BRIDGEND COUNTY BOROUGH COUNCIL

THE CHIEF INTERNAL AUDITOR (AS THE HEAD OF INTERNAL AUDIT) – ONGOING OPINION REPORT FOR THE PERIOD APRIL TO OCTOBER 2014

1. **Introduction**

1.1 This report details the work undertaken by the Internal Audit Shared Service for the period April to October 2014 in accordance with the Annual Risk-Based Plan presented to the Audit Committee on 10th April 2014. It summarises the work performed by internal audit for the period stated and highlights any issues identified if applicable.

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 adequacy of control observed from completing a selection of audit reviews as documented in the annual Audit Plan and other advice work completed on control systems. The results of our investigation work and the work of other internal reviews with Bridgend County Borough Council also informs my opinion.

1.3 This report constitutes the first overall outturn for the year 2014/15 and will continue to be used and updated as the year progresses. An overall opinion on the adequacy and effectiveness of the system of internal control has been provided within the body of the report. The sections to be covered in this report where applicable are as follows:

- A summary of the role of the Internal Audit Shared Service;
- An account of Internal Audit resourcing for 2014/15;
- An update on the Partnership arrangement;
- A summary of the effectiveness of the Internal Audit Shared Service – Quality assurance and Performance;
- Statement on the continued conformance with the Public Sector Internal Audit Standards;
- Confirm the organisational independence and objectivity of Internal Audit;
- A summary of the performance / outturn during the year 2014/15;
- An opinion on the adequacy of management responses to Internal Audit advice and recommendations made during the year;
- A summary of the issues the Head of Audit judges particularly relevant to be included in the Annual Governance Statement;
- An opinion on the overall adequacy and effectiveness of the Council's internal control environment (where appropriate).

2. **The Role of the Internal Audit Shared Service at the Council**

2.1 Internal Audit is an independent assurance function that provides objective opinion to the Council on the control environment comprising risk management, internal control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It independently and objectively examines, evaluates and

reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

2.2 The control environment comprises the organisation's policies, procedures and operations in place to:

- Establish, and monitor the achievement of, the organisation's objectives.
- Identify, assess and manage the risks to achieving the organisation's objectives.
- Facilitate policy and decision making.
- Ensure the economical, effective and efficient use of resources.
- Ensure compliance with established policies, procedures, laws and regulations.
- Safeguard the organisation's assets and interests from losses of all kind, including those arising from fraud, irregularity or corruption.

2.3 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 Chief Executive as Head of Paid Service and the Corporate Director of Resources as the Section 151 Officer in discharging their statutory duties.

2.4 Internal Audit Shared Service also investigates any potential or identified internal frauds and irregularities that may arise within the Shared Service.

2.5 The service is delivered by the Bridgend and Vale Internal Audit Shared Service (IASS) which is part of a joint collaboration between Bridgend County Borough Council (BCBC) and the Vale of Glamorgan Council (VOG) under a partnership agreement. The Vale of Glamorgan Council is the host authority which provides an internal audit service to Bridgend. This gives the service an opportunity to network, benchmark and discuss best practice to ensure the service can provide the Councils with the best advice.

3. **An Account of Internal Audit Resourcing for 2014/15 and Going Forward**

3.1 The Vale of Glamorgan Council leads the Bridgend and Vale Internal Audit Shared Service and provides all internal audit services to its partner Bridgend County Borough Council. As at the 1st April 2014 the staffing structure is listed in the table 1 below.

Table 1

2014-15 Staffing Structure	FTE
Chief Internal Auditor (Head of Audit)	1
Principal Auditor	2
Group Auditor	2
Group Auditor (Information Systems)	1
Auditor (One post is vacant at present)	10
Trainee Auditor	1

Trainee Auditor (Information Systems	1
Administrative Assistant	0.5
Total	**18.5**

3.2   The total resource of 18.5 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.

3.3   During the latter part of 2013/14 and the early part of 2014/15; the team has been affected by long term sickness absence and maternity leave. In addition, one member of the team left on the 19th September to take up a position in London and his post has remained vacant. Added to this, another member of staff is on sick leave due to having to undergo surgery; it is not anticipated that they will return until late December or potentially early January. Despite the above, the Section has managed to sustain a high level of coverage of the Plan for the seven months of this Financial Year with 103% of the overall planned productive time available being achieved for BCBC.

3.4   Resources will be monitored during the year and reports provided to the Audit Committee, Corporate Management Board and the Section 151 Officer as required; ensuring that Internal Audit resources remain adequate and effective.

4.   Update on the Internal Audit Shared Service Arrangements

4.1   2013-14 proved to be a successful year for both Internal Audit Partners. The Partnership has enabled each Council to call upon a far wider base of skills and knowledge and provides audit staff with a unique opportunity to use their particular expertise at both Councils and to assist their professional development and broaden their knowledge and skills base.

4.2   2013-14 proved to be another year of achievements, particularly in terms of the annual audit plans. Overall the Section met its expectation with 101% of the Vale's Plan being achieved and 99% of Bridgend's.

4.3   For 2014/15 both Risk Based Plans have been presented to and approved by the relevant Audit Committees with a commitment to deliver 1,478 productive days for the Vale and 1,310 for Bridgend.

4.4   In relation to the period covered by this report, the Section has achieved 104% of the Vale's expected plan days and 103% of Bridgend's. The Internal Audit Shared Service (IASS) formal Partnership Agreement has been in effect since February 2013 and therefore the Service has been fully operational for 22 months. The IASS Board oversee the governance arrangement of the Partnership and meet regularly to ensure an efficient and effective service delivery is being provided.

5.   The Effectiveness of Internal Audit Services (Quality Assurance and Improvement Programme).

5.1 During 2013/14 both Audit Committees endorsed the adoption of the new Quality Assurance and Improvement Programme (QAIP); the aim of which is to:-

Drive Improvements;
Ensure that the activities of Internal Audit are in accordance with Public Sector Internal Audit Standards (PSIAS);
Assess the efficiency and effectiveness of Internal Audit;
Provide for a mechanism by which the performance of staff can be measured;
Identification of Training needs.

5.2 The assessment process included within the QAIP has been in operation for nine months; the results of which are listed below in Table 2:

Table 2

Definition	Score	No of Assessments Completed
All key criteria met and exceeded expectation by identifying areas of improvement in terms of efficiency and effectiveness and has identified measurable savings for the client (VFM).	5	9
Achieved key criteria, budget achieved or reduced and report issued in a timely manner.	4	96
Achieved key criteria but budget exceeded for no valid reason and/or report untimely.	3	20
Elements of the key criteria have been met but significant number of review points.	2	1
None of the key criteria have been achieved. Scope and objectives either not understood by the Auditor or not met, Over budget, poor quality working papers, insignificant testing and poor feedback from client.	1	0
TOTAL		**126**

5.3 As can been seen from the table above, the majority of post audit assessments completed (representing 76%) have identified that staff are producing work of a high standard whereby:- the scope and objectives of the review have been met; working papers and evidence are of a good standard and relevant; testing supports the findings and conclusion drawn; the report produced is of a good standard, timely and accurate and finally the appropriate assurance level has been applied.

5.4 It is also pleasing to note that 9 assessments (7%) have scored 5 whereby the Auditor(s) have, as a result of their work, also identified areas of improvement in terms of efficiency and effectiveness resulting in measurable savings for the client.

6. Organisational Independence and Objectivity of the Internal Audit Shared Service.

6.1 In accordance with the Public Sector Internal Audit Standards (PSIAS) the internal audit activity must be independent and internal auditors must be objective in performing their work. An interpretation of independence can be described as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Head of Audit has direct and unrestricted access to senior management and the Audit Committee.

6.2 The Council's Constitution, Financial Procedure Rules, Audit Charter and the positioning of the Internal Audit Shared Service within the Council demonstrates the independence of the Service along with the practical application of its independence within the organisation.

7. A Summary of the Performance / Out-turn 2014/15

7.1 The 2014/15 Internal Audit Strategy and Annual Risk Based Plan was submitted to the Audit Committee and approved on 10th April 2014. The Plan outlined the assignments to be carried out, their respective priorities, an estimate of resources needed and differentiated between assurance work and other work.

7.2 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. Inevitably, changes have occurred since preparing the original plan, these changes focus around the increase in unplanned work.

7.3 The actual position for the seven months compared against the Plan is detailed in table 3 below:

Table 3

Directorates	2014-15 Full Year Plan Days	Proportion of Plan Days Available for April to Oct. 2014.	*2014-15 April to Oct. Actual Days*
Resources	365	213	286
Legal and Regulatory Services	85	50	49
Children's (Including Schools)	215	125	59
Communities	125	73	129
Wellbeing	125	73	40
Cross Cutting	255	149	154
External	20	11	15
Contingency - unplanned	70	41	38
Contingency - Fraud & Error	50	29	22
TOTAL PRODUCTIVE DAYS	1,310	764	792

7.4 The figures show that 792 actual productive days have been achieved, which equates to 103% of the overall planned productive time available for the period.

7.5 Detailed reports are issued to the relevant service managers on the results of individual audits and where significant weaknesses are identified these will be followed up to ensure high priority recommendations are implemented. To date, there have been five reviews completed which have identified significant control weaknesses so much so that for four of these reviews only limited assurance could be placed on the internal control environment and one where no assurance could be provided.

8. Implementation of Recommendations

8.1 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 year, Internal Audit has made a total of 58 recommendations, of which management has given written assurance that 58 of these will be implemented.

8.2 Although Merits Attention (Priority Three) recommendations are made where it is deemed appropriate to do so; 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 the table below.

Recommendation Priority	No. Made	No. Agreed / Implemented
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	5	5
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	53	53
Total	**58**	**58**

Table 4

8.3 The recommendations made are graded according to their importance (Fundamental and Significant – Priority One and Two). 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.

