

**Bridgend and Vale Internal Audit Service: Head of Internal Audit's Outturn Report April 2016 to March 2017
Bridgend County Borough Council.**

Executive Summary

This report provides a summary of the work completed by the Bridgend and Vale Internal Audit Shared Service for the year covering the period April 2016 to March 2017 and provides the Head of Audit's initial opinion on the Council's framework of governance, risk management and internal control. Therefore, based on our work carried out this year, my overall opinion is that the Council's framework of governance, risk management and control is considered to be satisfactory.

Introduction

The aim of the Shared Service is to help both Councils meet high standards of service delivery. 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. The Shared Service supports the Audit Committees in discharging their responsibilities for:

- Advising on the adequacy and effectiveness of the Council's risk management, internal control and governance processes in accordance with the requirements of the Accounts and Audit (Wales) Regulations 2015.
- Supporting both the Chief Executive and the Head of Finance with their delegated responsibilities for ensuring arrangements for the provision of an adequate and effective internal audit.

- Monitoring the adequacy and effectiveness of the Internal Audit Shared Service and Director's / Heads of Service responsibilities for ensuring an adequate control environment.
- Supporting the Head of Finance in discharging his statutory responsibilities under Section 151 of the Local Government Act 1972.
- Ensuring that the Council's External Auditor in relation to our work on the main financial systems audits can place reliance on this.

Definition of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Source:- Public Sector Internal Audit Standards).

Statutory Framework

Internal Audit is a statutory requirement for local authorities. There are two principal pieces of legislation that impact upon internal audit in local authorities; these are:-

- Section 151 of the Local Government Act 1972 requires every authority to make arrangements for the proper administration of its financial affairs and to ensure that one of the officers has responsibility for the administration of those affairs.
- Section 5 of the Accounts and Audit (Wales) Regulations 2015 states that "a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

All principal local authorities subject to the Accounts and Audit (Wales) Regulations 2015 must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS).

Audit Committee

It is important to ensure that the Council has a sufficiently independent and effective Audit Committee that follows best practice. Audit Committees are a key component of corporate governance. They are a key source of assurance about the Council's arrangements for

managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. In addition, Internal Audit provides a key source of assurance to the Committee as to whether controls are operating effectively.

External Audit

The Council's External Auditor examines the work of Internal Audit on an annual basis in order to place reliance on this work when undertaking their audit work on the Council's Financial Statement of Accounts. The Council's External Auditors are the Wales Audit Office.

Public Sector Internal Audit Standards (PSIAS)

The Standards the Internal Audit Shared Service works to are the Public Sector Internal Audit Standards. These standards set out:

- The definition of internal auditing;
- Code of ethics.

- International standards for the professional practice of internal auditing. These standards cover the following areas:
 - Purpose, authority and responsibility.
 - Independence and objectivity;
 - Proficiency and due professional care;
 - Quality assurance and improvement programme;
 - Managing the internal audit activity;
 - Nature of work;
 - Engagement planning;
 - Performing the engagement;
 - Communicating results;
 - Monitoring progress;
 - Communicating the acceptance of risks.

The PSIAS apply to all internal audit service providers, whether in-house or outsourced. It is important to note that there is a requirement within the PSIAS for an external assessment to be undertaken once every five years. The PSIAS came into effect from 1st April 2013 and therefore the Internal Audit Shared Service must be externally assessed before the 31st March 2018. Both Councils Audit

Committees have resolved that an External Assessment be undertaken by a relevant professional body such as the Institute of Internal Audits during the Financial Year 2016/17. As a consequence and following a procurement exercise, the Chartered Institute for Public Finance and Accountancy were commissioned to undertake the assessment. The external assessment commenced on 30th January 2017 and concluded on the 3rd February 2017. The outcome of the assessment concluded that there were no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. All auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added. The outcome of the assessment will be reported under separate cover to the Audit Committee. There have been some recommendations and lower priority suggestions made to improve the service and these have been set out in an action plan which will be monitored by the Council's Audit Committee to ensure these actions are addressed.

Internal Audit Coverage – April 2016 to March 2017

The level of internal audit resources required to examine all the Council's activities far exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent appraisal function that internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery.

The Internal Audit Plan for 2016/17 is based, to a large extent, on the Council's Corporate Risk Register. This was complemented by:

- Priorities identified by Corporate Directors;
- Heads of Service key risks,
- The requirements of the Council's Section 151 Officer;
- External Audit and
- Those concerns / issues raised by Internal Audit in previous audits and our knowledge of potentially high-risk areas.

