

## APPENDIX A

### BRIDGEND COUNTY BOROUGH COUNCIL

#### THE HEAD OF INTERNAL AUDIT – FINAL OUTTURN REPORT AND ANNUAL OPINION FOR THE PERIOD APRIL 2013 TO MARCH 2014

#### 2013 -14 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 2013 to March 2014.
- 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 2013/14.
- 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 2013/14

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 2013 to March 2014.
- 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 reasonable. 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 reasonable 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 6 reviews have identified weaknesses in control at a level where only limited assurance could be given and management have given written assurance that the recommendations made will be implemented to address the weaknesses identified (these specific reports have been reported to the Audit Committee and Internal Audit has already revisited two of the six to follow up on progress, and have deemed the overall internal control environment to be reasonable). Internal Audit are in the process of scheduling revisits for the remaining four reviews to ensure that management are addressing the weaknesses identified in the control environment and recommendations are being implemented. These will be reported to the Audit Committee in due course.
- 2.7 As set out in Appendix B, the 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 2014-15 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. Therefore, the scale and pace of required change remains a fundamental risk.
- 2.9 In a Council of this complexity, with its significant saving 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 (96%) 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 2013 to March 2014 was submitted and approved by the Audit Committee on 21<sup>st</sup> March 2013. 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 8.5 full time equivalents (FTE) equating to 1,374 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 2013 to March 2014.**

<b>Resources Available</b>	<b>Total Plan Days</b>	<b>Actual Days Achieved</b>
Total Productive days Available	<b>1,374</b>	<b>1,360</b>
<b>Time Allocated to Audit Work</b>		
Resources (Including ICT & Property)	350	431
Legal and Regulatory Services	80	44
Children (Including Schools)	204	177
Communities	174	145
Wellbeing	130	52
Cross Cutting	156	229
External	20	18

Contingency - Unplanned Work	160	228
Contingency – Fraud & Error / Internal Investigations.	100	36
<b>OVERALL TOTAL</b>	<b>1,374</b>	<b>1,360</b>

- 3.3 As can be seen from the table above the actual outturn for the Section shows that a total of 1,360 productive days has been achieved. This is only 14 days less than originally planned.
- 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 2013 to March 2014 together with the overall audit opinion are listed in Appendix B as extracted from the Audit Planning and Control Environment (APACE) management system.
- 3.5 Table 2 below provides a breakdown of the total number of reviews completed for the year analysed across the functions covered.

Function	Total Reviews	Total No. Opinion Significant / Reasonable	Total No. Opinion Limited / No Assurance	Total No No Opinion Given.
Assurance	86	71	3	12
Anti-Fraud & Corruption	3	1	1	1
Governance	10	8	0	2
Risk and Performance	6	5	0	1
Contingency - Unplanned	28	12	2	14
<b>Totals</b>	<b>133</b>	<b>97</b>	<b>6</b>	<b>30</b>

Table 2

- 3.6 A total of 133 reviews have been undertaken during the year and of this, 73% (97) have been closed with either a substantial or reasonable assurance opinion level. 4% of the reviews undertaken have identified weaknesses in the internal control environment to such an extent that the overall audit opinion was limited. Of the remaining 30 reviews, although necessary, they did not culminate in an overall audit opinion (9 were carried forward to 2014/15 as work was ongoing).
- 3.7 The objective of the average opinion score identified by Internal Audit is to provide an overall indication that summarises the results, in control terms, of the findings of Internal Audit. For the year and based

on the scores identified on the reviews where an overall opinion has been given; the adequacy and effectiveness of the internal control environment is deemed to be reasonable.

#### 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 2013 to March 2014, Internal Audit made a total of 337 recommendations, of which management gave written assurance that 324 of these will be implemented. The results are summarised in Table 3 below:

**Table 3**

<b>Recommendation Priority</b>	<b>Number Made</b>	<b>Number Agreed or Implemented</b>	<b>% Agreed or Implemented</b>
Fundamental	3	3	100%
Significant	119	119	100%
Merits Attention	215	202	94%
<b>Total</b>	<b>337</b>	<b>324</b>	<b>96%</b>

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 4 below details the number of recommendations made grouped by risk.

