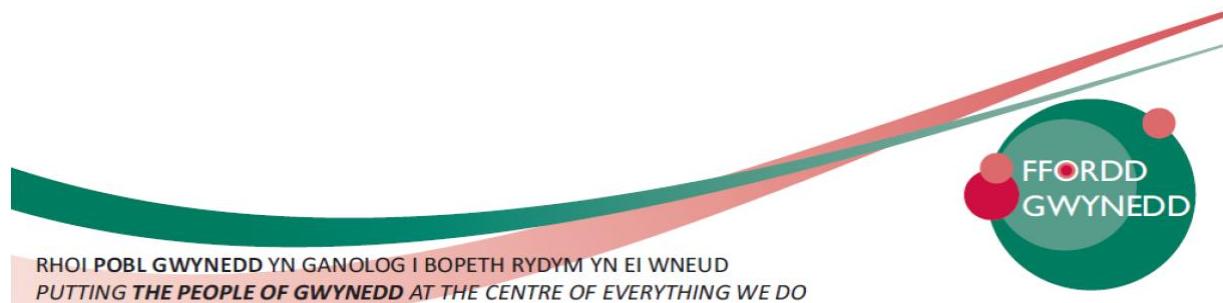


# INTERNAL AUDIT REPORT



## EXTERNAL QUALITY ASSESSMENT OF DENBIGHSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE



## **EXTERNAL QUALITY ASSESSMENT OF DENBIGHSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE**

### **1. Introduction**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) became effective from 1<sup>st</sup> April 2013 (revised as from 1 April 2017) and introduced a requirement for an external assessment of all internal audit services, which must be conducted at least once every five years by a qualified, independent reviewer from outside the organisation.
- 1.2 The two possible approaches to external assessments outlined in the standard included either a full external assessment or an internal self-assessment validated by an external reviewer.
- 1.3 Members of the Welsh Chief Internal Auditors Group elected to adopt the self-assessment approach, with another member of the Group undertaking the validation.

### **2. Purpose**

- 2.1 The purpose of the external assessment is to help improve the delivery of the audit service to the organisation. The assessment is designed to be a supportive process that identifies opportunities for development which ultimately help to enhance the value of the audit function to the authority.

### **3. Results**

- 3.1 An external validation of the self-assessment completed by the Chief Internal Auditor of Denbighshire County Council was undertaken by the Audit Manager of Gwynedd Council.
- 3.2 In summary, there are 334 best practice requirements within the PSIAS. A self-assessment review of the conformance against the PSIAS was undertaken by the Chief Internal Auditor during 2017/18. The results of the self-assessment and the resulting Quality Assurance Improvement Plan was submitted to the Corporate Governance Committee in November 2017.
- 3.3 Following the external validation of the self-assessment, it is considered that the Internal Audit Service of Denbighshire County Council is currently conforming to 308 of the requirements, a partial conformance with 14 and no non-conformance.
- 3.4 The results of the checklist is summarised in Table 1 overleaf:

**Table 1 – Summary of Conformance with the Standards**

Standard	Conformance				
	Y	N	P	N/A	Total
1. Definition of Audit Risk	3				3
2. Code of Ethics	12		1		13
3. Attribute Standards					
1000 Purpose, Authority and Responsibility	21		2		23
1100 Independence and Objectivity	26		1	2	29
1200 Proficiency and Due Professional Care	21				21
1300 Quality Assurance & Improvement Programme	22		4	1	27
4. Performance Standards					
2000 Managing the Internal Audit Activity	42		1	3	46
2100 Nature of Work	29		2		31
2200 Engagement Planning	56			2	58
2300 Performing the Engagement	22				22
2400 Communicating Results	48		3	4	55
2500 Monitoring Progress	4				4
2600 Communicating the Acceptance of Risks	2				2
	308	0	14	12	334

Y – Yes, N – No, P – Partially and N/A – Not Applicable

3.5 The areas of partial or non-conformance with the PSIAS are provided in section 4 along with suggested areas for improvement.

#### **4. Areas of Non-Conformance or Partial Conformance / Suggested Areas for Improvement**

##### **4.1 Code of Ethics**

4.1.1 Section 6 of the Public Sector Internal Audit Standards states in addition to conformance with the Code of Ethics, internal auditors who work in the public sector must also have regard to the Committee Standards of Public Life's *Seven Principles of Public Life*.

4.1.2 Although it is a requirement for all members of the Internal Audit service to make an annual declaration that they agree to comply with the IIA (Institute of Internal Audit) Code of Ethics, the declaration did not encompass the *Seven Principles of Public Life*. However, following the external assessment, the Chief Internal Auditor has amended the Internal Audit Declaration Form to comply with the Standard.

#### **4.2 Standard 1000: Purpose, Authority and Responsibility**

- 4.2.1 The Internal Audit Charter does cover arrangements for appropriate resourcing, however, the Charter does not incorporate to whom to report if there were insufficient resources.

