

APPENDIX A

BRIDGEND COUNTY BOROUGH COUNCIL

THE HEAD OF INTERNAL AUDIT – FINAL OUTTURN REPORT FOR THE PERIOD APRIL 2012 TO MARCH 2013

2012 -13 ANNUAL INTERNAL AUDIT OPINION

1. Introduction

- 1.1 This Annual Report gives the opinion of the Chief Internal Auditor, as 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 April 2012 to March 2013.
- 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 investigation work and the work of other internal reviews within Bridgend CBC also informs the 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 in the Council's Statement of Accounts for 2012/13.
- 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 Internal Audit 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 2012/13

- 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 attention during 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 - April 2012 to March 2013.
 - 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 demonstrates good control across the board, it is important that control weaknesses in systems where the assurance level has been rated as Limited or No Assurance are dealt with and given priority by management.

- 2.5 During the period 10 reviews have identified weaknesses in control at a level where 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 2011/12 the Head of Audit's opinion reflected concerns surrounding 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. Two further follow up reviews have been undertaken during 2012/13 which culminated in an overall audit opinion of reasonable assurance in relation to the Internal Control environment. Management are continuing to implement the recommendations made and improvements in the system of Internal Control are clearly evident.
- 2.7 As set out in Appendix B, the remaining significant control issues identified during the year have tended to relate to specific service areas rather than an across the board breakdown in controls. The relevant managers have agreed with and are working toward implementing the recommendations made to address the weaknesses identified. Internal Audit will follow up on these issues during 2013-14 to ensure that significant progress is being made.
- 2.8 In addition to these areas the challenge from an audit perspective remains the financial context in which the Council is required to operate. The challenge of delivering the further programme of savings will be substantial and impact on all areas of the business and is predicated on a range of reasonable but ambitious assumptions. Whilst the Council is well placed to respond to this challenge, the scale and pace of required change remains a fundamental risk.
- 2.9 In a Council of this complexity, with its significant savings requirements, there is an inherent risk of breakdown in the systems of control particularly where roles, responsibilities and systems are changing. As the Council continues to experience reduced resources, increased demands on services and new and innovative forms of service delivery, there is a need to ensure that the Council's control environment remains robust, proportionate and is as efficient and effective as possible.
- 2.10 As part of each review, Internal Audit works 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.
- 2.11 The volume of Internal Audit recommendations accepted by management was (95.6%) 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 in the overall internal control environment.

3. Audit Planning / Monitoring

- 3.1 The Audit Plan covering the period April 2012 to March 2013 was submitted and approved by the Audit Committee on 25th April 2012. The Audit 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 1,475 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 April 2012 to March 2013.

| Resources Available | Total Plan Days | Actual Days Achieved |
|-------------------------------------|------------------------|-----------------------------|
| Total Productive days Available | 1,475 | 1,369 |
| | | |
| Time Allocated to Audit Work | | |
| | | |
| Performance | 320 | 308 |
| ICT & Property | 275 | 173 |
| Legal and Regulatory Services | 80 | 55 |
| Children (Including Schools) | 325 | 356 |
| Communities | 170 | 122 |
| Wellbeing | 140 | 144 |
| Cross Cutting | 155 | 200 |
| External | 10 | 11 |
| | | |
| OVERALL TOTAL | 1,475 | 1,369 |
| | | |

- 3.3 As can be seen from the table above the actual outturn for the Section shows that a total of 1,369 productive days has been achieved. This is 106 days less than originally planned and can be attributed to the loss of staff during the period which equates to just over a half 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 April 2012 to March 2013 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. 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 April 2012 to March 2013, Internal Audit made a total of 362 recommendations, of which management gave written assurance that 346 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 | 6 | 6 | 100% |
| Significant | 99 | 95 | 95.9% |
| Merits Attention | 257 | 245 | 95.3% |
| Total | 362 | 346 | 95.6% |

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 | | 7 | 19 |
| C - Compliance | 3 | 48 | 130 |
| E – Value for Money | | 1 | 8 |
| R – Reliability and Integrity of Information | 1 | 19 | 44 |
| S – Safeguarding Assets | 2 | 13 | 34 |
| X – Governance | | 6 | 14 |
| Y – Corporate Impact | | 4 | 4 |
| Z – Self Audit | | 1 | 4 |
| Total | 6 | 99 | 257 |

5. Audit Client Satisfaction Questionnaires

5.1 At the completion of each audit, all recipients of 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 and compared with last years overall results:

Table 4.

| No. | Question | Average Score of Responses March 2013 | Average Score of Responses March 2012 |
|-----|---|---------------------------------------|---------------------------------------|
| 1 | Where appropriate, briefing of client and usefulness of initial discussion. | 1.158 | 1.438 |
| 2 | Appropriateness of scope and objectives of the audit. | 1.250 | 1.438 |
| 3 | Timelines of audit. | 1.256 | 1.438 |
| 4 | Response of Officer to any requests for advice and assistance. | 1.184 | 1.375 |

| | | | |
|----|--|-------|-------|
| 5 | General helpfulness and conduct of Auditor (s) | 1.025 | 1.313 |
| 6 | Discussion of findings / recommendations during or at the conclusion of the audit. | 1.180 | 1.440 |
| 7 | Fairness and accuracy of report. | 1.317 | 1.375 |
| 8 | Practicality and usefulness of recommendations | 1.415 | 1.438 |
| 9 | Standard of report. | 1.195 | 1.313 |
| 10 | Client agreement with overall audit opinion. | 1.293 | 1.375 |

5.2 The survey results are excellent and show an overall improvement on last year's scores. The aim is to sustain this high level of customer satisfaction throughout the forthcoming year. 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 April 2012 and was based on a provision of 1,475 productive days. During the period, the Internal Audit Section has experienced significant change; with the coming together of both Bridgend and Vale of Glamorgan Internal Audit staff on a formal footing under a shared service arrangement.

6.2 The combined Section commenced the period with a total of 16.5 Full Time Equivalent (FTE) posts on the respective establishments. Although there have been staff departures from the Section over the year, the number of full time equivalents at the end of the year has slightly increased to 16.8 FTE's

6.3 As the Section lost staff during the year, the impact on BCBC's Audit Plan has been a shortfall of 106 productive days; representing a 7% reduction. Therefore, the work undertaken during the year, although not strictly aligned to that planned, has continued to focus on covering the high risk areas in order to provide assurance on the Council's overall system of internal control.

6.4 There is a key indicator that is monitored in respect of the plan. This is the percentage of reviews completed within authorised plan time (target 89%). The actual result for 2012/13 was 90.9% completed within planned time, this increases to 92.66% when taking into account the planned audits completed for the Vale of Glamorgan Council.

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 and staff can raise concerns easily.

- 7.2 A total of 62 productive days has been spent on Anti-Fraud & Corruption work against a planned allocation of 110. No organisation can guarantee that it will be free from fraud or financial irregularity, the extent of which can be a measure of the effectiveness of internal controls. Internal Audit has carried out a number of investigations during the year, either independently or by offering advice and support to managers and investigating officers. The most significant investigation, which related to non compliance with the Council's Contract Procedure Rules, was concluded this year. The outcome was a successful criminal prosecution.
- 7.3 Internal Audit has continued to act as the key contact for the Audit Commission's National Fraud Initiative. This is a mandatory exercise and it is important that data is supplied promptly, and work to ensure that the potential irregularities that the output identifies are dealt with quickly and in a way that is proportional to the value and likelihood of the risks identified.
- 7.4 The Audit Committee will be provided with a detailed Annual Fraud Report 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 controls 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 Board.

- 8.7 As part of the 2012/13 annual Internal Audit Plan, a review of corporate governance, in particular the Council's Code of Corporate Governance, was undertaken. The Auditors were able to evidence good governance arrangements across the Council; however as a result of the review a number of key policy / procedure documents were found to be either out of date or in urgent need of updating; as a result only an overall opinion of reasonable assurance could be provided.
- 8.8 No significant governance issues were identified within the 2011/12 Annual Governance Statement (AGS), other than that, already stated in paragraph 2.5 of this report. However, the AGS did highlight the challenges that the Council would face in delivering the £14m savings identified in the Medium Term Financial Plan 2012/13 to 2014/15. As the Council continues to experience reduced resources, increased demands on services and new and innovative forms of delivery there is a need to ensure that the Council's control environment remains robust, proportionate and is as efficient and effective as possible.
- 8.9 Fundamental to the Council's success will be strong leadership and effective management. A significant risk for the Authority is the fact that a number of strategic directors have left the Council in recent months and only temporary arrangements are in place including that of the Section 151 Officer role. The process for restructuring including the selection and appointment of key officers with the appropriate qualifications, experience and skills will be essential in order to achieve this. The changes must be managed in line with the Council's Constitution and Human Resources policies and procedures.