

Internal Audit Annual Report 2019-20

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Introduction and background

This report outlines the internal audit work that Internal Audit has carried out for the year ended 31 March 2020.

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.

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.

This is achieved through a risk-based plan of work, agreed with management and the Corporate Governance & Audit Committee. The opinion does not imply that Internal Audit has reviewed all risks relating to the Council.

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Internal Audit Opinion 2019-20

The CIA has based her 2019-20 opinion on the following:

1. The scope and outcome of Internal Audit's work during the year;
2. Any follow up action taken in respect of audits from previous periods;
3. IA report opinions and assurance ratings;
4. The issues and risks that Internal Audit has raised during the year;
5. The effectiveness of management's response to the issues and risks that Internal Audit has raised;
6. Assurances received from external regulators and other sources;
7. The outcome of the Council's review of its Corporate Governance Framework and governance arrangements 2019-20.

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 a list of audit results and appendix 2 for assurance ratings definitions.

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.

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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.

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Summary of audit work 2019/20

The Internal Audit Strategy is produced to concentrate on key risk facing the Council. The Internal Audit Strategy 2019-20 was agreed with the Corporate Governance & Audit Committee in March 2019; and 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 & Audit Committee as part of the Internal Audit Update Report.

The Schedule in Appendix 1 contains a list of all audits agreed in the Audit Strategy 2019/20 and the final outturn for the financial year. 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	2019-20
High Assurance ●	13	14	8	12
Medium Assurance ●	13	13	17	9
Low Assurance ●	1	4	5	7
No Assurance ●	0	0	0	0
Advisory ●	0	0	2	4
	27	31	30	32

While the majority of assurance opinions were either 'high' or 'medium' this year (75%), the number of 'low' assurance ratings has increased to seven (25%). This indicates that Internal Audit's risk based approach is focussed on the key risks of the Council and, as indicated in last year's annual report, may suggest that controls in certain areas are under strain as services and capacity are increasingly stretched. A few of the Low Assurance reviews were performed following management indicating areas of concern. All low assurance reviews are reported to the Corporate Governance & Audit Committee and they will receive progress reports from the service to oversee the implementation of the agreed improvements. Internal Audit follows up agreed actions arising from our audit work to establish if necessary improvements have been achieved.

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As in previous years, there were no reports with 'No Assurance' rating issued during the year.

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.

Other than the Government enforced lockdown since 23 March 2020, there were no known impairments or restrictions to internal audit's scope affecting the projects undertaken during the year.

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Counter fraud summary

Counter-fraud arrangements are vital to the Council with the aim of protecting public funds and accountability. The responsibility for managing the risk of fraud lies with management; however, Internal Audit is involved in evaluating the risk of fraud and the manner in which it is managed by the council.

National Fraud Initiative (NFI)

Work on the 2018/19 exercise is reaching an end with the 2020/21 exercise due to commence in September 2020.

The table below summarises the main results achieved in 2018/19 exercise:

NFI Results	2016/17	2018/19
Housing Benefit	£17,663	£24,989
VAT	£85	-
Council Tax Single Persons Discount	£9,771	£665,027
Council Tax rising 18s	£964	£3,039
Council Tax Reduction Scheme	£3,302	£8,118
Total	£31,784	£701,173

During this exercise, the Revenues and Benefits team (Civica) has targeted council tax single persons discounts that were awarded incorrectly which has resulted in the identification of a significant number paid incorrectly. This is mostly attributed to the council not being notified of changes in circumstances.

Irregularities

During the 2019/20 financial year, Internal Audit has been informed of two allegations of fraud. Internal Audit carried out, or assisted with both investigations. A summary of the outcomes is shown below:

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Outcome of Investigations	2019/20
Dismissal / contract terminations	0
Resignations accepted after investigation	0
Written warnings issued	0
No further action	1
Investigations pending outcomes	1
Prosecutions	0

Proactive exercises

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 and this year's financial audits including Revenues and Benefits focused on the controls to prevent and detect fraud. The outcome of these reviews have been reported to Corporate Governance Committee and improvement action plans agreed with the relevant services.

Other counter fraud activity

The Monitoring Officer's Annual Report on Whistleblowing was due to be presented to Corporate Governance & Audit Committee in March 2020 (the meeting was cancelled due to the coronavirus pandemic). Three concerns were raised during the year, one was referred to the disciplinary process and the other two investigations led by Internal Audit. Both concluded that no malpractice was identified, but improvement actions have been raised in both instances with senior management.