8.4   Table 5 below details the number of recommendations made grouped by risk.

Description	No of Fundamental **Priority One** Recommendations	No of Significant **Priority Two** Recommendations
A – Accomplishment Of Objectives	0	12
C – Compliance	2	18
E – Value for Money	0	2
R – Reliability and Integrity of Information	0	13
S – Safeguarding Assets	3	4
X – Governance	0	4
Y – Corporate Impact	0	0
Total	**5**	**53**

Table 5

9.   Audit Client Satisfaction Questionnaires

9.1   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 so far this Financial Year are summarised in table 4 below.

Responses to Questionnaires

No.	Question	*Average Score of responses April to October 2014*	*Average Score of responses 2013/14*
1.	Where appropriate, briefing of client and usefulness of initial discussion.	1.220	1.420
2.	Appropriateness of scope and objectives of the		

	audit.	1.370	1.450
3.	Timeliness of audit.	1.530	1.490
4.	Response of Officer to any requests for advice and assistance.	1.210	1.300
5.	General helpfulness and conduct of auditor (s).	1.110	1.150
6.	Discussion of findings / recommendations during or at the conclusion of audit.	1.000	1.000
7.	Fairness and accuracy of report.	1.320	1.600
8.	Practicality and usefulness of recommendations.	1.420	1.570
9.	Standard of report.	1.260	1.380
10.	Client agreement with overall audit opinion.	1.210	1.560

Table 6

9.2 The survey results are excellent and we hope to sustain this level of customer satisfaction throughout the year. In addition to the above, a number of clients have commented separately on the professionalism and helpfulness of the Auditors they dealt with.

9.3 The overall response rate of 70% for Client Satisfaction Surveys (CSS) is pleasing, particularly when compared with other authorities. The 22 Welsh Authorities participate in an annual benchmarking exercise which is co-ordinated via the Welsh Chief Auditors Group. One of the Performance Indicators captured is the percentage of CSS's returned, with the average for those authorities who responded being 54%.

10. Performance

10.1 As stated in 9.3 above the Section participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2013/14 have just been released and the table below provides a comparison of performance with the overall average for the responding authorities.

Performance Indicator	IASS Performance For BCBC 2013/14	Overall Average Performance 2013/14
% of planned audits completed	96%	80%
Number of Audits completed	133	126
% of audits completed within planned time	92%	71%
% of directly chargeable time, Actual versus planned	99%	94%
Average number of days from audit closing meeting to issue of draft report.	10 days	9.5 days
% of directly chargeable time Versus total available.	68%	68%
% of staff leaving during the Financial Year	0%	22%

Table 7

10.2 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 the Vale places us in the top quartile.

11. Qualifications and Experience

11.1 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 BCBC's governance arrangements. The Internal Audit Annual Plan was presented to the Audit Committee in April 2014; based on a provision of 1,310 productive days.

11.2 In accordance with the Public Sector Internal Audit Standards (PSIAS); 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 8 below demonstrates the experience and qualification mix for the Internal Audit Shared Service.

Table 8

Auditing Experience	All Auditing	%	In Local Government	%
Up to 1 year	1	5.5%	1	5.5%
1 to 2 years	2.5	13.5%	0	0%
2 to 5 years	5	27%	5	27%
5 to 10 years	4	27%	5.5	35%
Over 10 years	5	27%	6	32.5%
Total Staff	17.5		17.5	

Qualifications

Accountants (CIPFA; FCCA; ICAEW)	3
Certified Information Systems Auditor (CISA)	1
Institute of Internal Auditors – full membership	0
Institute of Internal Auditors – part qualified or audit certificate	2
Association of Accounting Technicians (AAT)	4
Studying (AAT, IIA, CIPFA etc.)	4
Total	**14**

11.3 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.

12.0 Financial and Governance Implications

12.1 Internal Audit recommendations and advice strive to support a robust corporate governance framework. Delivering the Internal Audit Risk Based Annual Plan in addition to any reactive work performed during the year, are essential elements in mitigating the risk of losses arising from error, irregularity and fraud. The work of the Internal Audit Shared Service represents a fundamental function in delivering the Council's Corporate Governance responsibilities.

12.2 For the 2013/14 year, the Head of Internal Audit's Annual Opinion stated that reasonable assurance could be placed upon the adequacy and effectiveness of the Council's internal control environment. The report also highlighted the significant governance issue surrounding the unavailability of the Council's Section 151 Officer and the imminent departure of the Deputy Section 151 Officer. Interim arrangements were put in place by the Chief Executive to cover this statutory role in the short term and the Council has now been successful in attracting an external candidate to undertake the combined role of Head of Finance and ICT. The successful candidate has now taken up his position and in addition, the Director of Resources /Section 151 Officer has returned to resume her duties.

12.3 The Internal Audit reviews undertaken so far this year have identified internal control weaknesses in five areas examined; four of which only limited assurance could be placed on the internal control environment and one where no assurance could be provided. As set out in Appendix C, the significant control issues identified 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 the latter part of 2014-15 to ensure that significant progress is being made.

12.4 In addition to this; the Council has proactively responded to central government's austerity drive that has created a period of unprecedented financial pressures in the public sector. Substantial savings are necessary and the latest Medium Term Financial Strategy estimates this to be in the region of £50million for the next four years on top of the £11.2million already identified for 2014/15.

12.5 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.