

Bridgend and Vale Internal Audit Service: Head of Internal Audit's Interim Opinion Report April 16 to January 17 Vale of Glamorgan Council

Executive Summary

This report provides a summary of the work completed by the Bridgend and Vale Internal Audit Shared Service for the ten months of the Financial Year April 2016 to January 2017 and provides the Head of Audit's interim 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 internal control is reasonable.

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 as amended from time to time.
- Supporting the Head of Finance with her delegated responsibility 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 Council Leader and the Managing Director in their annual certification of the Annual Governance Statement.
- Supporting the Head of Finance in discharging her 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 (WAO).

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. It is important to note that there is a requirement within the PSIAS for an external assessment to be undertaken once every five years. The PSIAS came into effect from 1st April 2013 and therefore the Internal Audit Shared Service must be externally assessed before the 31st March 2018. The Council's Audit Committee have resolved that an External Assessment be undertaken by a relevant professional body such as the Institute of Internal Auditors during this Financial Year 2016/17. The external assessment commenced on 30th January and concluded on the 3rd February. The outcome of the assessment is awaited at this time but will be reported to the Audit Committee in due course.

Internal Audit Coverage – April 2016 to January 2017

The level of internal audit resources required to examine all the Council's activities far exceed those available each year. It is, therefore, essential that the work of Internal Audit be properly planned to ensure that maximum benefit is gained from the independent appraisal function that internal audit provides.

Resources must be appropriately targeted by assessing the Council's total audit needs and preparing a plan that ensures systems are reviewed on a risk basis according to the impact they have on service delivery.

The Internal Audit Plan for 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 25th April 2016. The plan provided for a total commitment of 1,287 productive days for the year. Table 1 below provides the outturn for the service for the year 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; unfortunately this has now increased to 6.5 full time equivalent vacant posts.

Table 1 – Productive outturn for the period April 2016 to January 2017

Directorate	2016/17 Full Year Plan Days	Proportion of Days Expected April to Jan 17	Actual Days Achieved April to Jan 17
Managing Director / Resources	305	254	293
Social Services	115	96	99
Environment & Housing	119	99	187
Learning and Skills	125	104	73
Cross Cutting – (including Fraud and Error)	623	519	414
Total	1,287	1,072	1,066

As can be seen from the table above, the actual outturn for the period shows that the overall productive days originally planned are less than expected by 6 days. The Table further shows that the proportion of productive days achieved vary from that expected by Directorate activity.

A total of 52 reviews have been completed so far to-date, 30 (58%) of which have been closed with either a substantial or reasonable assurance opinion level. 12 (23%) of the reviews completed have identified weaknesses in the internal control environment to such an extent that the overall audit opinion was limited. Of the remaining 10 reviews (19%), although necessary, they did not culminate in an overall audit opinion.

It should be noted that of the 12 reviews where weaknesses have been identified 4 (33%) were as a result of specific investigations and subject to separate reports and 4 (33%) were further follow ups of weaknesses identified in 2015/16 which are included in Appendix A1 as discussed in the next section of this report.

Internal Control Weaknesses identified during the current period (excluding those subject to a special investigation).

Pay Process External Provider – an independent review of the current processes was undertaken to ensure that procedures are in line with HMRC requirements in regard to employment status and VAT or tax implications. After reviewing the system recommendations were made to make improvements such as updating guidance, identifying the necessary evidence to be retained and ensuring there are no

unnecessary delays in making payments. It should be noted that very limited testing was undertaken and it was agreed that this area will be revisited once these recommendations have been implemented at which time more detailed testing will be completed.

Management of Trees – this review was undertaken at the request of the Head of Service in order to provide assurance that the management of trees (both Parks and Highways) is effective and efficient and the control environment sound. Although it was found that roles and responsibilities are outlined and there is a clear audit trail for the recharging of tree related works, several control weaknesses were identified that led to an audit opinion of limited assurance. It was found that there is no Council wide tree management strategy, there is no asset management system or process in place to enable the Council to identify, capture and manage the tree stock, there is no proactive risk based inspection programme and due to limited resource reliance is placed on contractors and consultants. Recommendations have been made and accepted which will improve the control environment and a follow up review will be undertaken once the agreed actions have been completed which is planned to be early in 2017/18. The Director of Environment and Housing has also provided Corporate Management Team with an overview of the issues highlighted in this report.

