# Internal Audit Service

# Strategy 2012-13

**Ivan Butler – Head of Internal Audit**

**March 2012**

# Contents

### Introduction to the Service

1. The Internal Audit Service is an internal team that advises and provides assurance to all levels of management and elected members on the quality of operations within the Council. We particularly focus on corporate governance, risk management, performance, efficiency and operational and financial control.

2. We also provide internal audit services to Countryside Council for Wales (CCW) and North Wales Police Authority (NWPA). This Strategy refers primarily to the service provided to Denbighshire County Council.

### Key objectives of the Service

> **Provide independent assurance to management and elected members on risk management, governance and internal control**

> **Contribute to the improvement of services, helping to deliver the organisation's corporate priorities and objectives**

### Approach

3. Our team is very proactive and innovative, constantly aiming to improve. We have used a systems thinking methodology to develop a customer-focused approach to audit planning and the delivery of our reviews, involving elected members, senior management and operational staff as much as possible. The IA team also attended a lean thinking workshop recently to reinforce our approach in line with Chartered Institute of Internal Auditors (CIIA) and Chartered institute of Public Finance & Accountancy (CIPFA) developments.

4. Our Operational Audit Plan takes account of discussions with Heads of Service and Corporate Executive Team (CET). It provides a risk-based approach that allows the Head of Internal Audit to form and evidence his opinion on the control environment to support the Annual Governance Statement.

5. The Head of Internal Audit is currently developing an Integrated Assurance Model that will ensure that he takes account of all assurance received on Council services e.g. management reviews, external regulator reviews, self-assessments. This will inform the overall level of risk and consideration of internal audit requirements. This will also allow co-ordination of assurance work and avoid duplication that can result in 'over-inspection' of services.

### Strategic Approach

6. The following diagram provides an overview of how we plan to spend our time during 2012/13. It shows how we will use our time to gather the necessary evidence to form our overall audit opinion and provide the necessary levels of assurance for the Annual Governance Statement. The Internal Audit Operational Plan commencing on page 6 provides more detail.
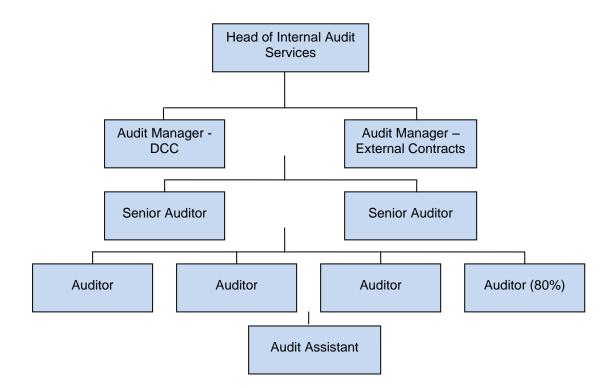
**Assurance Strategy 2012/13**

### Essential Assurance

| | | | |
|---|---|---|---|
| S151 Assurance | 130 days | 6% | • Financial systems |
| Grant & Other Certification Assurance | 70 days | 3% | • 6th Form Funding<br>• Carbon Reduction Commitment |
| Corporate Governance Assurance | 60 days | 3% | • WG Education grants<br>• Risk management<br>• Corporate Governance Framework |
| High Corporate Risk Assurance | 45 days | 2% | • Management of high corporate risks |

### Risk-based Assurance in Services

| | | | |
|---|---|---|---|
| Service Operational Assurance | 645 days | 31% | • Service reviews agreed with Heads of Service |

### External Contracts

| | | | |
|---|---|---|---|
| External Contracts | 365 days | 17% | • CCW & NWPA contracts |
| School Fund Audits | 30 days | 1% | • School fund audits requested by schools |

### Contingencies

| | | | |
|---|---|---|---|
| Consultancy & Corporate Work | 185 days | 9% | Includes:<br>• Committee support |
| Follow up of actions with management | 40 days | 2% | • Committee reporting<br>• Guidance & advice |
| IA collaboration projects | 50 days | 2% | • Improvement action chasing |
| Fraud & Investigations | 80 days | 4% | • Proactive & reactive investigation work |

