

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO AUDIT COMMITTEE

REPORT OF THE HEAD OF PROPERTY & FINANCE

ANNUAL INTERNAL AUDIT OPINION

1. Purpose of Report

- 1.1 To present to Members the Head of Internal Audit'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 the entire Corporate Improvement Plan/other corporate priorities and without an audit assurance any assessment is incomplete.

3. Background.

- 3.1 This report gives a brief description of the role of Internal Audit, the control environment within which internal audit operates and also provides a summary of work carried out during the year to 31st March 2010. It should be noted that as the Audit planning year covers the period 1st July to 30th June the summary will span two planning years 08/09 and 09/10. A statement of our overall opinion on the internal control environment is also given in support of the Annual Governance Statement which the Council is required to include with the Statement of Accounts.

- 3.2 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic and effective use of resources.

- 3.3 The control environment comprises the organisation's policies, procedures and operations in place to:

- Establish, and monitor the achievement of, the organisation's objectives
- Identify, assess and manage the risks to achieving the organisation's objectives
- Facilitate policy and decision making
- Ensure the economical, effective and efficient use of resources
- Ensure compliance with established policies, procedures, laws and regulations
- Safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

- 3.4 One of the main aims of the Section is to provide assurance on the Council's overall system of internal control. This is achieved in part through delivery of the Annual Audit Plan which is designed to address:
- Requirements of the Audit Committee;
 - Delivery of a scheduled programme of audits on a risk based needs assessment identified through consultation with service managers;
 - Support the Section 151 Officer in discharging his statutory duties.

4. Current situation / proposal

Opinion 2009/10

- 4.1 No system of control can provide absolute assurance against material misstatement or loss, nor can internal audit give that assurance. This statement is intended to provide reasonable assurance regarding the operation of the Council's internal control environment.
- 4.2 Subject to below and, based on the work undertaken during 2009/10 by Internal Audit, it can be concluded that the Council's key systems of internal control are operating satisfactorily and there have been no fundamental breakdown of controls. It can also be concluded that suitable arrangements are in place to ensure the effective, efficient and economic operation of the Council's financial affairs.

Available Resources and Audit Plan Summary

- 4.3 The Internal Audit Section has an establishment of 13 staff although it should be noted that throughout the year staff resource availability has never been at full compliment. However this reduction in resources was anticipated when formulating the plan for 2009/10. The audit plan covers the period 1st July to 30th June and is drafted following consultation with Senior Managers. The plan is then agreed and submitted for noting to the Audit Committee. A copy of the plan is also provided to the Council's external auditors for their information and input as required.
- 4.4 The plan is monitored on an on-going basis and all changes to work included in the plan are based on an assessment of risk at the time. Inevitably, a number of changes have occurred since preparing the original audit plan. Consequently, due to long term sickness absence and maternity leave it has been possible under the Shared Services agenda to utilise staff resources from the Vale of Glamorgan Council to keep the plan on track.
- 4.5 A summary of the original plan together with actual productive days achieved is shown in the table below.

Summary	Original Plan	Actual April 09 to March 10
Audit Productive Days (Qtr. 4 April to June 09)	274	266
Audit Productive Days (Qtr 1, 2 and 3 – July 09 to March 10)	830	811
Total Productive Days	1104	1077

4.6 As can be seen from the table above the section has very nearly achieved the number of productive days as set out in the original plans.

4.7 The reviews provide an assurance of the adequacy of the systems and enable the Council's external auditors to rely on the work carried out. The systems covered during the year together with the overall audit opinion are listed below:

Description	Date Complete	Opinion
Criminal Records Check	July 2009	Limited
Transport Unit	July 2009	Adequate
Procurement Unit	June 2009	Adequate
Health and Safety follow up	July 2009	Substantial
Licensing Income	June 2009	Adequate
Council Tax and NNDR	July 2009	Adequate
Bridgend Recreation Centre	May 2009	Adequate
Maesteg Pool	June 2009	Adequate
Pencoed Pool – follow up	June 2009	Adequate
Housing Benefit	September 2009	Substantial
Sundry Debtors	September 2009	Substantial
Cash Control	September 2009	Substantial
Health & Safety – Public Protection (follow up)	September 2009	Substantial
Petty Cash (Follow up)	September 2009	Substantial
Development Control (Follow up)	September 2009	Substantial
Economic Development Unit (Follow up)	September 2009	Substantial
Industrial Sites (Follow Up)	September 2009	Substantial
Re-ablement (Follow Up)	September 2009	Substantial
Emergency Planning (Follow Up)	September 2009	Substantial
Youth Services (Follow Up)	September 2009	Substantial
Creditor Payments	November 2009	Adequate
Establishments (Children & Adults)	December 2009	Substantial
Risk Management	December 2009	Adequate
Redevelopment of Civic Offices	November 2009	Adequate
Insurance Services (Follow Up)	December 2009	Adequate
Scheme of Delegations	December 2009	Substantial
Whistleblowing Policy	March 2010	Adequate
Trading Standards	March 2010	Substantial
Recoupment	August 2009	Adequate
Volunteer Drivers (Follow Up)	October 2009	Adequate
Highways Maintenance (Follow Up)	March 2010	Adequate
Street Lighting (Follow Up)	March 2010	Adequate
Payroll	Draft April 2010	Adequate
Adult & Community Education	Draft March 09	Adequate
Maesteg PFI	March 2010	Substantial
Fleet Management	Draft March 2010	Adequate
Physical Regeneration	December 09	Adequate
Main Accounting	Draft March 2010	Substantial

