

BRIDGEND COUNTY BOROUGH COUNCIL

**THE HEAD OF INTERNAL AUDIT – FINAL OUTTURN REPORT FOR THE
PERIOD JULY 2011 TO MARCH 2012**

2011 -12 ANNUAL INTERNAL AUDIT OPINION

1. Introduction

- 1.1 This Annual Report gives the opinion of the Head of Internal Audit for Bridgend CBC on the adequacy and effectiveness of internal control within the Council. It also summarises the work performed by internal audit for the period July 2011 to March 2012. As reported to the Audit Committee in July 2011 it has been necessary this year to adjust the planning period to ensure that all future audit plans are aligned to the financial year (April to March) rather than the existing audit year which covers the period July to June, hence the nine month coverage for this year only.
- 1.2 It is the duty of the Head of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of the system of internal control. This is based on the findings from audit reviews as documented in the Audit Plan and other advice work completed on control systems. The results of our investigation work and the work of other internal reviews within Bridgend CBC also informs my opinion.
- 1.3 The Head of Audit's opinion on the adequacy and effectiveness of internal control is used to inform and should be read alongside the wider Annual Governance Statement incorporated into the Council's Statement of Accounts for 2011/12.
- 1.4 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.
- 1.5 The control environment comprises the organisation's policies, procedures and arrangements in place to:
- Safeguard the organisation's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
 - 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;
- 1.6 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 the 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;
 - Support the Section 151 Officer in discharging their statutory duties.

2. Assurance on Internal Control – Executive Summary

Opinion 2011/12

- 2.1 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 have come to my 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.
- 2.2 In arriving at the overall opinion, the Head of Audit has taken into account:
- The results of all audits undertaken as part of the audit programme - July 2011 to March 2012.
 - 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 and Regulatory bodies – KPMG, CSSIW and ESTYN).
- 2.3 **Therefore, in the Head of Audit's opinion, taking into account all available evidence, the adequacy and effectiveness of internal control at Bridgend CBC is satisfactory. Appendix B attached provides a summary of the internal control environment for the service areas where work has been undertaken in the period under review.**
- 2.4 The objective of the assurance identified by Internal Audit is to provide an overall indication that summarises the results, in control terms, of the findings of Internal Audit. Although satisfactory assurance demonstrate a good control across the board, it is important that control weaknesses in systems where the

assurance level has been rated Limited or No Assurance are dealt with and given priority by management.

- 2.5 During the period 10 reviews have identified weaknesses in control to a level that only limited assurance could be given, all of which have been reported to the Audit Committee and management have given written assurance that the recommendations made will be implemented to address the weaknesses identified. In addition and of particular concern is the audit review of Building Maintenance where, based on the work carried out by the auditors, it was found that the weaknesses in the internal control environment were so significant that a conclusion of no assurance was the outcome. There were particular concerns in relation to compliance with the Council's Contract Procedure Rules. Due to the significance of the findings of this review; the matter was reported to the Audit Committee which resolved to receive a further report on progress made by management to address the weaknesses identified. Internal Audit is in the process of finalising the follow up review and a draft report is being produced. The initial findings show that improvements have been made and this will be the subject of a further report to the Audit Committee in due course.
- 2.6 As part of each review, we work closely with management to assess what actions can be put in place to address any weaknesses identified. Accordingly, the Head of Audit's overall opinion, as detailed above, is based on audit findings, implementation/action plans from management and other sources of assurance, including External Audit, Risk Management, the Council's Section 151 Officer and Monitoring Officer.
- 2.7 The volume of Internal Audit recommendations accepted by management was (99.7%) and further information is given in section 4. The level of detailed implementation/ action plans received from management identifies how control deficiencies will be rectified and increases the level of assurance the Head of Audit has on the overall internal control environment.

