



Internal Audit Annual Report 2018-19

June 2019



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Introduction and background

1. This report outlines the internal audit work that Internal Audit has carried out for the year ended 31 March 2019.
2. 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.
3. 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.
4. This is achieved through a risk-based plan of work, agreed with management and the Corporate Governance Committee. The opinion does not imply that Internal Audit has reviewed all risks relating to the Council.

Internal Audit opinion 2018-19

5. The CIA has based her 2018–19 opinion on the following:
 - The scope and outcome of Internal Audit’s work during the year;
 - Any follow up action taken in respect of audits from previous periods.
 - 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 2018–19.
6. **Governance, risk management and control arrangements in place for key business functions is satisfactory overall.** There are some areas of weakness in management of risks and/or controls which may put achievement of objectives at risk. Improvements are required to address such areas so that the framework of governance, risk management and control is adequate. See appendix 1 for a list of audit results, and appendix 3 for a list of the assurance ratings definitions.
7. Internal Audit continues to maintain 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. In some instances, Management’s request for an audit of a known area of concern has resulted in low assurance reports, whereby our work assists the service to prioritise the response and steps to take to improve the situation.
8. Five audits during the year have received ‘Low’ assurance, the others being awarded ‘High’ or ‘Medium’ Assurance ratings. Two piece of advisory work has been completed during the year. 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.

9. In reaching my opinion, I have considered the balance of the results of our audit work against this environment and concluded that the

major risk issues and low assurance opinions are not significant in aggregate to the system of internal control.

Summary of Audit Work 2018/19

10. The Internal Audit Strategy is produced to concentrate on key risk facing the Council. The Internal Audit Strategy 2018–19 was agreed with the Corporate Governance Committee in 25 April 2018; it has been updated throughout the year to ensure that Internal Audit focuses its resources in areas of greatest priority and risk at the time and provides assurance in the areas where it is most needed. Progress and changes are reported to Corporate Governance Committee as part of the Internal Audit Update Report.
11. The table below shows a summary of the audit opinions provided during the year, categorised as follows:

Assurance Rating		2016–17	2017–18	2018–19
Green	High Assurance	13	14	8
Yellow	Medium Assurance	13	13	19
Amber	Low Assurance	1	4	5
Red	No Assurance	0	0	0
		27	31	32

12. The majority of opinions were ‘medium’ this year and the number of ‘low’ assurance ratings of three this year is fairly consistent with previous years. This indicates that Internal Audit’s risk based approach is focussed on the key risks of the Council and may suggest that controls are showing signs of strain as services and capacity are increasingly stretched. A couple of the Low Assurance reviews were performed following management indicating areas of concern. All low assurance reviews are reported to the Corporate Governance Committee and they will receive progress reports from the service to oversee the implementation of the agreed improvements.
13. As in previous years, there were no reports with ‘No Assurance’ rating issued during the year.
14. The Schedule in Appendix 1 contains a list of all audits agreed in the Audit Strategy 2018/19 and the final outturn for the financial year.

15. 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 Corporate Governance Committee regularly and the latest position is shown in Appendix 2.

16. The Internal Audit Opinion considers the number of no and low assurance reports, particularly the issues raised and the overall impact on the control environment.

Counter Fraud

17. Counter-fraud arrangements are vital to the Council with the aim of protecting public funds and accountability.

National Fraud Initiative (NFI)

18. Work on the 2016/17 exercise was concluded and subsequently commenced on the 2018/19 exercise. A review of matches is underway and the table below summarises the main results achieved in 2016/17 and so far in 2018/19:

NFI Results	2016/17	2018/19 (still in progress)
Housing Benefit	£17,663	£21,759
VAT	£85	-
Council Tax Single Persons Discount	£9,771	-
Council Tax rising 18s	£964	-
Council Tax Reduction Scheme	£3,302	£7,711
Total	£31,784	£29,470

Irregularities

19. During the 2018/19 financial year, Internal Audit has been informed of 10 allegations of fraud. Internal Audit carried out, or assisted with two investigations. A summary of the outcomes is shown below.

Outcome of Investigations	2018/19
Dismissal / contract terminations	2
Resignations accepted after investigation	1
Written warnings issued	0
No further action	5
Investigations pending outcomes	1
Prosecutions	1

Proactive exercises

20. The internal Audit team has undertaken proactive exercises which were included in the Internal Audit Strategy. This includes reviewing direct payments and housing tenancy fraud. The outcome of both reviews will be reported to Corporate Governance Committee when they are concluded.