Procurement Cards	Draft March 2010	Limited
Treasury Management	Draft March 2010	Substantial
Anti-Fraud & Corruption	Draft March 2010	Adequate
Ynysawdre Pool Contract	March 2010	Adequate
Capital programme	January 2010	Adequate

Computer Audit

4.8 Within the Section's overall organisational structure there is a Computer Auditor and a Technical Assistant dedicated to computer audit work. The computer audit work carried out during the period April 09 to March 10 is listed below:

Description	Date Audited	Opinion
Firewall	April 2009	No significant issues identified – overall audit opinion was adequate with 3 recommendations for improvement made.
Storage Management	May 2009	No significant issues identified overall opinion was adequate with 3 recommendations for improvement made.
Transactional Website	April to June 2009	Provided a project assurance role and no issues identified.
IT Business Continuity Planning.	April to June 2009	Regular testing programme – no issues identified.
ICT Security	April to June 2009	Ongoing – regular testing performed – no issues identified.
Project Support	April to June 2009	Advice and guidance provided on an ongoing basis.
Information Management	April to June 2009	Advice, guidance and testing provided on an ongoing basis – no issues identified.
TLMS (Leisure Management System)	July 2009	No significant issues identified overall opinion was adequate with 5 recommendations for improvement made.
ICT Centralisation	July 2009	No significant issues identified overall opinion was adequate with 4 recommendations for improvement made.
Business Continuity	July 2009 to March 2010	Programme of testing performed – no issues identified.
Disposal of Assets	January 2009 - ongoing	Review of disposal has identified a significant issue relating to encryption.
IT Security	July 2009 to March 2010	Review of security arrangements including new initiatives is ongoing – programme of testing performed no issues identified.
Data Mining	July 2009 to March 2010	Work undertaken as part of NFI programme and ad-hoc specialist IT input into other audit activities – no issues identified.
Information Management / Assurance	July 2009 to March 2010	Assurance work undertaken on various strands of information

		management – no issues identified.
ICT Projects	July 2009 to March 2010	Computer audit work undertaken providing on internal control and assurance advice relating to key ongoing projects – no issues identified.

- 4.9 The Computer Auditor also carried out substantial work on the 2009 National Fraud Initiative which is nearing completion, as well as providing advice and assistance on several smaller ad-hoc computer system issues.

Schools Audits

- 4.10 In addition to the above, a report has been issued to the Corporate Director – Children and the Audit Committee, summarising the findings and recommendations made by Internal Audit in relation to the school based audits conducted in the 2008/09 (July 2008 to June 2009) audit year. A total of 38 schools were visited during the year these included 3 Secondary Schools, 34 Primary & Nursery Schools and 1 Special School.

The report gave some background information and summarised the key findings of the work undertaken by Internal Audit. The report highlighted that of the 34 primary schools visited during the year, one school had been allocated with an audit opinion of No Assurance, largely due to major issues in respect of a shortfall of uncollected dinner money for the period September 2008 - May 2009, and other problems regarding neglected accounts and school security. This school will be revisited before the end of the Internal Audit year June 2010.

In addition, during July 2009 and March 2010 a total of 29 schools have been visited (24 Primary & Nursery Schools, 3 Secondary Schools and 2 Special Schools). Of these 29 schools, 3 Primary schools have received overall opinions of Limited Assurance.

Overall, when comparing the results over a period of three years it is evident that schools have shown steady improvement over the period which has been reflected in the higher levels of assurance given.

Anti-Fraud & Corruption and Whistleblowing

- 4.11 Internal Audit has responsibility for raising awareness of the Council's Anti-Fraud & Corruption Policy and Whistleblowing Procedure. Anti-Fraud & Corruption and Whistleblowing information is on the Council's Intranet and the Website, where information is available so that the public can raise concerns easily.
- 4.12 The Council participates in the biennial National Fraud Initiative (NFI – the data matching of records such as benefits, pensions, payroll, blue badges, taxi licensing, creditors and student awards), which is co-ordinated by the Audit Commission. Internal Audit takes a leading role in co-ordinating this exercise with the Council. The 2009 NFI exercise is nearing completion with over 3000 matches being processed to date and savings identified. The involvement of the Council in the NFI exercise provides further assurance that the Council has effective procedures in

place to prevent fraud, while at the same time identifying potential fraud cases based on information held by other authorities.