### IA Management & Support

| | | | |
|---|---|---|---|
| Management & Admin | 350 days | 17% | • IA overheads |
| Training & Development | 70 days | 3% | |

## Capacity & Audit Needs Assessment

7. We will have 2,120 days available in 2012/13, excluding leave and bank holidays. Our draft Audit Needs Assessment shows that we would need over 2,500 days to cover all the necessary areas (red and amber risks), leaving a needs gap of approximately 380 days. The Operational Audit Plan is risk-based, so includes those areas from the Audit Needs Assessment that have the highest audit risk score.

8. The service structure is shown below, with all posts currently filled.

```
                      ┌──────────────────────┐
                      │ Head of Internal Audit│
                      │      Services         │
                      └──────────────────────┘
           ┌──────────────────┴───────────────────┐
   ┌───────────────┐                      ┌──────────────────┐
   │ Audit Manager -│                      │ Audit Manager –  │
   │      DCC       │                      │ External Contracts│
   └───────────────┘                      └──────────────────┘
     ┌─────┴──────┐                          ┌──────┴──────┐
┌──────────────┐                        ┌──────────────┐
│ Senior Auditor│                        │ Senior Auditor│
└──────────────┘                        └──────────────┘
  ┌──────┴──────┐                    ┌──────┴──────┐
┌────────┐ ┌────────┐        ┌────────┐ ┌──────────────┐
│ Auditor │ │ Auditor │        │ Auditor │ │ Auditor (80%) │
└────────┘ └────────┘        └────────┘ └──────────────┘
         ┌──────────────┐
         │ Audit Assistant│
         └──────────────┘
```

## Budget

9. Our budget is mainly employee based (90%), and is heavily reliant on income earned though our external contracts. However, the future of these contracts is in some doubt.

10. Our NWPA contract ends on 31 March 2014, having agreed a one-year extension to take us through the transition between the abolition of the Police Authority and the introduction of a directly elected Police & Crime Commissioner. The future internal audit requirements are unknown, but we will look to take advantage of any opportunity to retain or even expand our role.

11. Our CCW contract is at risk after 1 April 2013 as there is to be a merger between CCW, the Forestry Commission Wales and Environment Agency Wales. We are uncertain where the new organisation's services will be based and its internal audit requirements; however, it may provide us with the opportunity to continue our work in North Wales and possibly work in collaboration with other internal audit services for the new organisation as a whole.

12. To measure how well we deliver our customer-focused service, we use following performance measures:

| Main Customer | Customer Requirement | Measurement Method |
|---|---|---|
| • S151 Officer<br>• Corporate Governance Committee<br>• CET<br>• Leader | An evidence-based annual assurance opinion for the Annual Governance Statement by the due date | • Review 100% of agreed S151 Assurance areas in Operational Audit Plan by 31 March 2013<br>• Review 100% of agreed Corporate Governance Assurance areas in Operational Audit Plan by 31 March 2013<br>• Review 100% of agreed High Corporate Risk Assurance areas in Operational Audit Plan by 31 March 2013<br>• Head of Internal Audit to produce Annual Internal Audit Report by 31 May 2013 |
| • Corporate Governance Committee<br>• CET<br>• SLT<br>• Service managers, Head Teachers etc. | Audit projects commenced, carried out and reported on promptly | • Use Systems Thinking capacity charts to monitor service performance over the financial year<br>• Auditor performance monitored through supervision, one-to-one reviews feeding into appraisal process and competency framework<br>• Feedback from post-project discussions with customers |
| • Corporate Governance Committee<br>• CET<br>• SLT | Management actions agreed during our reviews implemented by the agreed date | • Monthly follow ups by Head of Internal Audit with Heads of Service<br>• Non-compliance reports by Head of Internal Audit to Corporate Governance Committee |
| • SLT<br>• Service managers, Head Teachers etc. | Audit projects carried out professionally, adding value to services | • Feedback from post-project discussions with customers<br>• Suggestions for improvements to Internal Audit service logged and discussed with team<br>• Auditor performance monitored through supervision, one-to-one reviews feeding into appraisal process and competency framework |

## The Internal Audit Planning Process

13. We use a risk-based approach to our audit planning and project work, taking account of risks in the Corporate and Service risk registers. We focus our resources on providing assurance in the areas of highest risk, while ensuring that we complete the required levels of assurance work for the Council's S151 Officer, Corporate Governance Framework and annual certifications, e.g. Welsh Government education grants, Carbon Reduction Commitment. As our approach is risk-based, we revise our plan regularly, particularly after an update of the Corporate Risk Register.

