

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT OF THE ASSISTANT CHIEF EXECUTIVE - PERFORMANCE

26th MAY 2011

REPORT OF THE HEAD OF INTERNAL AUDIT

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 Objectives/Other Corporate Priorities

- 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 2011. 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 09/10 and 10/11. 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 kind, 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 2010/11

- 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 that there are no major weaknesses in risk management, governance and control processes. The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.
- 4.2 Subject to below and, based on the work undertaken during 2010/11 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.
- 4.3 In arriving at our opinion, we have taken into account:
- The results of all audits undertaken as part of the 2009/10 and 2010/11 audit programme;
 - The results of follow-up action of audits from current and previous years.
 - Whether or not "high risk" recommendations have been accepted by management and the consequent risks;
 - The effects of any material changes in the Council's objectives or activities or risk profile;
 - Whether any limitations have been placed on the scope of audit;
 - Findings of work performed by other assurance providers (e.g. Wales Audit Office, Council's External Auditors – KPMG who we have liaised with throughout the year, CSSIW and ESTYN).

Available Resources and Audit Plan Summary

- 4.4 The Internal Audit Section has an establishment of 11 staff (excluding the Chief Internal Auditor) and throughout the year staff resource availability has never been at full complement. Although the reduction in resources was anticipated when formulating the plan for 2010/11 it did not take account of maternity leave. 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 always provided to the Council's external auditors for their information and input as required.
- 4.5 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 over the year and as a result of not filling vacant posts and

maternity leave it has been necessary, under the shared services agenda, to utilise staff resources from the Vale of Glamorgan Council to keep the plan on track.

- 4.6 A summary of the original plan together with actual productive days achieved is shown in the table below.

Summary	Original Plan Days	Actual days April 10 to March 11
Audit productive days (quarter 4 – April to June 10)	294	287
Audit productive days (Qtr 1, 2, & 3 – July 10 to March 10)	1068.75	1,134
Total productive Days	1,362.75	1,421

- 4.7 As can be seen from the table above the section has exceeded the number of productive days as set out in the original plan, this can be attributed to the assistance provided by internal audit staff resources at the Vale of Glamorgan Council.
- 4.8 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 included within Appendix A attached.

Computer Audit

- 4.9 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 10 to March 11 is attached at Appendix B.
- 4.10 The Computer Auditor also carried out substantial work on the 2010/11 National Fraud Initiative as well as providing advice and assistance on several smaller ad-hoc computer system issues.

School Audits

- 4.11 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 July 2009 to June 2010 audit year. A total of 29 schools were visited during the year these included; 3 Secondary Schools, 25 Primary and Nursery Schools (this figure includes one school which was visited twice during the year as a result of being given an audit opinion of "no assurance" during the first visit) and 1 Special School.

In addition, during July 2010 and March 2011 a total of 11 schools have been visited (3 Secondary Schools and 8 Primary Schools) this includes the one Primary School receiving a no assurance rating. Of these, the overall assurance ratings

have been either substantial or reasonable (including the school which had previously received a no assurance rating).

It should be noted that from 2010/11 onwards, Internal Audit will be commencing a programme of Control Risk Self Assessments (CRSAs), whereby schools will be issued with a self assessment questionnaire which will be completed by the school and returned along with supporting documentation for review. Initially one cluster of schools received the CRSA on a pilot basis and feedback was extremely positive. The CRSA allows the Chief Internal Auditor to obtain assurance that internal controls are operating effectively at those schools which are not subject to an audit visit in a particular year and contributes to the overall annual audit opinion.

Anti-Fraud & Corruption Arrangements

- 4.12 Internal Audit has responsibility for raising awareness of the Council's Anti-Fraud & Corruption 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. We have assisted on a small number of investigations, concerns have come to light which are now being investigated in relation to compliance with the Council's Contract Procedure Rules, and the outcome of this work will be reported to the Audit Committee in the usual way and will also be reflected in the annual audit opinion next year.
- 4.13 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). Internal Audit takes a leading role in coordinating this exercise. The 2010/11 NFI exercise is well underway and of the 2,656 recommended matches identified, over half have already been processed to date. 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.

Review of Internal Audit Work in 2010 -11

- 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 organisation 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 become 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 high risk of loss, fraud, impropriety, or damage to reputation).

4.16 During the period 1st April 2010 to 31st March 2011, six reviews have received limited assurance these being two Primary Schools, Procurement Cards, Access & Inclusion, Homelessness and Ynysawdre Pool.

Two 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:

- Validation of CRB checks for new starters.
- Orders, Goods Received and Processing of Invoices,
- Formally documenting the risk assessment process,
- Validation and periodic checks of the licenses of those charged with driving the school minibus,
- Collections and Deposits,
- Management of School Meals – numbers and arrears,
- Budgetary Control,
- Private Fund administration,
- School Development Plan,
- Health & Safety – specifically training with respect to use of fire equipment.

Procurement Cards

4.18 The follow up work undertaken once again identified some key issues and made a number of recommendations. The main areas highlighted as needing attention are shown below:

- Card holder reviews and authorisations were not being carried out in a timely manner.
- The process for the return and destruction of purchasing cards needed to be disseminated to Cardholders and / or Management

Access & Inclusion

4.19 The results of this audit identified a general lack of compliance with BCBC policies and procedures.

Homelessness

4.19 The results of this audit identified general concerns over the legality of financial assistance to clear rent arrears, payments for rent in advance and for bonds. In addition the audit identified a need to check establishments used for accommodation for appropriate certificates.

Ynysawdre Pool

4.20 The main areas of concern identified as part of this review were purchasing procedures, health checks for gym users, business objectives and energy management. Management also expressed their concern over the current inadequacies of the chip and pin payment system.

4.20 All six areas have since been revisited during 2010/11 and improvements in the overall control environment for each review have been identified whereby reasonable assurance can now be given.

Corporate Governance

4.21 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.

4.22 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.

4.23 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. In November 2009, the Wales Audit Office (WAO) undertook a Good Governance Diagnostic review at BCBC. This was designed to help the Council evaluate governance arrangements in the context of seven principles and to identify the potential for further development of arrangements. The review concluded that there were good examples of governance principles being embedded in the way the Council works and that BCBC compares well with other Councils across Wales.

4.24 As part of the 2010/11 annual Internal Audit Plan, a review of corporate governance was undertaken. During the audit a number of strengths and areas of good practice were identified as follows:

- The Council has adopted a Performance Management Framework. A key element of this is the introduction of Quarterly Business Reviews (QBRs). The Auditors were invited by the Assistant Chief Executive – Performance to attend the November 2010 meeting. The reviews are led by the Chief Executive and involve Cabinet, Directors, Heads of Service and Scrutiny Committee Chairs taking stock of the extent to which the Council's priorities are being progressed and the general performance of service management within the Directorates. Implementation of the Performance Management Framework aims to ensure greater managerial accountability and is aimed at developing the line of sight between the Council's strategic plans and the role individuals/Managers have in

achieving Council goals. This activity supports Principle 2 of the framework as it is a clear example of Members and officers working together to achieve a common purpose.

- Throughout Wales, Councils are striving to provide the best possible support for Members so that they are capable of meeting the increased challenges and heightened expectations placed upon them. This takes the form of skill and knowledge development, support facilities and support services. The Welsh Local Government Association (WLGA) is working with Councils to help develop these activities. To provide structure to this national programme of support, the Wales Charter for Member Support and Development has been developed collaboratively by the Association, Members representing each of the political groups and Member support officers from each Council. The award has three levels, firstly the 'Charter', secondly the 'Advanced Charter' and finally the 'Excellence Award'. BCBC was assessed by the external review team, led by WLGA, on 21st September 2010. The application was successful, and Charter status was formally awarded at the annual Welsh Member Development Conference on 26th November 2010. BCBC will hold Charter status for three years, after which it will be expected to either (i) apply for reassessment at this level, or (ii) apply for the next Charter level (the advanced award).
- It was also identified that the Council has instigated a Leadership and Management Development Programme in recent years. This is aimed at developing and supporting the top 150 leaders in the organisation from Directors through to Principal Officers and Managers. The programme is designed to support the development of new skills and behaviours and to nurture contemporary and consistent leadership and management capabilities. The programme is aligned with the 'Transforming Bridgend' agenda and aims to drive the transformation of Bridgend to a fully modernised authority, delivering targeted and high quality services to communities. The Auditor viewed the 2008/09 programme handbook. On viewing the core modules the Auditor was able to gain an indication of what the Council seeks to achieve and this demonstrates the awareness of good governance arrangements specifically Principle 3 of the framework; 'promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour'.

5. Effect upon Policy Framework& Procedure Rules.

5.1 There is no effect upon the policy framework and procedure rules

6. Equality Impact Assessment

6.1 There are no equality issues.

7. Financial Implications.

7.1 An effective internal audit service is a key contributor in ensuring that the Council's assets and interests are properly accounted for and safeguarded.

8. Recommendation.

8.1 That Members consider and comment on the Head of Internal Audit's Annual Opinion for 2010/11.

David Macgregor
Assistant Chief Executive - Performance
26th May 2011

Contact Officer: Helen Smith
Chief Internal Auditor

Telephone: (01656) 754901

E-mail: Helen.Smith@bridgend.gov.uk

Postal Address Bridgend County Borough Council
Internal Audit
Innovation Centre
Bridgend Science Park
Bridgend
CF31 3NA

Background documents

None