APPENDIX A

Bridgend and Vale Internal Audit Service: Head of Internal Audit's Outturn Report April 2017 to December 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 period of the year covering April to December 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 so far 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. During 2016-17 an External Assessment was undertaken to review our compliance with the Public Sector Internal Audit Standards. The External Assessor concluded that; overall the assessment identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit

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activity. Indeed, the Assessor further stated that all auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added.

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 as a consequence of the external assessment undertaken during 2016/17, the Internal Audit Shared Service has met this requirement.

Internal Audit Coverage – April 2017 to December 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 2017/18 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 27th April 2017. The plan provides for the delivery of 1,085 productive days for the year, with a commitment of a minimum of 995 productive days. Table 1 below provides the outturn for the service for the period April to December 2017 and further detail is provided in Appendix B. The current structure for the Shared Service has recently been reviewed and staff numbers are now set at 14 Full Time Equivalent employees (FTE's). This came into effect from 1st October 2017. 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 7.5 vacant FTE posts; this subsequently increased to 9.5 FTE and as a result of the re-structure the service is now carrying 6.5

vacancies. This lack of adequate resourcing has had an impact on the number of days delivered for the nine months of this year as indicated below.

Table 1 – Productive outturn for the period April 2017 to December 2017

Directorate	2017/18 Full Year Plan Days		2017/18 Expected days for the period April to December 17		2017/18 Actual Days achieved for the period April to December 17
	Max.	Mini.	Max.	Minimum	
Chief Executive / Resources	130	130	97	97	60
Operational Services and Partnerships	110	110	83	83	72
Education and Family Support	160	125	120	94	56
Communities	130	130	97	97	35
Social Services and Wellbeing	170	170	128	128	71
Cross Cutting – (Including External Client, Unplanned and Fraud and Error)	385	330	289	247	111
Total	**1,085**	**995**	**814**	**746**	**405**

As can be seen from the table above, the actual outturn for the period shows that the number of productive days expected has not been achieved. The shortfall in productive days on the minimum expected is as a direct result of staff vacancies and long term absences. The matching process for the re-structure of the Service has been completed and the new structure has now been implemented. The lack of resources within the Service is of specific concern; however a contingency plan is in place to address the shortfall.

A total of 24 reviews have been completed, 17 (71%) of which have been closed with either a substantial or reasonable assurance opinion level. 5 reviews (21%) have identified weaknesses in the overall control environmental (3 relating specifically to investigations). The remaining 2 reviews (8%) were closed without requiring an opinion due to the nature of the work undertaken.

Internal Control Weaknesses

Foster Care Payments –

An audit review of Foster Carers Payments was undertaken as part of the 2017/18 annual Internal Audit Plan. During the course of the review an input error was identified whereby one field on the Access payments database had not been populated with the placement end date and therefore as a consequence of this the weekly level allowance continued to be paid. This was addressed immediately and more robust validation checks have now been introduced to minimise the risk of re-occurrence. Nine recommendations for strengthening the control environment have been made, which have all been agreed by Senior Management with some being addressed as the Audit progressed.

Previously reported
Section 117 – Section 117 of the Mental Health Act 1983 imposes an enforceable joint duty on the relevant health and social services authorities to provide or to arrange to provide after-care services for certain categories of mentally disordered patients who have ceased to be detained and leave hospital (or prison, having spent part of their sentence detained in hospital).

During the Audit a number of strengths and areas of good practice were identified as follows:
- 96% of service users had been allocated a care co-ordinator and where no care co-ordinator was allocated a valid explanation was provided.
- High value service user packages are subject to scrutiny under the 'right sizing' exercise by the Council's transformation team.
- The use of the recently implemented Welsh Community Care Information System (WCCIS) is already displaying benefits e.g. Social Workers can input service users' information electronically which has removed the need for the completion of a paper 'basic details form.'

The following key issues were identified during the Audit which need to be addressed:
- An out of date financial contribution arrangement with the Health Board;
- No documented internal procedures or working instructions setting out the processes to be followed for the numerous teams involved in the administration of S117 aftercare.
- An authorised signatory listing has not been finalised which means that Finance potentially process payments to Service Providers without appropriate approval.

There are no other significant cross cutting internal control weaknesses identified so far this year which would impact on the Council's Annual Governance Statement. It should be noted that the other review where weaknesses have been identified was as a result of a specific investigation.

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 so far to-date and the overall opinions given, my overall opinion is the Council's overall internal control arrangements are considered to be **satisfactory**, resulting in a **"moderate"** level of risk.