14. The Head of Internal Audit produces an Annual Report to the Corporate Governance Committee that includes an opinion on the Council's corporate governance and risk management arrangements and highlights any key risk areas that require attention. Our risk-based approach and wide-ranging coverage allows us to make a significant contribution to the Council's Corporate Governance Framework and development of its Annual Governance Statement.

15. The following Operational Audit Plan 2012/13 results from an Audit Needs Assessment, adjusted to take account of the internal audit resources available during the year. The days shown against each review area are estimates at this stage and we will agree them when we discuss and finalise the scope of work with the relevant managers. In some instances, we will only be reviewing a specific risk rather than a whole service, which is why some areas of work only show minimal audit days.

## Internal Audit Operational Plan 2012/13

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| **S151 Assurance – 130 days (6%)** | | | |
| Financial Systems – Rhyl based | 60 | •Debtors<br>•Council Tax<br>•Benefits<br>•NDR | •Required annual assurance for S151 Officer<br>•High financial impact<br>•High customer impact<br>•Annual Governance Statement evidence of financial controls |
| Financial Systems – Ruthin based | 40 | •Payroll<br>•Creditor payments<br>•Purchasing cards<br>•Treasury management<br>•Bank reconciliation | •Required annual assurance for S151 Officer<br>•High financial impact<br>•High customer impact<br>•Annual Governance Statement evidence of financial controls |
| Project Management | 15 | •Review of a sample of high-risk projects<br>•Ensure projects well-managed | •Required annual assurance for S151 Officer<br>•High financial impact<br>•Annual Governance Statement evidence of financial controls |
| Procurement | 15 | •Review compliance with legislation, procurement strategy and Council procedures | •Required annual assurance for S151 Officer<br>•High financial impact<br>•Annual Governance Statement evidence of financial controls |
| **Grant & Other Certification Assurance – 70 days (3%)** | | | |
| Sustainability/Climate Change | 12 | •Review of data quality and completeness | •Annual audit required for Climate Change Commitment compliance |
| Welsh Government (WG) Education Grant Certification | 25 | •Various WG education grants as required | •WG requirement for confirmation of grant condition compliance |
| WG 6th Form Funding – Ysgol Dinas Bran, Llangollen | 10 | •Review of financial management | •WG requirement for confirmation of funding condition compliance |

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| WG Student Finance Certification | 15 | •Review of processes in accordance with recent WG guidance, particularly to prevent and detect fraud | •WG requirement for confirmation of funding condition compliance |
| WG Adult Education Certification | 8 | •Review of WG grant use | •WG requirement for confirmation of grant condition compliance |
| **Corporate Governance Assurance – 60 days (3%)** | | | |
| Risk Management | 20 | •Review key areas from ALARM benchmarking results<br>•Assess against good practice guidance | •Corporate governance assurance |
| Corporate Governance Framework | 40 | •Annual update and review of Corporate Governance Framework<br>•Review effectiveness of key areas from Framework | •Corporate governance assurance |
| **High Corporate Risk Assurance – 50 days (2%)** | | | |
| The risk of a serious safeguarding error where the Council has responsibility | 10 | •Review incorporated into ongoing work from 2011/12 | •High inherent risk in Corporate Risk Register |
| The risk that we are unable to develop the staff and management capability to deliver the change agenda | 5 | •Review management of risk e.g. training & development, capacity for change etc. | •High inherent risk in Corporate Risk Register |
| The risk that the time and effort invested in collaboration is disproportionate to the benefits realised | 15 | •Review of management of risk<br>•Review a sample of collaboration projects | •High inherent risk in Corporate Risk Register |

