 2018-19 compared with its net revenue budget for the same year.



Source: Denbighshire County Council audited 2018-19 Statement of Accounts.

The Council has had historically higher than average income from Council Tax and collection rates are good

Why council tax collection rates are important

- 14 Failure to collect the amount of council tax due to the Council will result in less income. This in turn may increase the financial pressures on the Council and require it to make additional savings. Whilst council tax is not the biggest source of funding for councils in Wales, it remains a key income source.

What we found

- 15 The Council has had historically higher than average income from Council Tax and collection rates are good. We reached this conclusion because:
 - The Council has the 7th highest Council Tax band “D” amount in Wales and Council Tax represents 17% of its total income. Whilst the Council has often increased its Council Tax by a lower percentage than other councils, it has consistently generated higher actual income than most other councils in Wales.
 - The Council collected 97.7% of Council Tax in 2018-19 and its Council Tax arrears level has remained around £2.5 million for the last four years, with below average write off of arrears.

Exhibit 7: Council tax collection rates

This exhibit shows the percentage of council tax due that the Council collected during 2018-19



Cash collected from Council Tax at 31 March 2019 was £51.3m (97.7%) against a collectable debit of £52.5m

Source: statswales.gov.wales

The Council has a prudent approach to borrowing and does not borrow to fund commercial investment

Why maintaining sustainable levels of borrowing is important

- 16 Borrowing can be a valuable source of funding, for example to fund large scale capital projects such as new schools or leisure centres. However, the cost of repaying borrowing including interest costs can have a long-term impact on ongoing revenue budgets. Councils that fail to properly balance the benefits and costs of borrowing with their current and predicted revenue budgets risk reducing the amount of funding available for service delivery. Borrowing to fund commercial activity has the potential to generate additional income to fund council services, however, it can also bring significant risks that would be associated with any commercial activity.

What we found

- 17 The Council has a prudent approach to borrowing and does not borrow to fund commercial investment. We reached this conclusion because:
- The Council approved its Treasury Management Strategy Statement 2019-20 and Prudential Indicators 2019-20 to 2021-22 in February 2019. It plans to borrow £45 million over the next three years on a reducing scale - £26 million, £15 million and £4 million. This is mostly to fund its 21st century schools programme. It has also borrowed 100% of the funding for its flood defence scheme that Welsh Government has agreed to reimburse at 75% through Revenue Support Grant over the next 25 years. The Council continues to benefit from current low interest rates.

- The Council does not borrow to fund commercial investment.

Exhibit 8: Council borrowing

The exhibit below shows the total amount of money that the Council has borrowed to fund commercial investments, as well as the cost of all the borrowing that the Council has as a proportion of its net revenue budget.



£0m

Amount of borrowing to fund commercial investments



6%

Cost of total borrowing as a proportion of net revenue budget 2018-19

Source: Denbighshire County Council audited 2018-19 Statement of Accounts.

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500
Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales
Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500
Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru
Gwefan: www.archwilio.cymru

Corporate Governance and Audit Committee Forward Work Programme

| | | | |
|----------------------|----|---|---|
| 29 April 2020 | | 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 Improvement & Modernisation– Alan Smith, Nicola Kneale |
| | 3 | Internal Audit Update (CIPFA update) | Head of Internal Audit – Lisa Lovegrove |
| | 4 | Forward Work Programme | Democratic Services |
| | | | |
| | | Reports | |
| | 5 | WAO Annual Audit Plan | Head of Finance / WAO |
| | 6 | Annual Governance Statement | Head of Business Improvement & Modernisation / Chief Internal Auditor |
| | 7 | Corporate Risk Management Update | Strategic Planning Manager – Nicola Kneale |
| | 8 | Budget Process | Head of Finance – Steve Gadd |
| Page 85 | 9 | Section 106 Audit Follow Up Report | Chief Internal Auditor – Lisa Lovegrove |
| | 10 | Support Budgets & Direct Payments Audit Follow Up Report | Chief Internal Auditor – Lisa Lovegrove |
| | 11 | Finance in Schools | Head of Finance – Steve Gadd |
| | 12 | Cost Safeguards in relation to major projects, contracts and procurements | Head of Finance – Steve Gadd |
| | 13 | Certification of Grants & Returns 2018/19 | Chief Finance Officer / WAO |
| | | | |
| 03 June 2020 | | 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 Improvement & Modernisation– Alan Smith, Nicola Kneale |
| | 3 | Forward Work Programme | Democratic Services |
| | | | |
| | | Reports | |
| | 4 | Internal Audit Annual Report | Chief Internal Auditor |
| | 6 | Annual Corporate Governance Committee Report | Head of Legal, HR and Democratic Services - Gary Williams |

Corporate Governance and Audit Committee Forward Work Programme

| | | | |
|--------------------------|---|--|---|
| | | | |
| 08 July 2020 | | 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 Improvement & Modernisation– Alan Smith, Nicola Kneale |
| | 3 | Internal Audit Update (CIPFA update) | Head of Internal Audit – Lisa Lovegrove |
| | 4 | Forward Work Programme | Democratic Services |
| | | | |
| | | Reports | |
| | 5 | WAO Annual Improvement Report | WAO |
| | 6 | Draft Statement of Accounts | Head of Finance |
| | 7 | Treasury Management Report | Head of Finance |
| | 8 | Annual Report on the Constitution | Head of Legal, HR and Democratic Services - Gary Williams |
| | | | |
| 06 September 2020 | | 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 Improvement & Modernisation– Alan Smith, Nicola Kneale |
| | 3 | Forward Work Programme | Democratic Services |
| | | | |
| | | Reports | |
| | 4 | Risk Management - Risk Appetite | The Planning and Performance Officer – Emma Horan |
| | 5 | Audit of Financial Statement Report | Head of Finance / WAO |
| | 6 | Approval of Statement of Accounts | Head of Finance |
| | 7 | Annual H&S Report | Corporate H&S Manager |
| | 8 | Annual SIRO Report | Head of Business Improvement & Modernisation |
| | | | |

Corporate Governance and Audit Committee Forward Work Programme

| | | | |
|-------------------------|---|--|---|
| 18 November 2020 | | 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 Improvement & Modernisation– Alan Smith, Nicola Kneale |
| | 3 | Forward Work Programme | Democratic Services |
| | | | |
| | | Reports | |
| | 4 | Internal Audit Update Report | Chief Internal Auditor |
| | 5 | Budget Update | Head of Finance |
| | 6 | Annual Report on Whistleblowing | Head of Legal, HR & Democratic Services |
| | 7 | Annual RIPA Report | Head of Legal, HR & Democratic Services |
| | 8 | Annual Complaints Report and Ombudsman’s Annual Letter | Statutory & Corporate Complaints Officer |

Page 7

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.

Date Updated : 10/03/2020 RTJ

This page is intentionally left blank

By virtue of paragraph(s) 13 of Part 4 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 13 of Part 4 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 13 of Part 4 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank