

Bridgend County Borough Council
Audit Committee
1st June 2006
Report of the Chief Internal Auditor

Introduction

1. The 'Code of Practice for Internal Audit in Local Government' places a duty on me to produce an annual opinion on the state of the Council's system of internal control. Since I initiated this practice I have restricted myself to a short report giving little more than my opinion itself which has then been incorporated within the Deputy Chief Executive and Executive Director – Resources' main report.
2. However as a result of a re-examination of my approach I have come to the conclusion that I need to back up my opinion with more information for members on how I have arrived at that opinion. This is particularly relevant this year with the introduction of a full Statement of Internal Control, and the nature of the opinion I am giving.

Annual Internal Audit Opinion

*Based on work carried out by the Internal Audit Division and the reliance I have placed on the work of other assurance bodies, I have formed the opinion the council's internal control arrangements provide an **unsatisfactory level** of assurance.*

Basis of the Opinion

3. The opinion is primarily based on the work carried by the internal audit division as described in the following paragraphs, plus the reliance I have placed on other assurance bodies.
4. In forming the opinion I do not rely only on work carried out in the last year but will continue to be informed by earlier work where relevant. Without setting a hard and fast cut-off this does tend to mean that the opinion is mostly informed by the work carried out in the last two years and the following paragraphs reflect this.
5. While it is of little relevance this year I will sometimes take into account audit work still in progress at the time of forming my opinion.
6. In the context of this report "opinion" does not simply mean "view", "comment" or "observation"; it represents my professional conclusion based on the work carried out.

Mainstream Audits

7. Over the past two years I have provided members with at least summary reports of over 72 individual audits. In the case of 11 of these audits (15%) we issued opinions the key risks reviewed in the audit were inadequately controlled. Subsequent developments resulted in 4 of these opinions being revised upwards leaving 7 'live' opinions of inadequately controlled.

8. The majority of the systems given adverse opinions are significant and this level of adverse opinions would tend support an adverse opinion for the internal control system as a whole but would not in itself be conclusive.

Schools Audits

9. It is no doubt obvious to members that our schools are one of our key services, no doubt many would consider them to be the key service. However from an internal audit point of view they have something of a special status.
10. This arises from the degree of self-governance exercised by schools and as a result although we carry out internal audits at the schools we report our results to the schools themselves rather than the Council. Thus individual schools audits are not included in my periodic reports of completed audits to the Audit Committee.
11. Nevertheless the service is clearly so key to delivering the Council's objectives that I must place before members a summary of the work done and take the results into account in arriving at my opinion.
12. As I have explained above I take into account more than one year's work into account in arriving at my opinion.
13. Over the last two years we have conducted internal audits on 62 of our 63 primary schools and although we have made recommendations for improvement in all cases, in 53 cases (85%) of cases we have been able to give audit opinions that indicated that the key risks reviewed were adequately controlled. Particularly pleasing was that in at least 5 cases this represented an improvement compared to audits conducted in 2003/04.
14. In the same period we visited 5 of our 12 secondary schools and in all cases we have been able to give audit opinions that indicated that the key risks reviewed were adequately controlled.
15. While money is clearly not the measure of all things, and indeed we do not merely look at financial risks in our audit work, it may help members to put these results in context if they bear in mind that delegated schools expenditure amounts to approximately 38% of the council's budget. So their internal control systems must have a significant effect on the council's overall system of internal control, although the overall these results would just tend to encourage an opinion of 'satisfactorily controlled'.

Audit of Contractor's Final Accounts

16. The Council's financial procedure rules require that Internal Audit is given the option to review a contractor's final account before any final payment is made. We do not audit in every case but make a risk based judgement in each case, and would not normally report individual cases to audit committee unless issues of particular significance arise.
17. Over the last 2 years we have been given the option of auditing 45 such final accounts representing a total contract value of £ 4.5m. These have generally been satisfactory but it is worth noting that: these accounts are often submitted long after

contract completion and the value suggests that not all such contracts are being submitted to us. We will be undertaking further work on these areas.