Other Counter-Fraud Activity:

21. The Monitoring Officer's Annual Report on Whistleblowing was reported to Corporate Governance Committee in November 2018. The two concerns raised continue to be investigated and will be reported on when concluded.

Added Value

23. In addition to providing risk-rated assurance reports, Internal Audit has strived to add value wherever possible i.e. going beyond the standard expected and providing something “more” without any added costs.

Corporate Governance Working Group

24. Internal Audit is a lead participant in the Corporate Governance Working Group to review governance arrangements and update the Corporate Governance Framework and the Annual Governance Statement.

Collaborative Working

25. Internal Audit developed a joint audit programme with Flintshire County Council to audit contract management which is linked to the shared procurement service for both Councils.

26. The Chief Internal Audit chairs the North and Mid-Wales Internal Audit Partnership meetings which aims to encourage collaboration, sharing ideas and improving efficiency and effectiveness of our services. The Chief Internal Auditor also attends the Welsh Chief Auditors Group that coordinates a peer review of conformance against the Public Sector Internal Audit Standards.

Assurance Advisory Support

27. Internal Audit has provided advisory support on a number of Boards, projects and other requests, including:

- Information Governance Group
- ADM Leisure Project
- Waste Project

Summary Reports

28. Summary reports and presentations are provided to Schools to highlight improvements areas identified during thematic reviews which helps them to identify potential areas of risk or opportunities. Also, assist the Governing Body to better understand the need for appropriate oversight; and feedback to the Council the level of support and guidance required for schools where concerns have been identified.

Assurance Mapping

29. Internal Audit performs an annual assurance mapping exercise to map out the key activities performed by the Council and how these are assured. This informs the Internal Audit Strategy so that it focusses on areas of greatest risk and maximise the value from Internal Audit.

Internal Audit Performance

30. There are no national performance indicators for Internal Audit, so we measure performance by benchmarking with other Councils' Internal Audit Services via the Welsh Chief Auditor's Group

31. The table below shows Internal Audit's performance for the year.

Performance Target	Target	Current Performance
Discuss, agree and issue scope for each audit	100%	100%
Draft report issued within 10 working days of the closing meeting	Avg. days > 10	9
Final report issued within 5 working days of agreeing the draft report and action plan	Avg. days > 5	2
Implementation of Agreed actions	75%	73%

32. Overall, performance against the indicators has been very good over the year. The revised follow up process is more embedded but there is still further progress needed to improve the timeliness of completing agreed actions. This requirement will be further promoted e.g. through attendance at Service Management Team meetings.

33. A customer satisfaction survey to recipients of internal audit reviews in 2018/19 allows feedback on our performance – rated as either: “Not at all”; “Limited”, “Satisfactory”, “Good” or “Very Good”. The percentage of scores marked as satisfactory or above are shown below. We consider all feedback to ensure we continue to meet our stakeholder needs and improve.

Customer Survey Question	Target	Current Performance
Consulted/made aware on the objectives and/or scope of the audit?	100%	92%
Level of consultation throughout the audit?	100%	100%
Professional and approachable auditor?	100%	92%
Results and conclusions of the review explained?	100%	92%
Accurate report that addressed the key issues?	100%	100%

Extent that you were able to comment during the review?	100%	100%
Did you have an opportunity to comment on the results of the review?	100%	100%
Auditor took your views into account?	100%	100%
Was the audit constructive and did it add value overall?	100%	100%

Conformance with Public Sector Internal Audit Standards

Conformance

34. Denbighshire Internal Audit Service conforms to the requirements of the Public Sector Internal Audit Standards (PSIAS) for its internal audit activity. The purpose, authority and responsibility of the internal audit activity is defined in our internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. Our internal audit charter was approved by Corporate Governance Committee in March 2019. This is supported by our self-assessment of conformance with PSIAS and Local Government Application Note.

Quality Assessment

35. An external assessment of our service against the PSIAS in March 2018 stated “Internal Audit is operating in conformance with the standards” and the result was reported to Corporate Governance Committee in November 2018. The External Assessment provides independent assurance against the Institute of Internal Auditors (IIA) and appendix 4 shows progress with implementing the improvement actions identified.