**Table 4**

Description	Number of Fundamental Recommendations	Number of Significant Recommendations	Number of Merits Attention Recommendations
A – Accomplishment of Objectives		8	19
C - Compliance	1	33	75
E – Value for Money		1	8
R – Reliability and Integrity of Information	1	23	57
S – Safeguarding Assets	1	35	21
X – Governance		17	26
Y – Corporate Impact		1	9
Z – Self Audit		1	0
<b>Total</b>	<b>3</b>	<b>119</b>	<b>215</b>

## 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 5 below and compared with last year’s overall results:

**Table 5.**

No	Question	Average Score of Responses March 2014	Average Score of Responses March 2013
1	Where appropriate, briefing of client and usefulness of initial discussion.	1.420	1.158
2	Appropriateness of scope and objectives of the audit.	1.450	1.250
3	Timelines of audit.	1.490	1.256
4	Response of Officer to any requests for advice and assistance.	1.300	1.184
5	General helpfulness and conduct of Auditor (s)	1.150	1.025
6	Discussion of findings / recommendations during or at the conclusion of the audit.	1.000	1.180
7	Fairness and accuracy of report.	1.600	1.317
8	Practicality and usefulness of recommendations	1.570	1.415
9	Standard of report.	1.380	1.195
10	Client agreement with overall audit opinion.	1.560	1.293

5.2 The survey results are excellent but do show an overall slight decline in the satisfaction level on last year's scores. Whilst we will continue to aim to sustain this high level of customer satisfaction throughout the forthcoming year, we will also try and improve on the disappointing response rate of 54% for this 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, Qualifications and Experience**

6.1 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 Bridgend County Borough Council's governance arrangements. The Internal Audit Annual Plan was presented to the Audit Committee in March 2013; based on a provision of 1,374 productive days.

6.2 The combined Internal Audit Shared Service commenced the year with a total of 16.5 Full Time Equivalent (FTE) posts on the establishment. The service saw an increase during the year to 18.5 FTE's this was due to the appointment of two trainees. Even though staffing levels have increased, the Section has been affected by maternity leave and has seen an increase in long term sickness absence. Even taking this into consideration, there has been no impact on the Bridgend County Borough Council's Audit Plan.

6.3 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 6 and 7 below demonstrates the experience and qualification mix for the Internal Audit Shared Service.

**Table 6**

<b>Auditing Experience</b>	<b>All Auditing</b>	<b>%</b>	<b>In Local Government Auditing</b>	<b>%</b>
<b>Up to 1 year</b>	<b>1</b>	<b>5.5%</b>	<b>1</b>	<b>5.5%</b>
<b>1 to 2 years</b>	<b>2.5</b>	<b>13.5%</b>	<b>0</b>	<b>0%</b>
<b>2 to 5 years</b>	<b>5</b>	<b>27%</b>	<b>5</b>	<b>27%</b>
<b>5 to 10 years</b>	<b>5</b>	<b>27%</b>	<b>6.5</b>	<b>35%</b>
<b>Over 10 years</b>	<b>5</b>	<b>27%</b>	<b>6</b>	<b>32.5%</b>
<b>Total Staff</b>	<b>18.5</b>		<b>18.5</b>	

**Table 2**

**Qualifications**

**Table 7**

<b>Professional Qualification</b>	<b>No of Staff.</b>
Accountants (CIPFA; FCCA; ICAEW)	<b>3</b>
Certified Information Systems Auditor (CISA)	<b>1</b>
Institute of Internal Auditors – full membership	<b>0</b>
Institute of Internal Auditors – practitioner level; part qualified or audit certificate	<b>3</b>
Association of Accounting Technicians (AAT)	<b>4</b>
Studying (AAT, IIA, CIPFA etc.)	<b>4</b>
<b>Total</b>	<b>15</b>

6.4 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.

**7. Conformance with the Public Sector Internal Audit Standards (PSIAS)**

7.1 The Chief Internal Auditor carried out a self-assessment against the key elements of the PSIAS. Overall the results showed that the Section was fully compliant with 8 of the Standards and partially compliant with the remaining 3. An action plan has been formulated to address the areas where further work is required; these include:-

- Aligning competencies, skills, experience and personal attributes to “CIPFA’s Publication – The Excellent Auditor”;
- Further develop Internal Audit’s performance management framework and consider how and when an external assessment should be undertaken;
- Update the Internal Audit Shared Service Manual to ensure it is fully compliant with the Standards.