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| The risk that the economic environment worsens beyond current expectations, leading to additional demand on services and reduced income | 5 | •Review of management of risk <br> •Review Medium Term Financial Plan | •High inherent risk in Corporate Risk Register |
| The risk that strategic ICT infrastructure does not enable improvement and support change | 10 | •Review management of risk based on imminent WAO report on ICT <br> •Review progress on ICT Strategy implementation | •High inherent risk in Corporate Risk Register |
| The risk that our asset portfolio becomes an unmanageable liability and an obstacle to strategic planning | 5 | •Ongoing review of management of risk | •High inherent risk in Corporate Risk Register |
| **Risk-based Assurance in Services – 640 days (31%)** | | | |
| **Adult Services** | | | |
| Intake & Reablement | 10 | •Review of new intake and assessment processes | •Head of Service request for IA review |
| Learning Disabilities & POVA | 15 | •Operational review of POVA cases | •No previous IA review |
| Direct Care Costs & Placements | 15 | •Review of Out of County Placements | •High financial value <br> •No previous IA review |
| **Business Planning & Performance** | | | |
| Equalities | 15 | •Strategic review to ensure compliance with legislation, awareness etc. | •No recent IA review <br> •Legislative non-compliance risk |
| **Children's Services** | | | |
| Children's Services general | 35 | •Review of information management between various systems and within various processes to ensure that decision-making is fully and accurately informed. | •Head of Service request for IA review |

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| **Customer Services** | | | |
| Information Governance | 10 | •Contingency for follow up work after WAO review | •High risk area previously |
| Cashiers Services | 5 | •Contingency for involvement in process review | •Head of Service request for potential IA consultation |
| IT Service Desk, Incident & Problem Management | 20 | •Efficiency of new arrangements since 'systems thinking' review | •Critical customer facing service<br>•Service recently changed<br>•No previous IA review |
| IT Service Continuity Management | 2 | •Review progress with business continuity arrangement in IT along with corporate arrangements | •Need to ensure progress with corporate Business Continuity Plan |
| IT Operations Management | 20 | •Operational Review | •No previous IA review |
| IT Configuration | 15 | •Operational Review | •No previous IA review |
| IT Project Management | 15 | •Operational Review | •No previous IA review |
| **Education Services** | | | |
| School Improvement | 60 | Contingency for:<br>•Issues arising from Estyn report<br>•Themed visits of higher risk areas<br>•School balances review<br>•School visits<br>•Training business / finance managers | •Discussed with Head of Service<br>•Agreed to await outcome of Estyn report before finalising scope of work<br>•Performance Scrutiny requested review of school balances |
| Rhyl High School | 15 | •Financial management<br>•Governance<br>•Security<br>•ICT<br>•School Fund<br>•Health & Safety<br>•HR | •Previous IA review found significant weaknesses<br>•This review to gain assurance of improvement in management of school |

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| St.Brigids School | 10 | ●Follow up of 2011/12 IA review | ●2011/12 IA review found significant weaknesses |
| Modernising Education | 10 | ●Support to schools e.g. finance, HR, ICT | ●High risk in service risk register<br>●No previous IA review |
| **Environment** | | | |
| Refuse Collection & Waste Disposal | 25 | ●Review of domestic refuse collection, including complaints management | ●Significant service area<br>●No previous IA review |
| Sign Shop | 20 | ●Operational review | ●No recent IA review<br>●Trading risk |
| Countryside Services | 25 | ●Strategic and operational review of complete service | ●High risk in service risk register<br>●Some areas with no previous IA review<br>●No recent IA review of Loggerheads |
| Public Realm | 40 | ●Operational review of grounds, parks, street cleaning and coastal facilities management | ●Significant service area<br>●No previous IA review |
| **Finance & Assets** | | | |
| Travel & Subsistence | 20 | ●Review of claims and Essential Users | ●Recent policy changes<br>●Need to ensure consistency and compliance |
| Property Management | 20 | ●Review of approved list, tendering, work supervision etc. | ●Weaknesses identified during recent IA review<br>●Need to gain assurance of system improvement |
| Revenues Customer Service | 10 | ●Systems Thinking review of telephone answering | ●Issue highlighted in 2011/12 IA review |
| **Highways & Infrastructure** | | | |
| Passenger Transport | 15 | ●Review of key risks & contracts<br>●Full operational review of public and transport<br>●Joint review with Conwy CBC, with DCC leading project | ●High risk in service risk register<br>●No recent IA review |

