



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

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# Internal Audit Strategy 2017-18

March 2017



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## Introduction

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

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### PSIAS definition of internal auditing...

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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.

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

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### Internal Audit's objectives...

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

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

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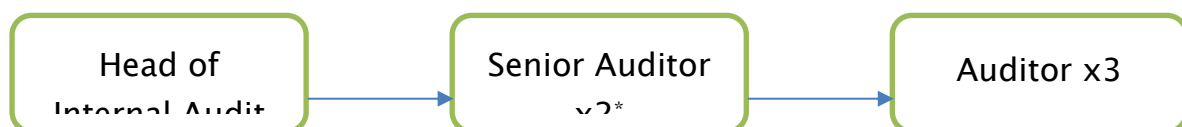
Add value in all areas of our work, providing excellent service to our customers.

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## Service structure and capacity

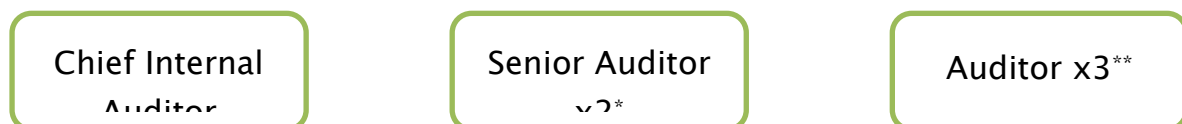
5. The Internal Audit Service has undergone significant change in recent years and this will continue during 2017–18. The Head of Internal Audit (HIA) retires at the end of May 2017 but a replacement has already been appointed to allow for business continuity and handover to be managed efficiently and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

### Structure to 29/05/17



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

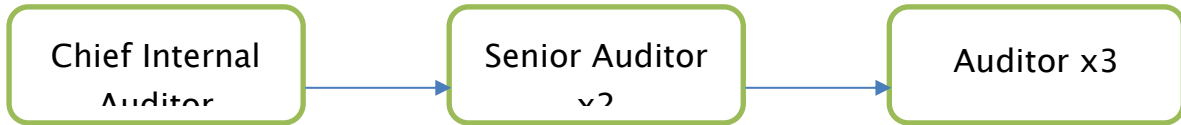
### Structure from 01/06/17





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

### Future Planned Structure



## External assessment of the Internal Audit Service

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

## Assurance planning

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

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



## Internal Audit's priorities for 2017-18

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

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

## Current Priority Projects for 2017-18

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

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

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

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## Internal Audit performance monitoring

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

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

Follow Up Action Plans & Service Improvement	Target
Internal Audit will carry out its follow up projects on the due dates to ensure that agreed service improvements are being implemented promptly.	80%
Internal Audit will monitor and report on the % of agreed improvement actions that have been implemented by services to show that Internal Audit's service is effective in helping to deliver improvement.	75%