3. Audit Planning / Monitoring

- 3.1 The Audit Plan covering the period July 2011 to March 2012 was submitted and approved by the Audit Committee on 7th July 2011. The Plan outlined the assignments to be carried out, their respective priorities, an estimate of resources needed and differentiated between assurance and other work. The plan was based on an establishment of 9 full time equivalents (FTE) equating to 1,166 productive days.
- 3.2 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. A summary of the plan together with the actual outturn is shown in Table 1 below:

Table 1 – Internal Audit Plan July 2011 to March 12.

Resources Available	Total Plan Days	Actual Days Achieved
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Total Productive days Available	1,166	1,024
Time Allocated to Audit Work		
Performance	305	296
ICT & Property	185	153
Legal and Regulatory Services	55	44
Children (Including Schools)	263	235
Communities	175	162
Wellbeing	87	52
Cross Cutting	71	51
External	25	31
OVERALL TOTAL	1,166	1,024

- 3.3 As can be seen from the table above the actual outturn for the Section shows that a total of 1,024 productive days has been achieved. This is 142 days less than originally planned and can be attributed to the loss of staff during the period which equates to one full time equivalent.
- 3.4 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 outturn for the period July 2011 to March 2012 together with the overall audit opinion are listed in Appendix B as extracted from the Audit Planning and Control Environment (APACE) management system.

4. Implementation of Recommendations

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

Fundamental – action required immediately to ensure that the organisation is not exposed to high risks. These relate to issues that are fundamental and material to the system of internal control at a service level.

Significant – action required within six months to avoid exposure to significant risks. These relate to issues that have an important effect on the controls but do not need immediate action.

Merits Attention – action required within 12 months or by the next audit review which should result in enhanced control or better value for money. These are issues arising that would, if corrected, improve the internal control environment in general but are not vital to the overall system of internal control.

- 4.2 At the completion of each audit review an overall opinion as to the level of assurance that can be provided will be given, these are as set out in Table 1 above. Following each audit, report recipients are asked to complete an action / implementation plan showing whether they agree with the recommendations made and how they plan to implement them.
- 4.3 The classification of each recommendation made assists management in focusing attention on priority actions. During the period July 2011 to March 2012, Internal Audit made a total of 344 recommendations, of which management gave written assurance that 343 of these will be implemented. The results are summarised in Table 2 below:

Table 2

Recommendation Priority	Number Made	Number Agreed or Implemented	% Agreed or Implemented
Fundamental	2	2	
Significant	142	141	
Merits Attention	200	200	
Total	344	343	99.7%

- 4.4 The recommendations made are graded according to their importance (Fundamental, Significant and Merits Attention). In addition, each recommendation will be grouped by risk. The risk categories are as follows:

A – Accomplishment of Objectives;
 C – Compliance;
 E – Value for Money;
 R – Reliability and Integrity of Information;
 S – Safeguarding Assets;
 X – Governance.

- 4.5 Table 3 below details the number of recommendations made grouped by risk.

Table 3

Description	Number of Fundamental Recommendations	Number of Significant Recommendations	Number of Merits Attention Recommendations
A – Accomplishment of Objectives	1	45	63
C - Compliance	1	38	45
E – Value for			

Money		4	8
R – Reliability and Integrity of Information		29	62
S – Safeguarding Assets		26	22
X – Governance			
Total	2	142	200

5. Audit Client Satisfaction Questionnaires

5.1 At the completion of each audit, all recipients of our reports are asked to comment on their satisfaction with the audit process, by way of a survey questionnaire ranging from a score of 1 for very satisfied to a score of 5 very unsatisfied. The results are summarised in Table 4 below:

Table 4.

No.	Question	Average Score Of Responses March 2012
1	Where appropriate, briefing of client and usefulness of initial discussion.	1.438
2	Appropriateness of scope and objectives of the audit.	1.438
3	Timelines of audit.	1.438
4	Response of Officer to any requests for advice and assistance.	1.375
5	General helpfulness and conduct of Auditor (s)	1.313
6	Discussion of findings / recommendations during or at the conclusion of the audit.	1.440
7	Fairness and accuracy of report.	1.375
8	Practicality and usefulness of recommendations	1.438
9	Standard of report.	1.313
10	Client agreement with overall audit opinion.	1.375

5.2 The survey results are excellent and we hope to sustain a high level of customer satisfaction for the forthcoming year 2012/13. In addition to the above, a number of clients have commented separately on the professionalism and helpfulness of the Auditors they have dealt with.