Audit Recommendations – 2017/2018

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 nine month period, Internal Audit has made a total of **22** 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

2017 – 18 Recommendation Priority	No. Made	No. Agreed	No. Implemented	No. not yet due to be actioned	No. overdue action date
			Complete	Pending	Outstanding
Fundamental (Priority One) – Immediate Action	0	0			
Significant (Priority Two) – Action within 6 – 12 months	22	22	17	0	5
Total	22	22	17	0	5

Table 4. Analysis of Overdue Recommendations

Analysis of Overdue Implementation of Recommendations for 2017-18	No. Overdue	One / Two months overdue Target date	Three or more months overdue target date
		Amber	Red
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	0	0	0
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	5	5	0
Total	**5**	**5**	**0**

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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 27th April 2017, which is based on the provision of a maximum of 1,085 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 3 below, however this has subsequently changed as a result of the re-structure which came into effect from 1st October 2017.

Table 3 Staffing Structure

2017-18 Staffing Structure As at 1st April 2017	FTE		New Staffing Structure effective from 1st October 2017	FTE
Operational Manager Audit - Head of Audit	1		Operational Manager Audit – Head of Audit	1
Principal Auditor (1 vacant post at present)	2		Client Audit Manager (1 vacant post)	2
Group Auditor	2		Senior Auditor (3 vacant posts)	5
Group Auditor (Information Systems – vacant at present)	1		Auditor (1/2 vacant post)	4
Auditor (5.5 posts are vacant at present)	9.5		Audit Assistant (2 vacant posts)	2
Trainee Auditor (vacant at present)	1			
Trainee Auditor (Information Systems) (vacant at present)	1			
Administrative Assistant	0.5			
Total	**18**		**Total**	**14**

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 4 below demonstrates the experience and qualification mix for the Internal Audit Shared Service.

Table 4 - Qualifications / Experience

Post	Qualification Expectation	No of FTE's	No qualified	No of Employees with No of audit years' experience			
				1 – 2 years	3 – 5 years	6 -10 years	Over 10 years
Operational Manager Audit – Head of Audit	CCAB qualified and relevant experience.	**1**	**1**				**1**
Audit Client Manager (one vacant post)	CCAB qualified or equivalent.	**2**	**1**				**1**
Senior Auditors (three vacant posts)	Level 6 educational qualification e.g. Part Qualified Audit or Accountancy professional qualification e.g. PIIA, CIA or CCAB.	**5**	**1**				**2**
Auditors (½ vacant post)	Level 4 education qualification e.g. Qualified Accounting Technician (AAT) or equivalent.	**4**	**2**		**1**	**2**	**1**
Audit Assistant (2 vacant posts)	Level 3 educational qualification e.g. A Levels, BTEC National Award or part qualified AAT.	**2**					

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.

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 /Board (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

The Section participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2016/17 have recently been received and are as follows:

Table 5

Performance Indicator 2016/2017	IASS Performance for BCBC 2016/17	Overall WCAG Average Performance 2016/17	IASS Performance For the BCBC 2015/16	Overall WCAG Average Performance 2015/16
Percentage of Planned Audits Completed	91	84%	98%	84%
Number of Audits Completed	75	90	102	95
Percentage of Audits Completed in Planned Time	63	63%	87%	70%
Percentage of directly chargeable time, actual versus planned	97.8	92%	99%	92%
Average number of days from audit closing meeting to issue of draft report.	9.5	8 days	9.5 days	6.8 days
% of staff leaving during the Financial Year	30.6*	10%	3%	9%

*combined figure for the shared service

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 for the period April to December 2017 are summarised in Table 6 below.

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Table 6.

No.	Question	Average Score of Responses to December 2017	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.	1.710	1.290	1.360	1.420
2	Appropriateness of scope and objectives of the audit.	1.860	1.560	1.450	1.450
3	Timelines of audit.	2.170	1.560	1.690	1.490
4	Response of Officer to any requests for advice and assistance.	1.140	1.330	1.240	1.300
5	General helpfulness and conduct of Auditor (s)	1.140	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	1.000
7	Fairness and accuracy of report.	1.430	1.420	1.360	1.600
8	Practicality and usefulness of recommendations	1.430	1.580	1.460	1.570
9	Standard of report.	1.140	1.420	1.290	1.380
10	Client agreement with overall audit opinion.	1.430	1.350	1.310	1.560

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 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 so far to date by the Internal Audit Shared Service for the period April to October 2017; no significant cross cutting control issues have been identified (other than that reported in the body of this report) that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific. The recommendations made to improve the overall control environment have been accepted and are being / will be implemented.

Of significant issue for the Internal Audit Shared Service is the current lack of resource and this is having an impact on the 2017/18 Audit Risk Based Plan. Prior to October 2017 the Section was carrying over 53% of its resource in vacant posts; this is obviously

unsustainable and without doubt will make this a very difficult year for the service. The current structure of the Shared Service has recently been reviewed and although the staff numbers have been reduced from 18 FTE's to 14, the number of senior posts has been increased. The purpose of this is to ensure a more resilient service moving forward which will not only meet the requirements of the Public Sector Internal Audit Standards (PSIAS) but also the changing environment in which we operate. Contingency plans are in place to address the shortage in resources until the end of March 2018.

In addition, Internal Audit is very mindful of the fact that in a Council of this size and 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. 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.