

Report to	Corporate Governance & Audit Committee
Date of meeting	8 July 2020
Lead Member / Officer	Lisa Lovegrove – Chief Internal Auditor
Report author	Lisa Lovegrove – Chief Internal Auditor
Title	Internal Audit Annual Report 2019-20

1. What is the report about?

This report provides the Committee with the Internal Audit Annual Report for 2019-20 that provides the Chief Internal Auditor's overall opinion on the adequacy and effectiveness of the Council's framework of governance, risk and control during the year that informs the 'annual governance statement'.

2. What is the reason for making this report?

The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to deliver an annual internal audit opinion and report that the organisation can use to inform its annual governance statement. This Committee's terms of reference require it to consider the annual report of the internal auditors.

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 & Audit 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. What are the Recommendations?

The Committee considers and comments on the Chief Internal Auditor's annual report and overall 'opinion'.

4. Report details

The Internal Audit Report 2019-20 is included as Appendix 1 and shows:

- The opinion is formed based on the internal audit work carried out during the year as per the Internal Audit Strategy which was approved by Corporate Governance Committee;
- The level of work that Internal Audit carried out to arrive at this overall 'opinion';
- The opinion does not imply that Internal Audit has reviewed all risks relating to the Council. In providing an opinion, it is vital to note that assurance cannot be absolute. The most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the system of internal control.
- The Chief Internal Auditor has provided 'medium assurance' on the overall adequacy and effectiveness of the Council's internal control environment, including its arrangements for governance and risk management;
- a summary of the counter fraud work;
- how Internal Audit complies with the PSIAS; and
- a summary of Internal Audit's performance during the year.

The Audit Opinion states that: "Governance, risk management and control arrangements in place for key business functions is satisfactory overall.

I have considered the balance of audit work carried out in 2019/20 and the assurance ratings given, along with the response from senior management. Internal Audit has not reviewed all risks and assurances relating to Denbighshire County Council and therefore cannot provide absolute assurance on the internal control environment. My opinion is largely based on the completion of the risk based internal plan, see Appendix 1 for details.

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.

Overall, Internal Audit maintains 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.

Seven audits during the year have received 'Low' assurance, the others being awarded 'High' or 'Medium' Assurance ratings. Where significant issues have been identified, overall these have been appropriately addressed, which confirms that management is responsive to our work. Internal Audit has completed four items of advisory work during the year which demonstrates that management is willing to engage with Internal Audit to establish good risk and control environments. Although an assurance rating is not given for this work, the outcome is used to inform our overall opinion on the adequacy of governance, risk management and control arrangements.

The coronavirus pandemic has disrupted the delivery of the Internal Audit Plan for 2019-20 in the final few weeks of the financial year; resulting in a few internal audit assignments being put on hold as services direct resources to attend to the crisis and ensure that vital services can be delivered. For the purpose of this Annual Report, sufficient audit work was carried out, including the assignments that have been concluded but not yet finalised, which has enabled me to form the Annual Internal Audit Opinion for 2019/20. We recognise that emergency measures often bypass standard controls, and this will need to be reviewed in 2020/21.

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".

5. How does the decision contribute to the Corporate Priorities?

Not applicable - there is no decision required with this report.

6. What will it cost and how will it affect other services?

There are no additional costs associated with this report. Actions to ensure compliance with relevant legislation and Council policies are taken within existing budgets.

7. What are the main conclusions of the Well-being Impact Assessment?

Not applicable - there is no decision required with this report.

8. What consultations have been carried out with Scrutiny and others?

Consultation with officers, Corporate Governance Committee Chair and Vice Chair and Wales Audit Office was conducted in drafting the Internal Audit Strategy

9. Chief Finance Officer Statement

Not applicable - there is no decision required with this report.

10. What risks are there and is there anything we can do to reduce them?

An inadequate and operationally ineffective internal control system can have adverse impact on the Council's risk management processes and wider corporate governance, and, therefore, the quality of service provided.

The Public Sector Internal Audit Standards require Internal Audit to evaluate the effectiveness of risk management and contribute to the improvement of risk management processes.

11. Power to make the decision

Not applicable – there is no decision required with this report.