6. Resources

6.1 The Head of Audit requires appropriate resources at their disposal to undertake sufficient work to offer an independent opinion on the Council's internal control environment. This is a fundamental part of Bridgend CBC's governance arrangements. The Internal Audit Plan was presented to the Audit Committee in July 2011 and was based on a provision of 1,166 productive days. During the period, the Internal Audit Section has experienced significant change; with the Section moving location, agile working and the coming

together of both Bridgend and Vale of Glamorgan Internal Audit staff on a more formal footing under a shared service arrangement.

- 6.2 The combined Section commenced the period with a total of 29 Full Time Equivalent (FTE) posts on the respective establishments, of which this included 5 vacant posts (two for BCBC – excluding the Chief Internal Auditor's post and three for VOG). Since the coming together and re-location of the two Sections in May 2011; the Section has lost a further eight members of staff; equating to 7.6 FTE's. The Majority of staff have left for promotion which is a testament to the Section and the Council's overall commitment in ensuring that all staff receive the most appropriate training and development to suit the individual's need.
- 6.3 Although the Section has lost a significant number of staff, the impact on BCBC's Audit Plan has been a shortfall of 142 productive days; representing a 12% reduction. Therefore, the work undertaken during the period has focussed on covering the high risk areas in order to provide assurance on the Council's overall system of internal control.

7. Anti-Fraud & Corruption Arrangements

- 7.1 Internal Audit has responsibility for raising awareness of the Council's Anti-Fraud & Corruption and Whistle-blowing Procedure. Anti-Fraud & Corruption and Whistle-blowing information is on the Council's Intranet and the Website, where information is available so that the public can raise concerns easily.
- 7.2 We have assisted on a small number of investigations during the period, the most significant of which related to non compliance with the Council's Contract Procedure Rules. This review highlighted systemic failure in the internal control environment which left BCBC open to the risk of fraud and subsequently has allowed a fraud to be perpetrated against the Council. This matter is being investigated by the police and therefore no further information can be provided. It should be noted that this matter is connected to the review where an overall opinion of no assurance has been given as outlined in paragraph 2.4 above.
- 7.3 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). The 2010/11 NFI exercise identified 12,070 matches of which, 2,692 were recommended for further investigation. So far to-date, 1,447 have been processed. A detailed report on the final outcome of the 2010/11 NFI exercise will be the subject of a further report to the Council's Audit Committee in due course.

8. Governance Arrangements

- 8.1 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 Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

- 8.2 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.
- 8.3 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.
- 8.4 The Council approved and adopted on the 28th June 2011 a Code of Corporate Governance (COCG) which comprehensively describes the Council's commitment to and understanding of Corporate Governance and outlines the arrangements that it has put in place to ensure ongoing effective implementation and monitoring.
- 8.5 The COCG describes how the Council will meet and demonstrate its commitment to good corporate governance by following these six principles as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
- 8.6 The COCG also makes provision for a joint commitment by Members and Officers to the principles it contains, as well as a statement of assurance jointly signed by the Leader of the Council and the Chief Executive. This helps to ensure that the principles of good governance are not only fully embedded but also cascade through the Council and have the full backing of the Leader of the Council and elected Members, as well as the Chief Executive and the Corporate Management Team.
- 8.7 As part of the 2011/12 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; including the development and adoption of a Code of Corporate Governance creating a framework which enables the Council to demonstratively achieve and maintain a high standard of good corporate governance; as well as a framework of corporate strategic and operational documents, many of which are interconnected and ensure that the fundamental principals of good governance are achievable. No significant weaknesses were identified during the review.