



Internal Audit Annual Report 2017-18

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Lisa Lovegrove CMIIA, CISA, Chief Internal Auditor
Denbighshire Internal Audit Services, Caledfryn, Smithfield Road, Denbigh, LL16 3RJ

Introduction and background

1. The Accounts and Audit (Wales) Regulations 2014 require the review of governance arrangements to be reported within the authority, in the Council's case the Corporate Governance Committee, and externally with the published accounts of the authority. The Annual Governance Statement (AGS) is an annual review of the systems of internal control and gathers assurance from various sources to support it. Internal Audit is a key contributor and the Chief Internal Auditor (CIA) should provide a written annual report to those charged with governance to support the AGS.
2. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive', in the Council's case the Chief Internal Auditor (CIA), to deliver an annual internal audit opinion and report that the organisation can use to inform its annual governance statement.
3. The annual opinion must include the following:
 - An opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment.
 - Disclose any qualifications to that opinion, together with the reason for the qualification.
 - Present a summary of the audit work from which the opinion is derived, including reliance placed on other assurance bodies.
 - Draw attention to any issues the Chief Internal Auditor judges particularly relevant to the preparation of the Annual Governance Statement.
 - Summarise the performance of the internal audit function against its performance measures.
 - Comment on compliance with the PSIAS and communicate the results of the Internal Audit quality assurance programme.

Internal Audit opinion 2017-18

4. The CIA has based her 2017–18 opinion on the following:
 - The scope and outcome of Internal Audit’s work during the year;
 - IA report opinions and assurance ratings;
 - The issues and risks that Internal Audit has raised during the year;
 - The effectiveness of management’s response to the issues and risks that Internal Audit has raised;
 - Assurances received from external regulators and other sources;
 - The outcome of the Council’s review of its Corporate Governance Framework and governance arrangements 2017–18.
5. Over the year, Internal Audit has found Senior Management at Denbighshire County Council to be supportive and responsive to the issues raised. Internal Audit has a good relationship with management whereby they openly share the areas where they perceive to be potential problems and take on board the results of our work as an opportunity to making improvement.
6. Three audits during the year have received ‘Low’ assurance, the others being awarded ‘High’ or ‘Medium’ Assurance ratings. A few pieces of advisory work has also been completed in the year at the request of Management, which gives a strong indicator that Management is willing to engage with Internal Audit to establish good risk and control environments. Where significant issues have been identified, overall these have been appropriately addressed, which confirms that management is responsive to our work.
7. In reaching my opinion, I have considered the balance of the results of our audit work against this environment, and can offer ‘Medium’ assurance in the overall adequacy and effectiveness of its internal control environment, including its arrangements for governance and risk management. While I do not consider any areas of significant corporate concern, some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.
8. There are no qualifications to this opinion.

Definitions of Assurance Ratings

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
Low Assurance	Significant weaknesses in management of risks and/or controls that put achievement of objectives at risk

Summary of Audit Work 2017/18

9. The Audit Strategy for 2017–18 was agreed with the operation of a flexible plan so key changes to risks and the control environment could be factored during the year so that Internal Audit can focus its resources in areas of greatest priority and risk at the time.

10. It is important that Corporate Governance Committee are aware of the status of internal audit work and that this information helps to place reliance on the work of internal audit and its ability to deliver the necessary assurance. The Schedule in Appendix 1 contains a list of all audits agreed in the Audit Strategy 2016/17 and the final outturn for the financial year.

11. In total, we gave 31 audit opinions during the year, categorised as follows:

Green	High Assurance	14
Yellow	Medium Assurance	13
Amber	Low Assurance	4
Red	No Assurance	0

12. The majority of opinions were either ‘high’ or ‘medium’ this year. There is, however, an increase in the number of ‘low’ assurance ratings from one in 2016–17 to four this year. In these cases, the Corporate Governance Committee will receive progress reports from the service to oversee the implementation of the agreed improvements.

13. There were no reports with ‘No Assurance’ rating issued during the year.

14. On top of this work, Internal Audit has followed up agreed actions arising from our audit work to establish if necessary improvements have been achieved. A summary of the results of this work is reported to each Corporate Governance Committee meeting and the latest position is shown in Appendix 2.

15. Internal Audit reports usually include an action plan that raises risks/issues that highlight improvement areas. These risks/issues are defined in the following table. No ‘Critical’ risks/issues were raised during the year.

Definitions of Risks/Issues

Low	Advisory issues discussed with managers during the audit and not included in audit reports and action plans
Moderate	Operational issues that are containable at service level
Major	Corporate, strategic and/or cross-service issues potentially requiring wider discussion at SLT and/or CET
Critical	Significant issues to be brought to the attention of SLT, CET, Cabinet Lead Members and Corporate Governance Committee

Added Value

16. Throughout the year, Internal Audit has strived to add value wherever possible i.e. going beyond the standard expected and providing something “more” without any added costs.

17. This includes the communication and circulation of fraud prevention alerts to those that may be affected. We also benchmark and share practices with other Council’s Internal Audit Services in Wales as part of the Welsh Chief Auditor’s Group, sharing areas of emerging risk, or results from relevant audit reviews undertaken at other Welsh Councils to enable sharing of best practice and comparison of common issues or risks.

