

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

31 MAY 2007

REPORT OF THE CHIEF INTERNAL AUDITOR

ANNUAL INTERNAL AUDIT OPINION

1. Purpose of Report.

1.1. To present to members the Chief Internal Auditor's annual opinion on the overall adequacy of the Council's internal control environment.

2. Connection to Corporate Improvement Plan / Other Corporate Priority.

2.1. Internal Audit's work impacts on all the Corporate Improvement Plan/other corporate priorities and without an without an audit assurance any assessment is incomplete

3. Background.

3.1. The Chief Internal Auditor is required both by the Council's Internal Audit Charter and CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom to prepare an Annual Opinion on the overall adequacy of the Council's internal control environment.

4. Current situation / proposal.

4.1. Annual Internal Audit Opinion

4.1.1. 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 a **satisfactory level** of assurance.

4.2. Basis of the Opinion

4.2.1. 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.

4.2.2. 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.

4.2.3. 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.

4.3. Mainstream Audits

- 4.3.1. Over the past two years I have provided members with at least summary reports of 64 individual audits. In the case of 9 of these audits (14%) we issued opinions that the key risks reviewed in the audit were inadequately controlled. Subsequent developments resulted in 3 of these opinions being revised upwards leaving 6 'live' opinions of inadequately controlled.
- 4.3.2. The majority of the systems with 'live' adverse opinions either relate to individual completed projects and contracts, or to systems that are a relatively minor part overall system of internal control. Therefore, the level of adverse opinions would tend support a satisfactory opinion for the internal control system as a whole but would not in itself be conclusive.

4.4. Schools Audits

- 4.4.1. It is no doubt obvious to members that our schools are one of our key services. However from an internal audit point of view they have something of a special status.
- 4.4.2. 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.
- 4.4.3. As I have explained above I take into account more than one year's work into account in arriving at my opinion. Indeed since we still have significant cyclical element to our auditing of primary schools I will be mainly guided by our work of the last three years.
- 4.4.4. Over the two years 2004/05 & 2005/06 we conducted internal audits on 62 of our 63 primary schools and although we made recommendations for improvement in all cases, in 53 cases (85%) of cases we were able to give audit opinions that indicated that the key risks reviewed were adequately controlled.
- 4.4.5. Subsequent work in 2006/07 has seen a number of our opinions being upgraded due to improved controls.
- 4.4.6. 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.
- 4.4.7. 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'.

4.5. Audit of Contractor's Final Accounts

4.5.1. 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.

4.5.2. Over the last 2 years we have been given the option of auditing 54 such final accounts representing a total contract value of £ 7.2m. Only minor errors were detected in those we examined.

4.5.3. Special Investigations

4.5.4. 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.

4.5.5. 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).

4.5.6. 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'.

4.5.7. 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. However, this year these special investigations have had no significant impact on my overall opinion.

4.6. Advice and Related Work

4.6.1. In addition to our audit work, management does seek our advice on internal control issues on both an ad-hoc and more structured basis.

4.6.2. 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.

4.7. Reliance Placed on the Work of Other Assurance Bodies

4.7.1. 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.

4.7.2. In contrast to their critical reports in 2005/06, recent regulators' reports have been much more optimistic and while I do not share every view expressed in

these reports our internal audit work does provide support for many of their findings.

4.7.3. I do, therefore feel that I can place a great deal of reliance on the work of the regulators when forming my opinion.

5. Effect upon Policy Framework& Procedure Rules.

5.1. None

6. Legal Implications.

6.1. None

7. Financial Implications.

7.1. None

8. Recommendation.

8.1. That Members note the report

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Background documents

Audit Reports within the internal audit division.