#### **4.3 Standard 1100: Independence and Objectivity**

- 4.3.1 The Standard suggests that on an annual basis the board approves the internal audit budget and resource plan. Denbighshire's Internal Audit Service has produced an Internal Audit Strategy which represents the proposed internal audit activity for the year and provides an outline scope of coverage. However, the Internal Audit Strategy does not provide details of the annual resources available for internal audit, i.e. number of productive days available after taking into account non-productive time, e.g. annual leave, training etc.

#### **4.4 Standard 1300: Quality Assurance and Improvement Programme**

- 4.4.1 The Standards require that a Quality Assurance and Improvement Programme (QAIP) is developed and maintained to enable the internal audit activity to be assessed against the PSIAS for conformance. The QAIP has been designed by the IIA Global to assist in raising standards.
- 4.4.2 The completion of the *Checklist for Assessing Conformance with the PSIAS* is an important element of the QAIP. The checklist was developed by CIPFA to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. The Local Government Application Note states "*if the periodic assessment is in the form of self-assessment, the checklist for assessing conformance in the Application Note would be recommended as it covers both the PSIAS and the content of the Application Note itself*". However, the internal assessment was carried out using the IIA's Checklist. A new checklist is currently being developed by CIPFA.
- 4.4.3 The public sector requirement to PSIAS 1320: Reporting on the Quality Assurance and Improvement Programme states "*the results of the quality assurance and improvement programme against any improvement plans must be reported in the annual report*". The results of the self-assessment carried out in 2017/18 along with the Quality Assurance and Improvement Programme was reported to the Corporate Governance Committee in November 2017. However, the Annual Report did not include the QAIP although reference was made to conformance with the Standards.
- 4.4.4 The Standards require that the Quality Assurance and Improvement Programme include both internal and external assessments. The results of this external assessment should be included in the Quality Assurance Improvement Programme and presented to committee.

- 4.4.5 The periodic assessment should include a review of the activity against the risk-based plan and the achievement of its aims and objectives. The Internal Audit Strategy 2017/18 identified a ‘pot’ of projects that were identified as main priorities. In the Internal Audit Annual Report produced by the Chief Internal Auditor, it did not report on activity against the priority projects and only provided details on actual reports issued, hence a comparison of planned versus actual was not provided.

#### **4.5 Standard 2000: Managing the Internal Audit Activity**

##### ***Reporting to Senior Management and the Board***

- 4.5.1 The PSIAS states, “*the frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board*”.
- 4.5.2 The Corporate Governance Committee has a standing item on its agenda the “*Forward Work Programme*” of the Committee for an Internal Audit Update report. For the financial year 2017/18, a total of nine meetings of the Committee were scheduled but five of the meetings were cancelled. The Committee also receives ‘low’ or ‘no’ assurance reports as a separate agenda item of the next available meeting, which ensures that important information is communicated promptly. The frequency of the Internal Audit updates should, therefore, be discussed and agreed and the forward work programme updated accordingly.

#### **4.6 Standard 2100: Nature of Work**

##### ***2110: Governance***

- 4.6.1 In order to conform with the Standards, the internal audit activity is required to assess and make appropriate recommendations for improving the governance process. Denbighshire’s Internal Audit Service do not make recommendations but an agreed improvement action plan is produced in conjunction with the client which enables better ownership of the actions.
- 4.6.2 The PSIAS require the internal audit activity to evaluate the design, implementation and effectiveness of the Authority’s ethics-related objectives, programs and activities. Although an audit of “*Managing the Risk of Fraud and Corruption*” has been carried out, which incorporated ensuring policies were in place e.g. whistleblowing, code of conduct etc. no specific audits have been conducted in relation to ethics and culture.

#### **4.7 Standard 2400: Communicating Results**

##### ***2410: Criteria for Communicating***

- 4.7.1 The basic aim of every internal audit report should be to prompt management to implement the agreed actions for change leading to improvement in the control environment and performance. Recommendations should be prioritised according to risk. The recommendations and the resultant action plans should be agreed prior to the issue of the final report.

- 4.7.2 Any areas of disagreement between the internal auditor and management that cannot be resolved by discussion should be recorded in the action plan and the residual risk highlighted. Those weaknesses giving rise to significant risks that are not agreed should be brought to the attention of a more senior level of management and the board.
- 4.7.3 As noted in para. 4.5.1, Internal Audit no longer makes recommendations but a plan of agreed actions is drawn up in conjunction with the client. Although agreement on actions is discussed, it is best practice for the Internal Audit Charter to reference how areas of disagreement between Internal Audit and management are reported upon i.e. where there is no agreement to mitigate risk(s) and how will the matter be escalated.