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| Business Continuity Planning | 2 | •Review progress with corporate business continuity arrangement | •Need to ensure progress with corporate Business Continuity Plan |
| Traffic & Transportation | 20 | •Review of key risks<br>•Full operational review | •Risk in service risk register<br>•No previous IA review |
| Street Lighting | 15 | •Operational review | •Risk in service risk register<br>•No previous IA review |
| **Housing Services** | | | |
| Housing Services | 20 | •Affordable Housing management<br>•Housing rents | •Affordable Housing risk in service risk register<br>•No recent IA review of housing rents |
| **Legal & Democratic Services** | | | |
| Democratic Services | 5 | •Review preparation for new Wales Measure | •New democratic requirements<br>•Potential for new elected members after election |
| **Leisure, Libraries & Community Development** | | | |
| Data Protection & FOI | 20 | •Compliance with legislation<br>•Training<br>•Operational review | •Risk of fines for non-compliance<br>•No recent IA review of Data Protection<br>•No IA review of FOI |
| Archives Service | 20 | •Operational review<br>•Retention of documents | •No previous IA review<br>•Risks linked to Data Protection requirements |
| Leisure Services | 1 | •Review management of Corwen Pavilion Risk | •Risk in service risk register |
| **Regeneration, Planning & Public Protection** | | | |
| Community Enforcement | 30 | •Operational review of enforcement & Community Safety Partnership<br>•Joint review with Conwy CBC, with DCC leading project | •Brought forward from 2011/12 Operational Audit Plan<br>•Risk in service risk register |

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| Food & Health & Safety Enforcement | 10 | •Operational review<br>•Ensure e-coli risks managed corporately<br>•Joint review with Conwy CBC, with Conwy leading project | •E-coli risk<br>•Other risks in service risk register<br>•No previous IA review |
| Trading Standards | 10 | •Operational review<br>•Joint review with Conwy CBC, with Conwy leading project | •No recent IA review<br>•Organisational changes within service |
| Strategic Regeneration | 25 | •Review of Rhyl Regeneration Project | •Senior management request in 2011/12 postponed until 2012/13 |
| **Strategic Human Resources** | | | |
| Corporate Health & Safety | 15 | •Contingency days for review to be agreed with service manager | •Potential high risk areas may need IA review |
| **External Work – 395 days (18%)** | | | |
| Countryside Council for Wales | 165 | •As per agreed schedule of work | •External contract |
| North Wales Police Authority | 200 | •As per agreed schedule of work | •External contract |
| School Fund Audits | 30 | •Sign off audit certificates as requested | •Service request from schools |
| **Contingencies – 355 days (17%)** | | | |
| Consultancy & Corporate Work | 185 | •Reporting to committees, CET & SLT<br>•Project & working group membership<br>•Guidance & advice to services<br>•Research & horizon scanning | |
| Follow up reviews | 40 | •Follow up agreed actions from IA reviews | •Ensure improvements implemented as agreed |
| IA collaboration | 50 | •North & Mid-Wales Audit Partnership Board & operational group meetings | |

| Area of Review | Audit Days | Draft Scope of Work | Reason for Review |
|---|---|---|---|
| Frauds & Investigations | 80 | •Proactive & reactive fraud work | •Prevent, detect and investigate potential frauds <br>•Provide assurance that fraud risk is well managed |
| **IA Management & Support – 420 days (20%)** | | | |
| Management & Admin | 350 | | |
| Training | 70 | | |
| **TOTAL DAYS** | **2120** | | |