Food and Feed Law Enforcement

Councils have a duty to enforce the Food Safety Act 1990, the Official Food and Feed Controls (Wales) regulations 2009 and a wide variety of other food / feed legislation including the Food Hygiene (Wales) Regulations 2006 within their area. The Food Standards Agency (FSA) Framework Agreement sets out what is expected from Local Authorities in their delivery of official controls in terms of the planning and delivery, based on the existing statutory Codes of Practice. Since 1st May 2015 the Councils of Cardiff, Bridgend and the Vale of Glamorgan have been delivering regulatory services through a collaborative arrangement or SRS. Whilst a number of strengths and areas of good practice were identified during the review, the main issues of concern identified related to feed premises inspections not meeting the FSA agreed schedule at the time of the review. In addition, ICT issues continue to be a problem for accessing the separate systems. A follow up was planned for quarter four, however, the Operational Manager within Regulatory Services has advised that staff are currently preparing information to be sent off to the Food Standards Agency by the end of February as they are due to be assessed during late March. As this will inform our follow up it has been agreed to defer our work until April 2017.

Deprivation of Liberty Safeguards (DoLS)

The Deprivation of Liberty Safeguards are the measures found within the Mental Capacity Act 2005 that ensure that there is an independent system of review available to all adults who lack the mental capacity to consent to their care in registered accommodation. The Vale of Glamorgan Council, Cardiff Council and Cardiff and Vale University Health Board commission an independent team to coordinate the DoLS process. This team is operationally managed by the Vale of Glamorgan Council, and accountable to a steering group of senior managers who represent the Supervisory Bodies of each of the contributing agencies. Whilst a number of strengths and areas of good practice were clearly evident, the area of most concern related to the backlog of referrals awaiting assessment. It is

recognised that as a result of a ruling by the Supreme Court there has been a significant increase in DoLs applications across Wales. The Vale of Glamorgan alone has seen an influx of demand of more than 80 times compared to that of 2014/15. A robust plan should be developed and implemented to deal with the backlog of referrals to reduce and mitigate risk.

Internal Control Weaknesses identified during 2015/16

Attached at Appendix A1 is the list of outstanding reviews where weaknesses were identified during 2015/16 and which culminated in only limited assurance being provided on the overall internal control environment. The list provides Members with an update on the current position and, where applicable, the current audit opinion. It should also be noted that Corporate Management Team have also been apprised of the current position relating to these reviews. The Head of Audit meets with the Managing Director and the Head of Finance fortnightly to update them on the progress of implementing the recommendations made.

Significant Governance Issues identified in the 2015/16 Annual Governance Statement

As previously reported, significant issues have already been identified and reported to Audit Committee which relate to the Internal Audit reviews undertaken within Waste Management during 2015/16. As a consequence and due to the significance of the weaknesses identified within Waste Management Contracts, together with the fact that work was continuing to be undertaken by Internal Audit, it was considered appropriate that this matter be reflected in the Council's Annual Governance Statement 2015-16.

Update - All waste contracts have now been reviewed covering all aspects of contract management including procurement, contract monitoring and performance. In addition a number of cross-directorate reviews have been completed. It is clear from these reviews that contract management was a key issue throughout the Council and one that was taken very seriously by the Managing Director and the Corporate Management Team.

Since last reporting, the Contract Management Guidance and Toolkit have now been updated, Corporate Management Team has continued to have oversight to ensure that progress is being made and improvements to Contract Management throughout the Council are evident. An update report has been produced and presented to the Council's Audit Committee and comprehensive Senior Management Training has been organised across the Council to commence in March 2017. Therefore, as a consequence of the significant amount of work that has been undertaken which has been fully supported by Corporate Management Team to address the governance issues as identified in the 2015/16 Annual Governance Statement, this is no longer considered a significant risk for 2016/17. However, Contract Management across the Council will feature extensively in the 2017/18 audit plan.

