

VALE OF GLAMORGAN COUNCIL

THE HEAD OF ACCOUNTANCY & RESOURCE MANAGEMENT AS THE HEAD OF
INTERNAL AUDIT - PROGRESS REPORT APRIL TO AUGUST 2013**1. Introduction**

- 1.1 The purpose of this report is to bring the Audit Committee up to date with the progress made against the delivery of the 2013/14 Internal Audit Plan. The information included in this progress report will feed into, and inform our overall opinion issued at the end of the year. Where appropriate, each report we issue is given an overall assurance opinion. The opinion stated in the audit report provides management with a brief objective assessment of the current and expected level of control over the subject audited. The audit assurance opinion framework is as detailed in table 1 below:-

Levels of Audit Assurance:

Rating	Score	Assurance Level	Assurance Criteria
A	1	Substantial	Excellent Internal Control – Low perceived risk area. Over 90% of strengths identified. All recommendations made are deemed low risk.
B+	1	Substantial	Excellent Internal control – 85-89% strengths
B	2		Very Good Internal Control –80-84% strengths
B-	3		Good Internal Control – 75-79% strengths
C+	4	Reasonable	Reasonable Internal Control – 70-74% strengths.
C	5		Moderate Internal Control – 65-69% strengths.
C-	6		Adequate Internal Control – 60-64% strengths.
D+	7	Limited	Weak Internal Control – 55-59% strengths.
D	8		Very Weak Internal Control – 50-54% strengths
D-	9		Unacceptable level of weaknesses in Internal Control – less than 50% strengths identified.
E	10	No Assurance	No Internal Control present – Top priority in need of urgent attention.

Table 1

2. Assurance on Internal Control

- 2.1 To quantify the overall audit opinion on the adequacy of internal control, an allocated risk rating and a subsequent score on the outcome of each review undertaken is given as illustrated in Table 1. This rating and score is based on **A to E / 1 to 10**, where a rating of A (score 1) suggests excellent internal control and a low perceived risk area to E (score 10) where no internal controls are present and is top priority in need of urgent attention.
- 2.2 At the completion of each audit review an overall opinion as to the level of assurance that can be provided will be given, these are as follows:-

- **Substantial Assurance** – The effectiveness of the internal control environment is good. Overall opinion is an excellent to good internal control, supported by the identification of over 75% - 90% of strengths being present within the areas reviewed with minor risk areas being identified.
- **Satisfactory Assurance** – The effectiveness of the internal control environment is reasonable. Overall opinion is an adequate to satisfactory internal control supported by the identification of between 60% - 74% of strengths being present within the areas reviewed. With risk areas identified, which although not significant in nature could compromise the overall control environment if not addressed within a reasonable period.
- **Limited Assurance** – The effectiveness of the internal control environment is unsatisfactory. Overall opinion is unacceptable to weak internal control with unacceptable levels of risks being identified where the recommendations require urgent attention.
- **No Assurance** – The effectiveness of the internal control environment is unsound. Overall opinion is unsound internal control supported by the identification of major risks within the system where fundamental improvements are required with immediate effect.

2.2 The following paragraphs give a high level overview of the Internal Audit Shared Service performance covering the period April to August 2013 and the findings of the reviews completed to date, particularly where any significant issues are identified.

3. Planned Work v Actual Achieved

3.1 Table 2 provides a breakdown of the planned days available for the year compared with the actual productive days achieved across directorates.

Directorate	2013-14 Full Year Plan Days	Proportion Plan Days Available April to Aug.	2013 – 14 April to Aug. Actual Days Achieved
Corporate & Customer Services	55	23	16
Resources	440	183	167
Development Services	150	62.5	64
Visible Services and Housing.	110	46	24
Learning & Skills	220	92	108
Social Services	155	64.5	62
Cross Cutting	280	117	45
Contingency – Unplanned	125	52	244
Contingency – Fraud & Error	100	41	48
Total Productive Days	1,635	681	778

Table 2

3.2 As can be seen from the table above, a total of 778 productive days have been achieved against an expectation of 681. A total of 23 reviews have been completed so far across the board, with 17 reviews being deemed to have either reasonable or substantial internal controls. Of the remaining six reviews, three have identified

weaknesses in the internal control environment to such an extent that the overall audit opinion was of limited assurance, and finally in respect of the remaining three reviews, although necessary, they did not culminate in an overall audit opinion .