The Plan was submitted and approved by the Council's Audit Committee on 21st April 2016. The plan provided for a total commitment of 1,053 productive days for the year. Table 1 below provides the outturn for the service for the year and further detail is provided in Appendix B. The current structure for the Shared Service comprises of 18 Full Time Equivalent employees (FTE's), which provides for a comprehensive Internal Audit Service to both the Vale of Glamorgan and Bridgend County Borough Councils. The Head of Audit aims to achieve best practice, but continues to take account of the issues of affordability at a time when both Councils are looking to make substantial reductions in costs. The service has already been vastly streamlined and continues to apply lean auditing risk based

methodologies to its plan of work. At the commencement of this financial year, the service was carrying 4 vacant FTE posts, this has subsequently increased to 9 FTE which represents 50% of the establishment. Discussions are underway as to how the gap in resources can best be resolved.

Table 1 – Final outturn for the year April 2016 to March 2017

Table 1

Directorate	2016/17 Full Year Plan Days	2016/17 Actual Days Achieved
Chief Executive / Resources	130	147
Operational Services and Partnerships	105	132
Education and Family Support	155	196
Communities	128	118
Social Services and Wellbeing	105	46
Cross Cutting – (Including External Client, Unplanned and Fraud and Error)	430	391
Total	1,053	1,030

As can be seen from the table above, the actual outturn for the year shows that the number of productive days delivered are less than those planned by 23 days. The Table further shows that the proportion of productive days achieved vary from that expected by Directorate activity.

A total of 82 reviews have been completed, 7 have been carried forward into 2017/18, 17, although necessary did not culminate in an overall audit opinion and of the balance (58); 54 have been closed with either a substantial or reasonable assurance opinion level and 4 have identified weaknesses in the overall control environmental. Of the four where weaknesses in the control environment were identified, follow up reviews will and/or are being undertaken to ensure that recommendations are being addressed.

Internal Control Weaknesses

There are no significant cross cutting internal control weaknesses identified so far this year which would impact on the Council's Annual Governance Statement.

Our overall opinion on a system is based on both the materiality and impact of the system and our opinion on the internal control arrangements within the system. The combination of these factors then results in a category of risk to the Council as shown in Table 2 below:

Table 2

SYSTEM CONTROL		MATERIALITY AND IMPACT		
		HIGH	MEDIUM	LOW
1	Satisfactory	Moderate	Minimal	Minimal
2	Reasonable	Moderate	Moderate	Minimal
3	Limited – Significant Improvements required	Of Concern	Moderate	Moderate
4	No Assurance – Fundamental weaknesses identified.	Significant	Of Concern	Moderate

Therefore, having regards to the reviews completed and the overall opinions given, my overall opinion is the Council's overall internal control arrangements are considered to be **satisfactory**, resulting in a "**minimal**" level of risk.

Audit Recommendations – 2016/2017

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. The classification of each recommendation made assists management in focusing their attention on priority actions. For the period April to December 2016, Internal Audit has made a total of 33 recommendations, of which management has given written assurance that all of these will be implemented.

From time to time and where it is deemed appropriate to do so; Merits Attention recommendations will be made; by their very nature they relate specifically to an action that is considered desirable but does not necessarily have an impact on the control environment. To this end, these recommendations are not included on the Management Implementation Plan or logged on the Internal Audit Management Information system. Therefore a formal written response is not required from the client or included in table 3 below.

Table 3

2016 -17 Recommendation Priority	No. Made	No. Agreed	No. Implemented	No. not Yet due to be actioned	One month overdue Target date	Two months overdue target date	Three or more months overdue target date
			Complete	Pending	Outstanding		
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	1	1	1	0	0	0	0
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	110	110	37	49	24	0	0
Total	111	111	38	49	24	0	0

Internal Audit - Successes

Some of our successes so far this year include:

- Internal Audit Plans for 2015/16 were delivered in accordance with expectations
- Internal Audit Plans for 2016/17 have been approved by both Audit Committees and Corporate Management in a timely manner.
- We continue to provide an excellent internal audit provision to both Bridgend County Borough Council and the Vale of Glamorgan Council, so much so that both Audit Committees have supported the proposal to extend the Shared Service Partnership Agreement until 31st January 2018, which has been approved by both Cabinets. Both Cabinets have approved an extension of the Shared Service until 31st January 2020.
- We continue to support staff in obtaining professional qualification including CIPFA - Corporate Governance, Institute of Internal Auditors (IIA) and the Association of Accounting Technicians (AAT) as well as continuing professional development (CPD).
- We continue to build on our excellent working relationship with Members, Chief Officers and staff within both Councils.
- The outcome of the External Assessment was positive.

Resources, Qualifications and Experience

The Head of Internal 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 the Bridgend County Borough Council's governance arrangements. The Internal Audit Annual Plan was presented to the Audit Committee in 21st April 2016, which is based on a provision of 1,053 productive days.

The Bridgend County Borough Council is in a partnership agreement with the Vale of Glamorgan Council who host the Internal Audit Shared Service. As at the 1st April 2017 the staffing structure is listed in table 4 below.

