

# **Internal Audit Annual Report 2014-15**

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## Introduction & Background

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The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to deliver an annual internal audit (IA) opinion and report that the organisation can use to inform its governance statement. The annual opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, and incorporate:

- the IA opinion;
- a summary of the work that supports the IA opinion;
- a statement on the IA service's conformance with the PSIAS; and
- the results of the IA service's quality assurance and improvement programme.

## Internal Audit Opinion 2014-15

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In the Head of Internal Audit's opinion, Denbighshire County Council can have 'medium' assurance in the overall adequacy and effectiveness of its internal control environment, including its arrangements for governance and risk management.

There are no qualifications to this opinion.

In forming this opinion, the Head of Internal Audit (HIA) has used the same assurance ratings that IA uses in its reports.

<b>Green</b>	High Assurance	Risks and controls well managed
<b>Yellow</b>	Medium Assurance	Risks identified but are containable at service level
<b>Amber</b>	Low Assurance	Risks identified that require meeting with Director/Lead Member
<b>Red</b>	No Assurance	Significant risks identified that require member / officer case conference

The HIA has based his 2014-15 opinion on:

- the scope and outcome of IA's work during the year;
- IA report opinions and assurance ratings;
- the issues and risks that IA has raised during the year;
- the effectiveness of management's response to the issues and risks that IA has raised; and
- the outcome of the Council's review of its Corporate Governance Framework and governance arrangements 2014-15.

## Summary of Work to Support the Opinion

The HIA provides regular progress reports to the Corporate Governance Committee that include:

- an update on progress with delivery of the annual IA assurance plan;
- details of IA reports issued;
- details of IA follow-up work carried out; and
- IA service performance.

IA issued 25 audit opinions during the year, categorised as follow:

<b>Green</b>	High Assurance	11
<b>Yellow</b>	Medium Assurance	13
<b>Amber</b>	Low Assurance	1
<b>Red</b>	No Assurance	0

During the year, IA provided the following audit opinions:

Area of Work	Status of Project	Assurance Rating	Comments
<b>Statutory Assurance</b>			
Financial Systems (Ruthin) - Activedata Testing 2013/14	Complete	<b>Medium</b>	
Financial Assurance 2014/15 - Ruthin-based Services	Draft report	<b>Medium</b>	Discussing draft report and agreeing action plan
Financial Assurance 2014/15 - Rhyl-based Services	Complete	<b>Medium</b>	
Welsh Government 6 <sup>th</sup> Form Funding – overall management	Complete	<b>High</b>	
Welsh Government 6 <sup>th</sup> Form Funding – Denbigh High School	Complete	<b>Medium</b>	
Welsh Government 6 <sup>th</sup> Form Funding – Ysgol Glan Clwyd	Complete	<b>High</b>	
Welsh Government 6 <sup>th</sup> Form Funding – Prestatyn High School	Complete	<b>High</b>	
Welsh Government 6 <sup>th</sup> Form Funding – St. Brigid’s School	Complete	<b>Medium</b>	
Welsh Government 6 <sup>th</sup> Form Funding – Ysgol Brynhyfryd	Complete	<b>High</b>	
Welsh Government 6 <sup>th</sup> Form Funding – Ysgol Dinas Bran	Complete	<b>High</b>	
Community Safety Partnership	Complete	<b>Medium</b>	

Area of Work	Status of Project	Assurance Rating	Comments
Corporate Procurement	Draft report	Medium	Discussing draft report and agreeing action plan
Review of Strategic HR	Complete	Medium	
Member & Officer Remuneration	Complete	Medium	
Declarations of Interest & Hospitality	Complete	Medium	
Information Governance	Complete	Medium	
Cefndy Healthcare	Draft report	Medium	Discussing draft report and agreeing action plan
Cashiers Service	Draft report	High	Discussing draft report and agreeing action plan
Education - Financial Management	Complete	High	
Education - Procurement	Complete	High	Verbal presentation to School Finance Managers
Legal Services	Complete	Low	Action plan being followed up
Coroners Service	Complete	High	
Taxi & Operator Licensing	Complete	Medium	
Cessation of Employment	Complete	Medium	
Constitutional Arrangements - S151 Officer Role	Complete	High	

IA also reviewed high inherent risks from the Corporate Risk Register and various other areas from the Corporate Governance Framework during the year, not issuing formal reports but providing positive feedback on the management of these areas.