- 3.3 The objective of the average assurance score identified by Internal Audit is to provide an overall indication that summarises the results, in control terms, of the findings of Internal Audit. Although it is relatively early in the year, for the period April to August 2013 and based on the scores identified on the 20 reviews where an overall opinion has been given; the adequacy and effectiveness of the internal control environment is deemed to be reasonable with an overall score of 3.6.
- 3.4 It should be noted however, that the substantial assurance provided in 3.3 does not include for the significant weaknesses in the internal control environment surrounding Building Services – Mobile Working; as this work is still on-going.

4. Unplanned Work

- 4.1 A total of 125 days was allocated for the year as a contingency for unplanned work and to date; this has been significantly exceeded with a total of 244 days having been used. This work included Advice & Guidance; carry forward audits and other productive work that Internal Audit is asked to undertake by Senior Managers. By far, the majority of the excess days have been attributed to the Building Services Review where significant weaknesses have been identified within the control environment. The findings and conclusions of the review thus far have been reported to the Audit Committee and work is continuing. The issues identified will also be included in the Council's updated Annual Governance Statement 2012/13.

5. Anti – Fraud & Corruption Work

- 5.1 A total of 100 productive days has been allocated to the above area in the Annual Plan. This excludes any work undertaken on HB/CTB investigations as the Team; although still part of the Internal Audit Section continue to be based at the Civic Offices and not part of the Internal Audit Shared Service provision. The outcome of HB/CTB investigations will be reported separately to the Audit Committee.
- 5.2 In the first five months of this year a total of 48 productive days have been utilised. A total of 6 investigations have been received, all of which are still on-going and when concluded will be reported to the Audit Committee.

6. Audit Planning / Monitoring

- 6.1 The 2013/14 Internal Audit Operational Plan was submitted to the Audit Committee for approval on 29/04/13 (Minute No. 1116). The Plan outlined the assignments to be carried out, their respective priorities, an estimate of resources needed and differentiated between directorates. The Plan is based on 1,635 productive days.
- 6.2 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. As a result of the significant increase in unplanned work completed to date relating to Building Services – Mobile

Working and which is likely to continue for the foreseeable future, the annual audit plan will need to be reviewed, amended and a revised plan submitted to the Audit Committee in due course.

7. Implementation of Recommendations

7.1 The primary purpose of Internal Audit reporting is to communicate to management within the organisation information that provides an independent and objective opinion on the control environment and risk exposure and to prompt management to implement agreed recommendations for improvement.

7.2 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.

7.3 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 2013, Internal Audit has made a total of 145 recommendations, of which management has given written assurance that 143 of these will be implemented.

Recommendation Priority	No. Made	No. Agreed / Implemented
Fundamental Rating - D and E (+ to -) Action – Immediate Implementation	6	6
Significant Rating – C (+ to -) Action – Implementation within 6 – 12 months	59	59
Merits Attention Rating – A and B (+ to -) Action – Implementation within 12 months or by next audit review	80	78
Total	145	143

Table 3

7.4 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.

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

Description	No of Fundamental Recommendations	No of Significant Recommendations	No of Merits Attention Recommendations
A – Accomplishment Of Objectives	1	3	6
C – Compliance	1	30	28
R – Reliability and Integrity of Information	1	12	26
E – Value for Money	0	1	2
S – Safeguarding Assets	0	5	13
X – Governance	2	6	5
Y - Corporate	1	2	0
Total	6	59	80
Extracted from APACE as at 31 st August 2013			

Table 4

8. Audit Client Satisfaction Questionnaires

8.1 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 5 below.