Table 4

2016-17 Staffing Structure	FTE
Operational Manager Audit - Head of Audit	1

Principal Auditor (one vacant post)	2
Group Auditor	2
Group Auditor (Information Systems) (vacant)	1
Auditor (5 posts are vacant)	9.5
Trainee Auditor (vacant at present)	1
Trainee Auditor (Information Systems) (vacant)	1
Administrative Assistant	0.5
Total	18

The total resource of 18 Full Time Equivalents (FTE's) provides for a comprehensive Internal Audit Service. The Head of Audit aims to achieve best practice but continues to take account of the issues of affordability at a time when both Councils are looking to make substantial reductions in costs. The service has already been vastly streamlined and continues to apply lean auditing risk based methodologies to its plan of work. At the commencement of this financial year the Section was carrying 4 vacant posts, and this has recently increased to 9 vacant full time equivalent posts. During the year recent recruitment campaign was undertaken which proved to be unsuccessful and therefore the Section continues to carry these vacancies. Discussions are underway as to the best way to address the vacancy issues within the Section and how it can best be resolved. The lack of resources is considered to be a key risk for the service moving forward into 2017/18.

In accordance with the Public Sector Internal Audit Standards, the Head of Audit must ensure that Internal Auditors possess the knowledge, skills and competencies needed to perform their individual responsibilities. Internal Auditors are therefore encouraged to study for and obtain professional qualifications. In addition, it is a requirement of the standard that the Head of Audit must hold a professional qualification and be suitably experienced. The following information outlined in table 5 below demonstrates the experience and qualification mix for the Internal Audit Shared Service.

Experience and Qualifications

Table 5

No of Years Experience	No of years in Auditing	No of Years In Local Government	Professional Qualifications	No of Staff.
Up to 1 year	0	0	Accountants (CIPFA; FCCA; ICAEW)	2

1 to 2 years	0	0		Certified Information Systems Auditor (CISA)	1
2 to 5 years	0	0		Institute of Internal Auditors – full membership and	0
5 to 10 years	4	4		Institute of Internal Auditors – practitioner level; part qualified or audit certificate	3
Over 10 years	5	5		Association of Accounting Technicians (AAT)	0
				Part Qualified AAT	0
				Prince2 Practitioner Level	0
				Bachelor Degree - Honors	1
Total Staff	9	9		Total	7

All staff are encouraged to attend relevant courses and seminars to support their continual professional development. All staff have the opportunity to attend courses run by the Welsh Chief Auditors Group on a diverse range of topics. Individuals keep records of their continuing professional development based on their professional body requirements. Staff are encouraged to study for relevant professional qualifications such as MIIA and CIPFA, at present we are supporting two members of staff to study CIPFA.

Internal Audit – Other Activities

- **Anti-Fraud** – the Internal Audit Shared Service continues to assist in promoting an anti-fraud and corruption culture. We have ensured that staff are made aware; via StaffNet; of any recent scams and frauds that have occurred in both the public and private sectors.
- **National Fraud Initiative** – The Council, via Internal Audit, has again participated in the National Fraud Initiative (NFI) as part of the statutory external audit requirements. This brings together data from across the public sector including local authorities, NHS, other government departments and other agencies to detect “matches” i.e. anomalies in the data which may or may not be indicative of fraud, for further investigation.
- **Advice and Guidance** – Internal Audit continues to provide advice and guidance both during the course of audits and responding to a wide range of ad-hoc queries.
- **Attendance at and contribution to, working groups etc.** - The Section continues to contribute to the development of the Council and ensuring that we are up to date with best practice by attending the following:-
 - Audit Committee;

- Scrutiny Committees (as required);
 - Cabinet (as required);
 - Corporate Management Team (as required);
 - Corporate Improvement Group.
 - The Welsh Chief Auditors Group and all its sub-groups (including South Wales Computer Audit Group; South East Wales Education Audit Group; Social Services Audit Group).
- **Investigation Work** – We continue to support Senior Management in providing resources and expertise in investigating allegations of fraud and misappropriation.

Internal Audit – Review of Performance Management and Quality Assurance Framework

The Public Sector Internal Audit Standards requires that the Head of Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. The section has a “Quality Assurance and Improvement Programme (QAIP) that has been presented to, and approved by, the Audit Committee.

1. **Performance Management** – the section’s key performance indicators are set out in the section below.
2. **Quality Assurance** – each individual audit report and supporting working papers / documents are reviewed by either a Principal Auditor or the Head of Audit. Appropriate standards have been set by the Head of Internal Audit in accordance with the Standards. The file reviews ensure the audits comply with the Section’s internal processes and procedures and the overall Public Sector Internal Audit Standards. Where necessary corrective action is taken.