## Conformance with Public Sector Internal Audit Standards

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

During the year, the HIA carried out a self-assessment of the IA service against the PSIAS. Overall, the service fully complies with the majority of the Standards and elements of the Code of Ethics, and at least partially conforms to all others. The following action plan will be implemented during 2015/16 to address areas of improvement identified during the self-assessment.

Improvement Area	Target Date
<p>HIA to amend the process and content of the IA team's annual signing of the confidentiality and declaration of interest form to raise awareness of various requirements from PSIAS:</p> <ul style="list-style-type: none"> <li>• CIIA's Code of Ethics</li> <li>• Reference to DCC's Officer Code of Conduct</li> <li>• Requirements relating to data protection</li> <li>• Awareness of PSIAS</li> </ul>	31/05/15
HIA to check whether consultation with IA is a requirement of Financial Regulations, the project management methodology, policy development process etc. Any IA involvement could include advice on governance.	30/06/15
HIA to develop a governance framework for 'arms-length' organisations, partnerships, major service providers etc.	30/06/15
HIA to develop a fraud assurance plan during to enable the IA team to complete some proactive fraud work in future.	30/06/15
<p>HIA to review and amend the IA Charter for Corporate Governance Committee approval to take account of requirements of PSIAS:</p> <ul style="list-style-type: none"> <li>• Changes to the IA structure following service reorganisation</li> <li>• Providing assurance to external partners for reviews carried out by the service</li> <li>• Mandatory definition of IA</li> <li>• Details of the form, content and frequency that the HIA will report on the internal self-assessment and independent external assessment of the service against PSIAS and progress with the resulting improvement plan.</li> </ul>	31/07/15
The CISA qualified Senior Auditor has just returned from maternity leave and the HIA will assess the effectiveness of succession planning in IT areas to identify any knowledge gaps that need to be addressed through training or knowledge transfer on the Senior Auditor's return to work.	31/08/15

Improvement Area	Target Date
Although a wide range of training & development is undertaken in IA, there is no record of this as evidence. HIA to develop a training log for all members of staff in the IA team.	31/08/15
HIA to review learning outcomes from the CIPFA Certificate in Corporate Governance course to see whether there are any areas that would provide beneficial to the IA service in future projects.	31/12/15
HIA to review and revise all IA guidance documents to ensure that they cover all relevant areas, processes etc.	31/03/16
HIA to develop a more formal process to obtain feedback on projects and the IA service overall	31/03/16
HIA to ensure that an external review of the IA service is completed by the due date and every 5 years after that. A report will be produced for Corporate Governance Committee once the external review completed.	31/03/18



## Internal Audit Performance

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IA measures its performance in two key areas:

- Provision of ‘Statutory Assurance’ - these projects ensure that the Council delivers its S151 Officer obligations, is managing its main corporate risks and has robust arrangements in place for corporate governance and delivery of its corporate priorities.
- ‘Customer Standards’ - a range of indicators to ensure that IA delivers a good service to its customers.

The results below show that, overall, the service delivered 92% of ‘Statutory Assurance’ projects during the year, with just three projects not completed. These three projects will be completed as part of the 2015/16 audit work.

Given that the service has undergone a significant change during the year as part of the Freedom & Flexibilities Review, this is a considerable achievement and does not have an adverse impact on the HIA being able to provide an annual ‘Opinion’.

Where the service has not achieved 100% in its customer standards performance, the HIA has discussed the cases with relevant members of the IA team. Given the disruption to the team during the year, performance has been good, but will be improved during 2015/16.

<b>Statutory Assurance – target 100%</b>
<b>Review of agreed Statutory Assurance areas in IA Assurance Plan for the Annual IA Report</b>
Actual performance 92%, with 35 of 38 projects completed.
<b>Customer Standards – all targets 100% (but minimum performance tolerated 90%)</b>
<b>Contact customers at least 2 weeks in advance to arrange a suitable date for our visit</b>
Actual performance for the year was 100%.
<b>Send customers the agreed Project Scoping Document before we commence work</b>
Actual performance for the year was 96%. One project commenced without issuing the Scoping Document.
<b>Send the customer a draft report within 10 working days of the closing meeting</b>
Actual performance for the year was 93%. Two draft reports issued after the 10 day target (13 and 17 days).
<b>Send the customer our final audit report within 5 working days of agreeing the draft</b>
Actual performance for the year was 90%. Three final reports issued after 5 day target (one after 7 days and two after 8 days)