The review of the Strategy for the Prevention and Detection of Fraud, Corruption & Bribery is underway and will be aligned with the recently published Fighting Fraud and Corruption Locally Strategy for Local Government. The Fraud Response Plan is also being updated as part of this exercise.

Audit Wales (formerly Wales Audit Office) performed a review of Local Government's fraud arrangements for the Public Accounts Committee, and a subsequent audit was carried out by Audit Wales at the end of the financial year. We await the feedback which will be presented to Corporate Governance & Audit Committee when it is available.

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Added value

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

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

The North and Mid-Wales Internal Audit Partnership meetings attended by Chief Audit Executives from all North Wales councils and Betsi Cadwaladr Health Board facilitates collaboration, sharing ideas and improving efficiency and effectiveness of our services. The Chief Internal Auditor also attends the Welsh Chief Auditors Group (WCAG) that coordinates a peer review of conformance against the Public Sector Internal Audit Standards.

The WCAG coordinated an Audit Chair Network Event in November 2019 with sessions from Audit Wales and CIPFA (Chartered Institute of Public Finance Associates).

Assurance Advisory Support

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

1. Information Governance Group
2. ADM Leisure Project
3. Waste Project

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Summary Reports

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

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. The assurance map is updated during the year to reflect key changes to risk or the control environment and, where appropriate, the list of audit priority projects is updated. The Chief Internal Auditor meetings with Audit Wales officers regularly throughout the year to coordinate audit work and minimise duplication.

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Internal Audit performance

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

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	6
Final report issued within 5 working days of agreeing the draft report and action plan	Avg. days > 5	2
Implementation of Agreed actions	75%	52%

Overall, performance against the indicators has been good over the year. Implementation of agreed action relies on management and performance has reduced considerably compared to last year (73% performance). A few services have long standing actions that are affecting performance and the coronavirus pandemic has also affected progress with some of the actions during the last few weeks of the financial year. The Chief Internal Auditor will attend Service Management Team meetings to prompt completion. Corporate Governance & Audit Committee monitor the completion of improvement actions arising from low assurance reports and may invite service representatives to explain if insufficient progress is made with audit actions arising from high or medium assurance reports.

A customer satisfaction survey to recipients of internal audit reviews in 2019/20 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. In total, 12 responses were received which is lower than last year. This could be attributed to the coronavirus pandemic impacting services at the time the survey was circulated. The survey is anonymous to encourage honest feedback.

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Customer Survey Question	Target	Current Performance
Consulted/made aware on the objectives and/or scope of the audit?	100%	83%
Level of consultation throughout the audit?	100%	92%
Professional and approachable auditor?	100%	92%
Results and conclusions of the review explained?	100%	92%
Accurate report that addressed the key issues?	100%	90%
Did you have an opportunity to comment on the results of the review?	100%	82%
Auditor took your views into account?	100%	91%
Was the audit constructive and did it add value overall?	100%	100%

All key stakeholders are informed prior to commencing an audit through either a scoping meeting or circulation of a scoping document. There may be occasions where audits require the assistance of other service areas which was not anticipated at the start of the audit, which could explain why a couple of responses was below satisfactory.

We consider all feedback to ensure we continue to meet our stakeholder needs and improve.

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Conformance with Public Sector Internal Audit Standards

Conformance

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 submitted to Corporate Governance & Audit Committee for approval in March 2020. The meeting was cancelled due to the coronavirus pandemic and the Internal Audit Charter will be presented to the July 2020 virtual meeting for approval. This is supported by our self-assessment of conformance with PSIAS and Local Government Application Note. Due to the coronavirus pandemic the PSIAS self-assessment has not been completed for 2019-20 and will be carried out as soon as capacity allows.

Quality Assessment

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. An external assessment must be carried out every five years, and the Welsh Chief Auditors Group is coordinating the next round of this exercise.

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 and internal audit manual.

Improvement Programme

A quality improvement programme is in place which consists of all recommendations from the external assessment. All but one of the improvement actions have been implemented; the remaining action is partly implemented and will be completed once the Ethics audit is concluded.