Follow up Previous Year's Audits

- 4.13 Follow up on previous audit recommendations and agreed actions is necessary to enable internal audit to assess the effectiveness of the audit recommendations implemented by management to address identified weaknesses in internal controls. When carrying out an audit, Internal Audit follows up on any previous audit recommendations as part of the review. Where areas are reviewed annually this means that recommendations are usually followed up the year after they are made. However, where the audit opinion is limited, follow up would normally be carried out within 3 to 6 months of the review.

Review of Internal Audit Work in 2009-10

- 4.14 Recommendations arising from internal audit work are graded according to the risk levels of the weaknesses identified, with recommended action as follows:

Fundamental – action that is considered imperative to ensure that the organization is not exposed to high risks;

Significant – action that is considered necessary to avoid exposure to significant risks;

Merits attention – action that is considered desirable and should result in enhanced control or better value for money.

- 4.15 At the completion of each audit review an overall conclusion as to the level of assurance that can be provided will be given, these are as follows:

- **Substantial Assurance** – Key controls exist and are applied consistently and effectively; Objectives are being achieved efficiently, effectively and economically (VFM)
- **Adequate Assurance** – Key controls exist but there may be some inconsistency in application; Compensating controls operating effectively; and Objectives achieved after a fashion e.g. VFM could be improved. (*Some risk of loss, fraud, impropriety, or damage to reputation*)
- **Limited Assurance** – Key controls exist but they are not applied, or significant evidence that they are not applied consistently and effectively; and Objectives are not being met, or are being met without achieving VFM. (*a high risk of loss, fraud, impropriety, or damage to reputation*).
- **No Assurance** – Key controls do not exist; and Objectives are either not met, or are met without achieving VFM. (*a very high risk of loss, fraud, impropriety, or damage to reputation*).

- 4.16 During the period 1st April 2009 to 31st March 2010, five reviews have received limited assurance these being 3 Primary Schools, CRB and Procurement Card reviews. In addition, a report was brought before the Audit Committee relating to a school audit where no assurance could be given on the internal control environment.

3 Primary Schools – Limited Assurance

4.17 As a result of these audits, a number of recommendations were made. The main areas highlighted as needing attention are shown below:

- Management of School Meals Arrears.
- Validation of CRB checks for new starters with BCBC HR Section.
- Completion of ongoing monitoring of School Development Plans.
- Budget Management
- School Private Fund
- Advanced Child Protection training
- Insufficient formal risk assessments.

These Primary schools will be visited early in the new audit year to follow up on the recommendations made.

Primary School – No Assurance

4.18 In respect of the school where no assurance could be given, Internal Audit will be revisiting the school before the end of the Audit year (June 2010) to ensure that all recommendations made have been implemented.

CRB

4.19 The work undertaken during the year was a follow up / progress review of the centralised unit responsible for administering the processing of CRB checks of all relevant employees. The follow up work identified that only 50% of the significant recommendations made in the initial audit had been implemented. However, it is acknowledged that some steps have been taken to implement some of the outstanding recommendations. It is envisaged that a further follow up review will be undertaken during the first quarter of the Audit year 2010/2011.

Procurement Cards

4.20 The work undertaken identified some key issues and made a number of recommendations. It was concluded that, given the large number of non reviewed transactions, caution is required before rolling out the cards any further across the Council, avoiding a further exposure to associated risks.

Risk Management

4.21 The Council agreed its Corporate Risk Register with regulators in September 2009 and this is contained within the Corporate Plan. The risk register identifies the most significant risks to discharging the Council's responsibilities, delivering priorities and sustaining improvement. The Corporate Risk Register will assist in focussing attention on these areas, manage challenges, identify areas for improvement and monitor progress, ensuring that risk management becomes routine management practice. Continuing to utilise risk assessment as a management tool will support improvement as required under the new Local Government (Wales) Measure.

Corporate Governance

- 4.22 The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 4.23 The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 4.24 Good Governance is about doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable way. The Wales Audit Office undertook a good governance diagnostic review which concluded that there are good examples of governance principles being embedded in the way the Council works and that Bridgend CBC compares well with other councils across Wales.

5. Effect upon Policy Framework & Procedure Rules.

- 5.1 None

6. Legal Implications

- 6.1 Provision of an adequate and effective internal audit function is a legal requirement under the Accounts and Audit (Wales) Regulations 2005.

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.