Special Investigations

18. In the course of a year we undertake a number of special unplanned investigations. These arise for a variety of reasons (e.g. management concern, whistle-blowing, other audit work) but tend to involve an allegation or suspicion of some kind of 'wrongdoing' by an individual or organisation.
19. The suspected 'wrongdoing' in question might be as serious as fraud but is more often a suspected breach of an internal code or protocol (particularly in the area of IT).
20. Unless something serious is proven these will usually not be reported to Audit Committee on an individual basis, partly to avoid prejudicing any subsequent disciplinary or legal proceedings but also because in the majority of cases no deliberate wrongdoing is proven and I would not want to risk of 'mud sticking'.
21. Nevertheless the results of some of these investigations will have an influence on my overall opinion. Particularly since while looking at the individual cases we also make sure that we look at any underlying internal control weaknesses
22. Clearly the biggest of the recent special investigations has been that in electoral services and it would be inappropriate for me to comment further on that at this time. Numerically most of the others have been in the IT field which have tended to reveal a worrying level of understanding of basic IT security issues amongst users. We are currently working with IT & HR to develop ways of rectifying this.

Advice and Related Work

23. In addition to our audit work, management does seek our advice on internal control issues on both an ad-hoc and more structured basis.
24. While our role in these circumstances is primarily to give advice that will tend to improve internal control systems, we do in return acquire valuable information about current developments that in turn influence our opinion.
25. In particular, our participation in ad-hoc and standing working groups such as the Corporate IT Group and Risk Management Group proved valuable in this context. Although they come with the risk of prejudicing internal audit independence and need to be carefully handled to prevent this.

Reliance Placed on the Work of Other Assurance Bodies

26. In addition to Internal Audit's own work, I do to some extent place reliance on the work of other assurance bodies. I do this with great caution not because of any great concern about their reliability, but I am anxious that Internal Audit does not seem to compromise its independence by seeming to be merely an in-house agent of our external regulators.

27. However, I do not have to tell members that this has been a particularly difficult year for the Council in respect of regulator reports. In particular the reports of WAO, SSIW and Estyn highlight significant internal control weaknesses, and while I do not share every view expressed in these reports our internal audit work does provide support for many of their findings.
28. I do, therefore that I can place a great deal of reliance on the work of the regulators when forming my opinion.

Review of Statement of Internal Control

29. At the time of drafting this opinion the Statement of Internal Control had not yet been finalised. However I have been kept informed on progress and have access to a late draft which I do not expect to change greatly. If necessary I will issue an addendum to this report to accommodate any changes.
30. The bulk of the statement and the supporting documentation represent a reasonable interpretation of what best practice in this field is so I will restrict my comments to the 'Significant Internal Control Issues' identified.
31. These, have been drawn by combining two sources of information. Firstly the result of a joint Cabinet/CMB workshop facilitated by the Accountancy Section, Internal Audit & KPMG. Secondly an assessment by the Performance Improvement Group(PIG) of the key strategic risks facing the Council, in preparation for the Joint Risk Assessment with the regulators which is scheduled for July.
32. The resulting list of 'significant internal control issues' represents, I think, a reasonable synthesis of these to sources and is supported by work carried out by Internal Audit.
33. I have reviewed the assessment carried out by PIG and am pleased to say that I am in broad agreement with it. In preparing it they have used the scoring mechanism approved in the Council's Risk Management Policy and applied it reasonably.
34. In carrying out this review I have myself scored the risks considered using the same mechanism and while my scores were very similar.
35. The exclusion of one risk from the PIG assessment does cause me a little concern and this follows through to the SIC itself. This risk was described as '*Failure of internal control processes and procedures*' and was scored with a probability of 3 and an impact of 3 giving a score of 9. I on the other hand would score it as no less than a probability of 4 and an impact of 3 giving a score of 12 signalling the need for immediate corrective action.

Nyall Meredith

Chief Internal Auditor

Contact officer tel: Nyall Meredith, Chief Internal Auditor, 754901

Background documents:

Audit Reports within the internal audit division.