18. Examples include:

- Developing new guidance for Managing Voluntary School funds. There is a high potential area for fraud in this area, and continuing area of weakness over the years, so this document clearly sets out the key roles and responsibilities to make sure the governance arrangements are in place.
- Sharing work programmes for testing changes to legislation e.g. IR 35
- Responding to potential allegations of fraud and investigating financial processes and documents that may have been affected.
- Completing a joint audit of the Joint Corporate Procurement Unit with Flintshire County Council Internal Audit Service.
- Sharing experiences with Chief Internal Auditors from the other North Wales Councils and Betsi Cadwaladr University Health Board on progress with implementing Section 9 of the Social Services and Well-Being Act (Wales) 2014 in relation to pooled budgets.

Internal Audit Performance

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

- ‘Customer Standards’ – A range of indicators to ensure that Internal Audit delivers a good service to its customers.
- Follow up Action Plans and Service Improvement – the effectiveness of Internal Audit in raising actions that are implemented to deliver service improvements.

20. The table below shows Internal Audit’s performance to date for 2017/18.

Performance Target	Average Performance
Contact services at least 2 weeks in advance of audit	100%
Discuss, agree and issue scope for each audit	100%
Draft report Issued within 10 working days of the closing meeting	94% Average time taken is 7 days.
Final report Issued within 5 working days of agreeing the draft report and action plan	87% Average time taken is days
Follow up work carried out on the date they are due	100%
Implementation of Agreed actions	78%

21. Internal Audit is responsible for conducting its work in conformance with the Code of Ethics and Standards for the Professional Practice of Internal Audit as set by the Institute of Internal Auditors and further guided by the Public Sector Internal Standards (PSIAS). The Internal Audit service is in the process of being independently quality assessed for conformance with the Standards.

Conformance with Public Sector Internal Audit Standards

The objectives of the PSIAS

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

Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

22. In 2014/15, Internal Audit carried out a self-assessment of the Internal Audit service. Overall, the service fully complied with the majority of the Standards and elements of the Code of Ethics, and at least partially conformed to all others. The resulting action plan was fully implemented during 2015/16 to address areas of improvement identified during the self-assessment.

23. A further self-assessment was carried out in 2017/18 and the Internal Audit service conformed with nearly all of the PSIAS with the exception of completing an independent external assessment. The results along with the Quality Improvement Action Plan was reported to Corporate Governance Committee in November 2017.

24. An independent external assessment was undertaken on the 21 March 2018 and the results will be reported to Corporate Governance Committee once published.

Appendix 1 – Internal Audit Work Plan 2017-18

25. The following table provides an overview of Internal Audit reports issued during the year, including the overall Assurance Ratings and the number of risks/issues raised in the action plans.

Report Title	Status of Project	Assurance Rating	Risks/Issues Raised		
			Critical	Major	Moderate
Corporate Document Retention	Complete	Low	0	6	1
Corporate Safeguarding Review	Complete	Medium	Continued review of previous IA report. Assurance Rating improved from 'Low' to 'Medium'		
Corporate Priority: Modernising the Council	Complete	Medium	0	0	2
Corporate Priority: Improving our Roads	Complete	Medium	0	0	2
Alternative Service Provision: <ul style="list-style-type: none"> Citizens Advice Denbighshire Governance Arrangements 	Complete	High	0	0	1
Revenues & Benefits;	Complete	High	-	-	-
<ul style="list-style-type: none"> Partnership Arrangements 	Complete	High	0	0	0
<ul style="list-style-type: none"> Benefits 	Complete	High	0	0	0
<ul style="list-style-type: none"> Sundry Debtors 	Complete	High	0	0	3
<ul style="list-style-type: none"> Council Tax & Business Rates 	Complete	High	0	0	0
Financial assurance areas;	Complete	High	-	-	-
<ul style="list-style-type: none"> Accounts Payable 	Complete	High	0	0	2
<ul style="list-style-type: none"> Payroll & Pensions 	Complete	High	0	0	1
<ul style="list-style-type: none"> Treasury Management 	Complete	High	0	0	0
<ul style="list-style-type: none"> VAT Returns 	Complete	High	0	0	0
<ul style="list-style-type: none"> Bank Reconciliation 	Complete	High	0	0	0
Welsh Government 6th form funding & PLASC (Pupil Level Annual School Census) Review – St Brigids School	Complete	N/a	0	0	0