36. The Chief Internal Auditor maintains a quality assessment process which includes review of all audit work. The quality assessment process and improvement is supported by a development programme.

Improvement Programme

37. A quality improvement programme is in place which consists of all recommendations from the external assessment. Nearly all actions have been implemented with only one partly implemented which will be completed on the conclusion of the Ethics audit.

Appendix 1- Internal Audit Work Conducted 2018-19

38. 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
ALN, Recoupment & Out of County Placements	Complete	Medium	0	1	2
Registrars	Complete	Low	0	2	2
Learner Transport	Complete	Medium	0	0	5
IT Procurement of Resources	Complete	Medium	0	1	3
Business Continuity	Complete	Medium	0	0	4
Section 106	Complete	Low	0	2	2
Catering	Complete	Medium	0	0	2
Housing Rents	Complete	Medium	0	0	4
Welsh Transport Grants	Complete	Medium	0	0	3
AONB Grant Certification	Complete	N/a	N/a	N/a	N/a
EIG Grant Certification	Complete	N/a	N/a	N/a	N/a
PDG Grant certification	Complete	N/a	N/a	N/a	N/a
North Wales Hospital	Complete	Advisory**	N/a	N/a	N/a
Grant Management	Complete	Medium	0	0	1
Cyber Security	Draft	Medium*		1	1
Bridges & Structures	Complete	Medium	0	0	4
Project Management Overall	Draft	Medium*	N/a	N/a	N/a
- Rhyl faith school new build project	Draft	Medium*	0	0	1
- C360 CRM project	Draft	Low*	0	0	2
- Closed Projects	Draft	Medium*	0	0	1
Revenues & Benefits Overall;	Complete	Medium	N/a	N/a	N/a
• Partnership Arrangements	Complete	High	0	0	1
• Enforcement Agents/ Debt Collectors	Complete	High	0	0	0
• Sundry Debtors	Complete	Medium	0	0	5
• Benefit Overpayments	Complete	Medium	0	0	3
Financial Services Overall:	Complete	High*	-	-	-
• Accounts Payable	Draft	High*	0	0	0
• Payroll	Draft	High*	0	0	2
• Treasury Management	Draft	High*	0	0	4
• Money Laundering	Draft	Medium*	0	0	1

Report Title	Status of Project	Assurance Rating	Risks/Issues Raised		
			Critical	Major	Moderate
• Cash Receipting & Bank Reconciliation	Draft	High*	0	0	0
• Accountancy Systems	Draft	High*	0	0	0
Risk Management	Complete	Medium	0	0	5
Direct Payments	Draft	Low*			
Health & Safety in Schools	Complete	Low	0	1	4
Effective Governance in Schools	Draft	Medium	0	0	6
SARTH	Ongoing	N/a	N/a	N/a	N/a
Housing Tenancy Fraud	Ongoing	N/a	N/a	N/a	N/a
School Fund Management	Ongoing	N/a	N/a	N/a	N/a
Legal Services Collaboration	Ongoing	N/a	N/a	N/a	N/a
GDPR	Ongoing	N/a	N/a	N/a	N/a
Pooled Budgets	Complete	Advisory**	N/a	N/a	N/a
Waste Management	Ongoing	N/a	N/a	N/a	N/a
<p>The following audits have been deferred to 2019/20:</p> <ul style="list-style-type: none"> - Homelessness - Contract Management - Tourism Strategy 					

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

** Limited scope so assurance rating not provided/Advisory work only

39. There has not been any notable changes to the Internal Audit Strategy planned projects this year. While there have been some change, these are mainly due to timing affected by service changes or operational matters.

40. A vacant Auditor post since January 2019, together with two investigatory work that was required, has impacted the completion of some projects with three reviews being deferred to 2019–20. We have successfully appointed an Auditor who is due to commence the role in July 2019.