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Appendix 1- Internal Audit Work Conducted 2019-20

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
Area of Outstanding Natural Beauty (AONB) Grant	Complete	High ●	0	0	0
Office Accommodation	Complete	Medium ●	0	0	4
Payment Card Industry Data Security Standards (PCI-DSS)	Complete	Low ●	0	2	3
15 Minute Care Calls	Complete	Medium ●	0	0	4
Ethical Culture	Draft	Medium ●	0	0	3
General Data Protection Regulations (GDPR) in Schools	Complete	Medium ●	0	1	3
Housing Rents	Complete	High ●	0	0	2
Education Improvement Grant	Complete	High ●	0	0	0
Pupil Development Grant	Complete	High ●	0	0	0
Recruitment and Retention	Draft	High ●	0	0	3
Ysgol Pendref	Draft	Medium ●	0	0	6
Ysgol Bro Cinmeirch	Closing meeting	N/a	-	-	-
St Asaph VP School	Final	Low ●	0	2	6
Performance Management	Complete	High ●	0	0	2
Traffic Regulation Orders	Complete	Medium ●	0	0	3

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Report Title	Status of Project	Assurance Rating	Risks/Issues Raised		
			Critical	Major	Moderate
Support Budgets – Direct Payments (Adults)	Complete	Low ●	0	3	2
Direct Payments - Children	Draft	Low* ●	0	5	2
Health & Safety Enforcement	Draft	Medium* ●			
ADM Leisure	Closing	Advisory ●	-	-	-
Housing Maintenance	Draft	Advisory ●	-	-	-
Parking Income Review	Draft	Medium* ●	0	0	5
Settlement Agreements	Draft	High* ●	0	0	2
Homelessness – Temporary Accommodation	Draft	Low* ●	0	2	5
Revenues & Benefits: Partnership Arrangements Business Rates Council Tax Benefits	Complete	Medium ●	0	1	5
Risk Management	Complete	Advisory ●	-	-	-
Accounts Payable	Draft	High* ●	0	0	1
Payroll	Final	High ●	0	0	0
Treasury Management	Draft	High* ●	0	0	3
Bank Reconciliation	Final	High ●	0	0	0
Accountancy Systems	Final	Advisory ●	0	0	1
Contract Management	Final	Low ●	0	4	2
Housing Tenancy Fraud	Complete	Low ●	0	2	1

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

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There has not been any notable changes to the Internal Audit Strategy planned projects this year other than inclusion of an audit of Parking Income and removal of Tourism Strategy and Continuing Healthcare (the latter was reviewed by Audit Wales).

A vacant Auditor post between January 2019 and June 2019, together with two investigatory work that was required and the coronavirus pandemic at the end of the year, has impacted the completion of some projects. As a result four reviews were deferred to 2020-21 i.e. Rhyl Programme Management, Deprivation of Liberty Safeguards, Commercial Waste and the Stores and Depot review.

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Appendix 2 – Definitions

Definitions of assurance ratings

High Assurance ●	Risk and controls well managed and objectives are being achieved
Medium Assurance ●	Minor weaknesses in management of risks and/or objectives but no risk to achievement of objectives
Low Assurance ●	Significant weaknesses in management of risks and/or control 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 objectives

No opinion / Advisory ● - Advisory opinions are used for audit work carried out at the request of senior management to provide advice on risk, governance and/or control or to develop potential solutions to problems and provide control assurance. They are also used for our reviews of major change projects that are at an early stage where an assurance rating cannot effectively be awarded.

Definition of risk ratings

Internal Audit reports include an action plan that raises risks/issues that highlight improvement areas. These risks/issues are defined in the following table as per the council's Risk Management Strategy. No 'Critical' risks/issues were raised during the year.

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.
Critical ●	Significant issues to be brought to the attention of SLT, Cabinet Lead Members and Corporate Governance & Audit Committee.

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Appendix 3 – Quality Assurance Improvement Programme

Progress against actions from the external assessment as at June 2020.

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. <i>Chief Internal Auditor, May 2019</i>	Complete. Internal Audit Strategy states the annual resources available for Internal Audit.
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 1311: Internal Assessments			

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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 1311: Reporting on the Quality Assurance Programme			
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. <i>Chief Internal Auditor, November 2018</i>	Complete External assessment presented to Corporate Governance Committee in 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 <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 of the organisation's ethics-	Include a review of Ethics within the Internal Audit Strategy. <i>Chief Internal Auditor, May 2019</i>	Partly complete A review of Ethics is nearing completion. The draft report was issued in March 2020 and await the

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	related objectives, programmes and activities?		completion of the action plan.
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 Internal Audit Annual 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>