Internal Audit – Performance Indicators

The Section has one key indicator as follows: **The Percentage of Audits Completed in Planned Time**

Table 6

Justification of this performance indicator: to ensure that Internal Audit provides sufficient coverage to ensure that the requirements of the Council’s Section 151 Officer and External Audit are met and that Internal Audit can give sufficient assurance to the Audit Committee regarding the Council’s system of internal control, risk management and governance arrangements.

Target: 89.7%	Full year performance - April 2016 to March 2017 Achievement: 80.6% Vale – 62.5% BCBC Overall Achievement: Number of Audit Completed = 162 Number completed within planned time = 119 Overall percentage achieved = 73.46%
Therefore from the number of audits completed for this financial year combined for both Councils; the target has not been achieved. ☹️	
The Section started the year with 4 vacant posts and this has increased to 9 at present.	

From the table above we can see that our performance has slipped and we have fallen quite short of our target of 89.7% of audits completed within planned time. Having reflected on the results, it can be determined that this is a combination of the changing expectations of the role of audit, together with the diminishing skills and competencies within the section.

The Section also participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2015/16 have recently been received and are as follows:

Table 7

Performance Indicator 2015/2016	IASS Performance For the Vale 2015/16	Overall Average Performance 2015/16	Overall Average Performance 2014/15	Overall Average Performance 2013/14
Percentage of Planned Audits Completed	99%	85%	84%	80
Number of Audits Completed	135	96	111	126
Percentage of Audits Completed in Planned Time	93%	68%	71%	71%
Percentage of directly chargeable time, actual versus planned	103%	90%	88%	94%
Average number of days from audit closing meeting to issue of draft report.	9.5 days	7.3 days	8.2 days	9.5 days
% of staff leaving during the Financial Year	3%	10%	11%	22%

As can be seen from the table above, the Section is performing well. This, together with our overall performance indicators for the service provided to Bridgend places us once again in the top quartile. It should be noted that the overall average performance for

2015/16 is only based on 64% of the Welsh Chief Auditors Group returning their performance figures (8 councils have failed to return their data sets). We will once again participate in the benchmarking exercise for 2016/17.

Audit Client Satisfaction Questionnaires

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 8 below and compared with last year's overall results:

Table 8.

No.	Question	Average Score of Responses March 2016	Average Score of Responses March 2015	Average Score of Responses March 2014
1	Where appropriate, briefing of client and usefulness of initial discussion.	1.290	1.360	1.420
2	Appropriateness of scope and objectives of the audit.	1.560	1.450	1.450
3	Timelines of audit.	1.560	1.690	1.490
4	Response of Officer to any requests for advice and assistance.	1.330	1.240	1.300
5	General helpfulness and conduct of Auditor (s)	1.190	1.170	1.150
6	Discussion of findings / recommendations during or at the conclusion of the audit.	1.000	1.000	1.000
7	Fairness and accuracy of report.	1.420	1.360	1.600
8	Practicality and usefulness of recommendations	1.580	1.460	1.570
9	Standard of report.	1.420	1.290	1.380
10	Client agreement with overall audit opinion.	1.350	1.310	1.560

5.2 The survey results are excellent. Whilst we will continue to aim to sustain this high level of customer satisfaction throughout the forthcoming year, we will also continue to improve on the response rate which for this year is 60% compared to 54% for last 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.

Governance Arrangements

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.

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.

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.

Bridgend County Borough Council is committed to the principles of good governance and as a result has adopted a formal Code of Corporate Governance (COCG) for the last six years. The Code of Governance is based upon the six principles as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Society of Local Authority Chief Executives (SOLACE) and incorporates the “Making the Connections” governance principles and values as set out by the Welsh Government.

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. The work of the Internal Audit Shared Service represents a fundamental function in delivering the Council’s Corporate Governance responsibilities.

Across the whole of the United Kingdom, local councils are facing unprecedented challenges following reduced Government funding and increased demands on essential services. Between 2016-17 and 2019-20, the Council is expecting to have to make budget reductions of

up to £35.5 million. Budget cuts of this scale present a significant challenge that will require the Council to make many difficult decisions about what services can be maintained and what cannot.

The Council remains unwavering in its commitment towards improving and finding ways of delivering local services, providing better outcomes for residents and achieving savings that will ensure they can deliver a succession of balanced budgets.

As stated earlier in the report, based on the work completed for the year by the Internal Audit Shared Service for the period April 2016 to March 2017; no significant cross cutting control issues have been identified that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific and the recommendations made to improve the overall control environment have been accepted and are being / will be implemented.

It is clear that the scale of the challenges to come will mean that "business as usual", however well managed, will not be enough. The challenge will be to consider alternative delivery models for services across the Council and this will be essential to mitigate the impact of cuts and assist in continuing to provide priority services. Therefore, 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 control environment; including governance and risk management; remains robust, proportionate and is as efficient and effective as possible.