

**Bridgend and Vale Internal Audit Service: Head of Internal Audit's Outturn Report April 2016 to August 16
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 five months of the year covering the period April to August 2016 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 2015-16 a self-assessment was undertaken to review our compliance with the Public Sector Internal Audit Standards. In addition, the Council's External Auditors undertook a desk top assessment of compliance and the verbal feedback received was that no issues were identified. Work is already underway to ensure that the Bridgend and Vale Internal Audit Service is subject to an independent external assessment as required by the standards and the Council's Audit Committee.

Internal Audit Coverage – April 2016 to August 2016

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 period April to August 2016 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 5 FTE, however, the section is in the process of recruitment to address the shortfall in staff resources.

Table 1 – Productive outturn for the period April 2016 to August 2016

| Directorate | 2016/17 Full Year Plan Days | 2016/17 Expected days for the period April to Aug 16 | 2016/17 Actual Days achieved for the period April to Aug 16 |
|--|--|---|--|
| Chief Executive / Resources | 130 | 54 | 79 |
| Operational Services and Partnerships | 105 | 44 | 53 |
| Education and Family Support | 155 | 65 | 25 |
| Communities | 128 | 53 | 18 |
| Social Services and Wellbeing | 105 | 44 | 23 |
| Cross Cutting – (Including External Client, Unplanned and Fraud and Error) | 430 | 279 | 250 |
| Total | 1,053 | 439 | 448 |

As can be seen from the table above, the actual outturn for the period shows that the number of productive days expected to be achieved has been slightly exceeded by 9 productive days. The Table further shows that the proportion of productive days achieved vary from that expected by Directorate activity.

A total of 10 reviews have been completed, 8 (80%) of which have been closed with either a substantial or reasonable assurance opinion level. 1 review (10%) has identified weaknesses in the overall control environmental. The remaining one review (10%), although necessary, it did not culminate in an overall audit opinion.

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. However, there specific weaknesses identified are listed below:-

Bus Services Support Grant – key issues: - The review identified that the current process of collating and submitting the kilometres travelled for the quarterly return is inadequate and led to large discrepancies going unidentified until the end of the claim period, resulting in an overpayment being received. Based on the findings, only **limited assurance** can be placed on the control environment due to the weaknesses identified. The discrepancies resulted in an over-claim for the year. This was subsequently rectified on the year end claim.

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 **reasonable**, 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 August 2016, Internal Audit has made a total of 13 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 | No. Over due action date |
|--|-----------------|-------------------|------------------------|---------------------------------------|---------------------------------|
| | | | Complete | Pending | Outstanding |
| Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation | 0 | 0 | | | |
| Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months | 13 | 12 | 1 | 5 | 0 |
| Total | 13 | 12 | 1 | 11 | 0 |

Audit Recommendations – 2015/2016

Table 4 below shows those recommendations which remain still outstanding from 2015/16.

Table 4

| Analysis of Overdue Implementation of Recommendations for 2015-16 | No. Overdue | One month overdue Target date | Two months overdue target date | Three or more months overdue target date |
|--|--------------------|--------------------------------------|---------------------------------------|---|
| | | Amber | Amber | Red |
| Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation | 0 | 0 | 0 | 0 |
| Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months | 8 | 8 | 0 | 0 |
| Total | 8 | 8 | 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.
- 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.

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 2016 the staffing structure is listed in table 5 below.

Table 5

| 2015-16 Staffing Structure | FTE |
|---|------------|
| Operational Manager Audit - Head of Audit | 1 |
| Principal Auditor | 2 |
| Group Auditor | 2 |
| Group Auditor (Information Systems) | 1 |
| Auditor (3 posts are vacant at present) | 9.5 |
| Trainee Auditor | 1 |
| Trainee Auditor (Information Systems) (vacant at present) | 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 5 vacant full time equivalent posts, however, a recruitment campaign is under way.

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

Experience and Qualifications

Table 6

| 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) | 3 |
| 1 to 2 years | 0 | 0 | Certified Information Systems Auditor (CISA) | 2 |
| 2 to 5 years | 4 | 2 | Institute of Internal Auditors – full membership and Prince2 Practitioner Level | 1 |
| 5 to 10 years | 4 | 7 | Institute of Internal Auditors – practitioner level; part qualified or audit certificate | 2 |
| Over 10 years | 5 | 4 | Association of Accounting Technicians (AAT) | 1 |
| | | | Part Qualified AAT | 3 |
| | | | Studying (CISA, AAT, IIA, CIPFA etc.) | 1 |
| Total Staff | 13 | 13 | Total | 13 |

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 (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.

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 7

| | |
|--|--|
| 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% | <p>Quarter 1 performance - April to June 2016 Achievement: 88.89% Vale - 50% BCBC</p> <p>Overall Achievement: Number of Audit Completed = 11</p> <p>Number completed within planned time = 9</p> <p>Overall percentage achieved = 81.82%</p> |
| Therefore from the number of audits completed for the first quarter of 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 5 at present. | |

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 8

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

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 54% of the Welsh Chief Auditors Group returning their performance figures (11 councils have failed to return their data sets).

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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 so far to date by the Internal Audit Shared Service for the period April to August 2016; 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.