Responses to Questionnaires – April 2013 to August 2013

No.	Question	Average Score of responses 31st March 2013	Average Score of responses 31st Aug. 2013
1.	Where appropriate, briefing of client and usefulness of initial discussion.	1.404	1.330
2.	Appropriateness of scope and objectives of the audit.	1.475	1.470
3.	Timeliness of audit.	1.621	1.400
4.	Response of Officer to any requests for advice and assistance.	1.414	1.270
5.	General helpfulness and conduct of auditor (s).	1.254	1.200
6.	Discussion of findings / recommendations during or at the conclusion of audit.	1.530	1.000
7.	Fairness and accuracy of report.	1.559	1.470
8.	Practicality and usefulness of recommendations.	1.667	1.400
9.	Standard of report.	1.466	1.330
10.	Client agreement with overall audit opinion.	1.552	1.400

Table 5

8.2 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. Governance Arrangements

9.1 Corporate governance is essential to the provision of high quality public services and in raising public trust. It describes how organisations direct and control what they do in a way that demonstrates accountability, openness and honesty. Councils also have a key role in governing and leading their communities. Effective local government relies on public confidence in elected members and officers.

9.2 The Vale of Glamorgan Council is committed to the principles of good governance and as a result a formal Code of Corporate Governance has been in place for four years which is reviewed annually to ensure it remains relevant and up to date.

9.3 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 draft "Making the Connections" governance principles and values as set out by the Welsh Government.

9.4 For 2012/13 and as outlined in the Council's draft Annual Governance Statement (AGS) and the Head of Audit's annual opinion; the overall governance and system

of internal control within the Vale of Glamorgan Council was considered to be reasonable covering the areas of Assurance, Governance, Performance Management and Risk Management. However, as part of the work undertaken by Internal Audit the following key control issues were identified during the year.

- Concerns relating to the lack of contractual arrangements within Visible Services particularly within the Waste Management Service. The Council should ensure that all waste contracts are in place as soon as possible, that they are kept up to date and regularly monitored. For future reference and to ensure compliance, all new contracts should be negotiated in advance of the expiry of the existing contract and should be undertaken in line with the Council's Contract Standing Orders and procurement policies and procedures. These concerns have now been addressed by management and a report providing update was presented to the Audit Committee on the 8th July 2013.
- Concerns relating to the adequacy and effectiveness of the financial and quality monitoring arrangements surrounding the contractual partnership arrangements between the Council and the Leisure Centres service provider. It is essential to the Council's interests and to mitigate risk that robust arrangements are in place. This matter is being referred to the Council's External Auditors – Grant Thornton LLP UK for an independent review.

9.5 In addition to these areas the challenge from an audit perspective, as recognised by corporate and senior management, remains the financial context in which the Council is required to operate. The impact of delivering the future programme of savings will be substantial, will impact on all areas of the business and is predicated on a range of reasonable but ambitious assumptions. There has been extensive planning and ongoing consultation on the budget proposals and efficiency targets have been set out in directorate plans. Whilst the Council is well placed to respond to this change, the scale and pace of required change remains a fundamental risk, particularly with the prospect of further cuts in public funding.

9.6 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.

9.7 Since the production of the draft AGS which was submitted to the Council's Audit Committee on 29th April 2013; a further significant issue has been identified. This issue relates to the Council's Building Services Division and in particular Mobile Working. As a result of the Internal Audit findings and conclusions, a number of recommendations have been made and a Management Action Plan produced to address the significant control weaknesses identified. This issue will be reflected in the final AGS for 2012/13 which accompanies the audited Statement of Accounts and reported to Audit Committee in September 2013.

10. Resources

10.1 The original plan presented to the Audit Committee on the 29/04/13 (Minute No. 1116) was based on a provision of 1,635 productive days. The figures show that for the period April to August 2013 a total of 778 productive days has been achieved,

which equates to 114% of the overall planned productive time available for the period.

- 10.2 At present the Internal Audit Shared Service comprises just slightly over the full time equivalent of 16 employees. Recently we have been successful in recruiting a trainee computer auditor who will join the Section very shortly.

11. Conclusion

- 11.1 Internal Audit is an independent and objective assurance service to the management of the Vale of Glamorgan Council, it completes a programme of reviews throughout the year to provide an opinion on the internal control, risk management and governance arrangements. In addition, the Section undertakes fraud investigations and proactive fraud detection work, which includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by the Section are reported to senior management, the Audit Committee and the Cabinet as appropriate.
- 11.2 Therefore, in conclusion based on an assessment of the strengths and weaknesses of the areas examined, and through the testing of random samples no significant governance issues have been identified. However it should be noted that, the audit reviews covering Building Services and the Leisure Centres Contract quality monitoring arrangements are yet to be finalised.