7.2 All staff were introduced to the ethics requirements (as described in the PSIAS) in relation to the professional role of an auditor. While the basis of this remains the same as in previous years, staff were additionally required to read and sign a document confirming they had read and understood what was required of them. All staff provided an annual declaration of interests for consideration to enable management to ensure that there was sufficient information to address any potential conflicts of interest which may arise during audit activities. Staff remained obliged to raise any conflicts or issues with their line managers during the year.

## **8. Anti-Fraud & Corruption Arrangements**

8.1 Internal Audit has responsibility for raising awareness of the Council’s Anti-Fraud & Bribery and Whistle-blowing Procedures. Anti-Fraud & Bribery 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.

8.2 A total of 36 productive days has been spent on Anti-Fraud & Corruption work against a planned allocation of 100. 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. Apart from the work undertaken on the National Fraud Initiative; Internal Audit were also requested to carry out an investigation relating to a loss of income. The Benefits and Financial Assessments Manager continues to have responsibility for the Team who investigate potential Housing Benefit and Council Tax Benefit fraud. Regular updates have been provided to the Audit Committee during the year and will continue in 2014/15.

8.3 Internal Audit has continued to act as the key contact for the 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.

## 9. Governance Arrangements

- 9.1 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.
- 9.2 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.
- 9.3 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.
- 9.4 The Council approved and adopted on the 28<sup>th</sup> 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.
- 9.5 The COCG describes how the Council will meet and demonstrate its commitment to good corporate governance by following the six principles as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
- 9.6 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.
- 9.7 As part of the 2013/14 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; as a result, an overall opinion of substantial assurance could be provided.
- 9.8 There was one significant governance issue, initially identified in 2011/12 but also included in the 2012/13 Annual Governance

Statement (AGS) relating to Building Maintenance. At the time the final AGS was presented to Audit Committee in September 2013; Internal Audit were nearing completion of their second follow up review, to ensure that sufficient progress had been made in implementing the recommendations to improve the internal control environment. The outcome of this second review highlighted that; significant progress had been made and the overall opinion in relation to the internal control environment was therefore deemed reasonable. No further work was undertaken by Internal Audit in 2013/14 but it has been included in the 2014/15 annual risk based audit plan.

- 9.9 One of the significant governance issues in 2012-13 related to the Estyn Report on the quality of local authority education services for children and young people. A Cabinet led monitoring group has been set up; which meets monthly to oversee progress as set out in the action plan. The role of this group monitoring the action plan will be crucial to improve education services within the Council.
- 9.10 The Annual Governance Statement 2012-13 highlighted the significant financial challenge facing the Council in terms of delivering a savings target of £24m as identified in the Medium Term Financial Plan 2013-14 to 2015-16. In February 2014, the Medium Term Financial Strategy (MTFS) 2014-15 to 2017-18 was reported to Council. It identified the pressures that the Council faces in the context of the anticipated resource allocation. This indicates that the Council has to identify estimated budget reductions of £36m over the period 2014-15 to 2017-18. 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.
- 9.11 Fundamental to the Council's success in delivering the Medium Term Financial Strategy through to 2016-17 is wholly dependent on strong financial leadership and effective management. In the Head of Audit's Annual Opinion for 2012/13 concerns were raised as a number of strategic Directors had left the Council and only temporary arrangements were in place including that of the Section 151 Officer role. This has been addressed by the permanent appointment of key Corporate Officers. This year, two long serving and extremely experienced Heads of Service have or will be leaving the Council imminently; these being the Head of Technology, Property and Customer Services and the Head of Finance and Performance.
- 9.12 The Council is in the process of undertaking a second recruitment exercise for a combined Head of Finance and ICT, indicating that there has already been issues in finding a suitable candidate with the appropriate qualifications, experience, skills and knowledge of the

Council to cover such a critical post with such a wide ranging service remit. The current Head of Finance and Performance is also the Deputy Section 151 Officer and at present the Council's Section 151 Officer is currently unavailable to undertake her role.

- 9.13 The fact that the Head of Finance and Performance will be leaving the Council at the end of July and the date of the Section 151 Officer's return to work is unknown is of serious concern. The Council must ensure that it has the appropriate fully qualified statutory officer in place to fulfil its legal obligation and to help manage the Council during a very crucial period of financial uncertainty. This is a significant governance issue and should be reflected in the Council's Annual Governance Statement.
- 9.14 The Chief Executive is in the process of addressing this issue and has given his assurances that interim arrangements will be put in place to ensure the statutory functions of the Section 151 Officer are covered.