**2450: Overall Opinion**

- 4.7.4 The PSIAS states that the Head of Internal Audit Annual Report should incorporate a comparison of work actually carried out with the work planned. However, the annual report only provides an overview of reports issued during the year, including the overall assurance ratings and the number of issues/risks raised in the action plans, and no comparison is made with work carried out with the work planned (see also para. 4.4.5).

## 5. Overall Opinion

- 5.1 The Quality Assessment Manual produced by the Institute of Internal Auditors suggests the following ratings to indicate the level of conformance with the PSIAS.

- **Generally Conforms** – which means that the internal activity has a charter, policies and processes that are judged to be in conformance with the standards.
- **Partially Conforms** – which means that deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- **Does Not Conform** – which means that deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

- 5.2 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.

**Luned Fôn Jones**  
**Audit Manager – Cyngor Gwynedd**

APPENDIX A

DENBIGHSHIRE COUNTY COUNCIL INTERNAL AUDIT SERVICE - ACTION PLAN				
REF	STANDARD	AGREED ACTION	RESPONSIBILITY FOR ACTION	TIMESCALE
<b>Code of Ethics</b>				
1.	Do internal auditors have regard to the Standards of Public Life's <i>Seven Principles of Public Life?</i>	Amend the Annual Declaration to include Standards of Public Life's <i>Seven Principles of Public Life.</i>	Chief Internal Auditor	Completed
<b>1000: Purpose, Authority and Responsibility</b>				
2.	Does the internal audit charter cover the arrangements for appropriate resourcing?	Internal Audit Charter "Resources" should incorporate the reporting arrangements if there are insufficient resources.	Chief Internal Auditor	May 2019
<b>1100: Independence and Objectivity</b>				
3.	The board approves the internal audit budget and resource plan.	Provide details of the annual resources available for Internal Audit, i.e. number of productive audit days available after taking into account non-productive time, e.g. annual leave, training etc. in the Internal Audit Strategy.	Chief Internal Auditor	May 2019
<b>1300: Quality Assurance and Improvement Programme</b>				
4.	The " <i>Checklist for Assessing Conformance with the PSIAS</i> " produced by CIPFA to satisfy the requirements set out in PSIAS 1311 and 1312 was not used as a basis for the internal assessment.	The IIA's checklist was used for the internal assessment.  Agree to use the PSIAS checklist as agreed by the Welsh Chief Auditors Group in future to conduct the internal assessment.	Chief Internal Auditor	March 2019

REF	STANDARD	AGREED ACTION	RESPONSIBILITY FOR ACTION	TIMESCALE
	<b>1300: Quality Assurance and Improvement Programme</b> <b>1311: Internal Assessments</b>			
5.	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	The Internal Audit Update report to Corporate Governance Committee to include a review of activity against the risk-based plan.	Chief Internal Auditor	May 2019
	<b>1300: Quality Assurance and Improvement Programme</b> <b>1311: Reporting on the Quality Assurance Programme</b>			
6.	Has the CAE reported the results of the QAIP to senior management and the board and that the results of both external and periodic internal assessment must be communicated upon completion.	This has already been identified following the internal assessment. The external assessment report will be presented to the Corporate Governance Committee.	Chief Internal Auditor	November 2018
7.	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	Include results of the QAIP and progress within the annual report	Chief Internal Auditor	May 2019
	<b>2000: Managing the Internal Audit Activity</b> <b>2060: Reporting to Senior Management and the Board</b>			
8.	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and the board?	This was also highlighted as part of the review of the Corporate Governance Committee's effectiveness in line with the CIPFA Code of Practice.  Review frequency of reporting on Internal Audit activity to the Corporate Governance and update the Forward Work Programme if required.	Corporate Governance Committee / Chief Internal Auditor / Democratic Services	April 2019

REF	STANDARD	AGREED ACTION	RESPONSIBILITY FOR ACTION	TIMESCALE
	<b>2100: Managing the Internal Audit Activity</b> <b>2110: Governance</b>			
9.	Has the internal audit activity evaluated the: a) Design b) Implementation, and c) Effectiveness of the organisation's ethics-related objectives, programmes and activities?	Include a review of Ethics within the Internal Audit Strategy.	Chief Internal Auditor	May 2019
	<b>2400: Communicating Results</b> <b>2410: Criteria for Communicating</b>			
10.	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	Where risk/issues or actions cannot be agreed, these are highlighted within the action plan of the relevant internal audit report and the Corporate Governance Committee made aware. This will be incorporated within the Internal Audit Charter for clarity.	Chief Internal Auditor	May 2019
11.	Does the annual report incorporate a comparison of work actually carried out with the work planned?	This action is difficult to achieve in practice as the Internal Audit plan changes during the year to correspond to changes in risk and priorities.  Chief Internal Auditor to assess the effort required to perform this comparison, and if it is not excessive, the comparison will be included in the Annual Internal Audit report.	Chief Internal Auditor	May 2019