Report Title	Status of Project	Assurance Rating	Risks/Issues Raised		
			Critical	Major	Moderate
Welsh Government 6th form funding & PLASC (Pupil Level Annual School Census) Review – Denbigh High School	Complete	N/a	0	0	0
AONB Grant	Complete	N/a	0	0	0
Settlement Agreements	Complete	Medium	0	0	2
Corporate Communications	Complete	Medium	0	0	3
Travel & Subsistence	Complete	Medium	0	1	3
CCTV Partnership	Complete	Medium	0	0	3
Public Conveniences	Complete	Low	0	1	3
Project Management;	Draft	Medium*	–	–	–
• Denbigh Extra Care Housing	Draft	Medium*			
• Ysgol Carreg Emlyn	Draft	Medium*			
• Glasdir (Rhos St & Pen Barras)	Draft	Medium*			
Health & Safety in Schools	Draft	Low*	–	–	–
Corporate Procurement: – Joint Procurement Unit – Aggregate spend	Draft	Low*	–	–	–
Corporate Risk Management Assurance	Complete	High	0	0	0
Petty Cash Review	Complete	Medium	0	0	3
Managing the Risk of Fraud & Corruption Ph 1	Complete	High	0	0	2
Managing the Risk of Fraud & Corruption Ph 2	Complete	Medium	0	0	2

* Reports are not yet finalised and so assurance rating and risk/issues raised have not been formally agreed with the respective customers.

Appendix 2 – Follow Up Progress Update

26. The CIA regularly reports to Corporate Governance Committee on progress with Internal Audit's follow reviews of action plans included in its reports. The following table shows the position at the end of 2017-18 for Internal Audit reviews where improvement actions are outstanding.

27. From April 2018, the follow up process will change to put more of the onus on management to report progress against agreed actions using the Council's performance management system, 'Verito'. Internal Audit will monitor progress updates entered onto the system and will continue to follow up agreed action where a 'low' or 'no' assurance rating is given.

Summary of outstanding issues from Internal Audit reports at 31 March 2018

Audit Report	No. of Actions in the Audit Action Plan									Next IA F/up	Comments
	Actions Due			Actions Complete			Actions Outstanding				
Community Support Services											
Paris Financials	0	2	5	0	0	2	0	2	3	Mar 18	•3 follow ups carried out
Cefndy Healthcare	0	0	7	0	0	7	0	0	0	N/a	•Complete
Payments to External Providers	0	0	2	0	0	2	0	0	0	N/a	•Complete
POVA	0	0	7	0	0	6	0	0	1	N/a	•Follow up complete. 1 action carried forward to Procurement review
Education & Children's Services											
Governance in Schools	0	0	19	0	0	15	0	0	4	N/a	•Review of Governance in Schools in 2018-19
Ysgol Mair RC	0	2	20	0	2	20	0	0	0	N/a	•Complete
IT & IM Management in Schools	0	0	17	0	0	10	0	0	7	May 18	•2 follows up carried out
Management of Voluntary School Funds	0	0	8	0	0	8	0	0	0	N/a	•Complete
Facilities, Assets & Housing											
Housing Rents	0	0	5	0	0	5	0	0	0	N/a	•Complete

Housing Allocations & Voids	0	0	5	0	0	4	0	0	1	Mar 18	•2 follow ups carried out
Industrial Estates	0	0	1	0	0	1	0	0	1	Feb 18	•4th follow up in progress
Review On-Site Income & Security at Leisure Centres	0	0	9	0	0	9	0	0	0	N/a	•Complete
Ruthin Craft Centre	0	0	4	0	0	4	0	0	0	N/a	•Complete
Rhyl Harbour - Review of Operational Management	0	0	4	0	0	0	0	0	4	Jun 17	•1 follow up carried out
Finance											
Revenues Services	0	0	16	0	0	13	0	0	3	N/a	•Follow up reported as part of 2017/18 audit
Financial services 2016-17	0	2	8	0	2	7	0	0	1	N/a	•Follow up reported as part of 2017/18 audit
Highways & Environmental Services											
Street Works	0	0	5	0	0	4	0	0	1	Mar 18	•4th follow up in progress
Corporate Fleet Management	0	7	12	0	7	11	0	0	1	Oct 18	•3 follow ups carried out
Passenger Transport	0	0	5	0	0	4	0	0	1	Apr 18	•Follow up will be reported as part of School Transport audit
Legal, HR & Democratic Services											
HR Management in Schools	0	1	5	0	0	5	0	1	0	Feb 18	•3rd follow up in progress
Management & Administration of Legal Services	0	5	7	0	5	7	0	0	0	N/a	•Complete
Planning & Public Protection											
Community Enforcement	0	0	9	0	0	9	0	0	0	N/a	•Complete
Housing Enforcement	0	0	2	0	0	1	0	0	1	Oct 18	•2 follow ups carried out
Parking Services	0	0	13	0	0	13	0	0	0	N/a	•Complete
Developing the Local Economy	0	1	2	0	1	2	0	0	0	N/a	•Complete
Corporate Reviews											

Corporate Procurement	0	0	5	0	0	1	0	0	4	Aug 18	•1 follow up carried out
IT Access Management	0	2	8	0	2	4	0	0	4	Aug 18	•4 follow ups carried out
Physical Security of information	0	3	3	0	3	3	0	0	0	N/a	•Complete
Sickness Absence	0	0	9	0	0	9	0	0	0	N/a	•Complete
Corporate Safeguarding	0	0	19	0	0	18	0	0	1	N/a	•1 remaining action transferred to procurement.
Modernising the Council	0	0	2	0	0	0	0	0	2	May 18	•1 follow up carried out