Appendix 2 - Follow Up Work Conducted

41. The CIA regularly reports to Corporate Governance Committee on progress with Internal Audit agreed actions as part of its update reports. The following table shows the position at the end of 2018–19:





Service	Actions due by 31/03/2019	Status of agreed actions			
		Implemented	%	Outstanding	%
Business Improvement & Modernisation	17	15	88%	2	12%
Community Support Services	7	7	100%	0	0%
Communications Customers & Marketing	3	3	100%	0	0%
Education & Children's Services	16	12	75%	4	25%
Facilities Assets & Housing	30	24	80%	6	20%
Finance	18	15	83%	3	17%
Highways & Environmental Services	16	12	75%	4	25%
Legal, HR & Democratic Services	31	14	45%	17*	55%
Planning & Public Protection	10	6	60%	4	40%
Total	148	108	73%	40	27%

* 7 actions relate to Travel & Subsistence review which has been delayed as pending decision by SLT on Grey Fleet Checks.

42. The internal control environment is strengthened by timely implementation of agreed actions. Results show that 73% of risk issues, due by 31 March 2019, have been implemented. While a majority of the outstanding actions are in progress, this is below the Council's performance target of 75% of agreed actions implemented by their due date.
43. This remains a priority for Internal Audit, and proactive steps are being taken to improve performance by reporting to Service Management Teams to ensure timely implementations of agreed actions.





Appendix 3 - Definitions

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
	No Assurance	Fundamental weaknesses in management of risks and/or controls that will lead to failure to achieve

44. 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

Appendix 4 – Quality Assurance Improvement Programme

45. Progress against actions from the external assessment, November 2018.

Ref	Standard	Agreed action	Comment
Code of Ethics			
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> . <i>Chief Internal Auditor, Completed</i>	Complete. Auditors aware of the Standards of Public Life's principles and annual declaration updated and signed acceptance by all auditors.
1000: Purpose, Authority and Responsibility			
2.	Does the internal audit charter cover the arrangements for appropriate resourcing?	Internal Audit Charter " <i>Resources</i> " should incorporate the reporting arrangements if there are insufficient resources. <i>Chief Internal Auditor, May 2019</i>	Complete. Internal Audit Charter updated accordingly.
1100: Independence and Objectivity			
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.	Complete. Internal Audit Strategy states the annual resources available for Internal Audit.

		<i>Chief Internal Auditor, May 2019</i>	
1300: Quality Assurance and Improvement Programme			
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. <i>Chief Internal Auditor, March 2019</i>	Complete Internal Audit assessment checklist updated.
1300: Quality Assurance and Improvement Programme <i>1311: Internal Assessments</i>			
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. <i>Chief Internal Auditor, May 2019</i>	Complete. Annual Internal Audit Report summarises work completed against the Internal Audit Strategy.
1300: Quality Assurance and Improvement Programme <i>1311: Reporting on the Quality Assurance Programme</i>			
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	This has already been identified following the internal assessment. The external assessment report will be presented to the Corporate Governance Committee. <i>Chief Internal Auditor, November 2018</i>	Complete External assessment presented to Corporate Governance Committee in November 2018.

	communicated upon completion.		
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 <i>Chief Internal Auditor, May 2019</i>	Complete. Annual Internal Audit Report includes the results of the QAIP and progress.
2000: Managing the Internal Audit Activity 2060: Reporting to Senior Management and the Board			
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. <i>Chief Internal Auditor, April 2019</i>	Complete. Frequency of Internal Audit report reviewed and Forward Work Programme for the Corporate Governance Committee updated. All Low and No Assurance Report continue to be reported to the Committee at the earliest opportunity.
2100: Managing the Internal Audit Activity 2110: Governance			
9.	Has the internal audit activity evaluated the: a) Design b) Implementation, and c) Effectiveness	Include a review of Ethics within the Internal Audit Strategy. <i>Chief Internal Auditor, May 2019</i>	Partly complete A review of Ethics is included in the Internal Audit Strategy for 2019–20 but the review itself has yet to take place.

	of the organisation's ethics-related objectives, programmes and activities?		
2400: Communicating Results 2410: Criteria for Communicating			
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?	<p>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.</p> <p>This will be incorporated within the Internal Audit Charter for clarity.</p> <p><i>Chief Internal Auditor, May 2019</i></p>	<p>Complete.</p> <p>Internal Audit Charter updated to include this requirement.</p>
11.	Does the annual report incorporate a comparison of work actually carried out with the work planned?	<p>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.</p> <p>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.</p> <p><i>Chief Internal Auditor, May 2019</i></p>	<p>Complete.</p> <p>Comparison between work planned and work carried out included in the Internal Audit Annual Report.</p>