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	<i>Moderate</i>	Moderate
4	No Assurance – Fundamental weaknesses identified.	Significant	Of Concern	Moderate

Therefore, having regards to the reviews completed so far to-date, the overall opinions given, the responses received from the Chief Officers, the follow up work undertaken and the contract management issues, my overall opinion is the Council's overall internal control arrangements are considered to be **reasonable**, but with a "**Medium**" 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 ten month period, Internal Audit has made a total of 157 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 the table 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	7	7	3	2	2
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	150	150	41	49	60
Total	157	157	44	51	62

Table 4.

Analysis of Overdue Implementation of Recommendations for 2016-17	No. Overdue	One / Two months overdue Target date	Three or more months overdue target date
		Amber	Red
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	2	1	1
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	60	13	47
Total	62	14	48

Audit Recommendations – 2015/2016

At the year-end 2015/16 a number of recommendations remain outstanding and these are being actively followed up in accordance with normal procedures and processes.

There are three status levels for recommendations made by the Internal Audit Shared Service:-

- Complete – the audit recommendations have been fully implemented;
- Pending – the agreed date for implementation has not yet been reached (Green Status);
- Outstanding – the agreed date for implementation has not been complied with, which are then given a RAG status (Red – 3 months or more passed the action date; Amber – one to two months passed the action date).

Failure to implement agreed recommendations may have a detrimental effect on the Council's internal control environment and any shortcomings will adversely impact on the audit opinion. The table shows the status of recommendations outstanding from 2015/16 as at the end of January 2017.

Analysis of Remaining Recommendations for 2015-16 as at January 2017	No Pending	No. Overdue	One / Two months overdue Target date	Three or more months overdue target date
			Amber	Red
Fundamental (Priority One) Rating - D and E (+ to -) Action – Immediate Implementation	0	0	0	0
Significant (Priority Two) Rating – C (+ to -) Action – Implementation within 6 – 12 months	0	22	0	22
Total	9	22	0	22

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 2020, 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 Vale of Glamorgan Council's governance arrangements. The Internal Audit Annual Plan was presented to the Audit Committee in April 2016, based on a provision of 1,287 productive days.

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 2016 the staffing structure is listed in table 6 below.

Table 6

2015-16 Staffing Structure	FTE
Operational Manager Audit - Head of Audit	1
Principal Auditor	2
Group Auditor	2

Group Auditor (Information Systems)	1
Auditor (4 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 6.5 vacant full time equivalent posts. Unfortunately, the recent recruitment exercise was unsuccessful and therefore the Section continues to carry these vacancies. Discussions are underway as to how the gap in resources can best be resolved. The lack of resources is considered to be a key risk for the service moving forward into 2017/18

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

Experience and Qualifications

Table 7

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	0
5 to 10 years	2.5	5.5	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	2.5
				Studying (CISA, AAT, IIA, CIPFA etc.)	1
Total Staff	11.5	11.5		Total	11.5

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.

Internal Audit – Review of Performance Management and Quality Assurance Framework

The Public Sector Internal Audit Standards requires that the Head of Internal Audit develops and maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity. The section has a “Quality Assurance and Improvement Programme (QAIP) that has been presented to, and approved by, the Audit Committee.

1. **Performance Management** – the section’s key performance indicators are set out in the section below.
2. **Quality Assurance** – each individual audit report and supporting working papers / documents are reviewed by either a Principal Auditor or the Head of Audit. Appropriate standards have been set by the Head of Internal Audit in accordance with the Standards. The file reviews ensure the audits comply with the Section’s internal processes and procedures and the overall Public Sector Internal Audit Standards. Where necessary corrective action is taken.

Internal Audit – Performance Indicators

The Section has one key indicator as follows: **The Percentage of Audits Completed in Planned Time**

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.

<p>Target: 89.7%</p>	<p>Quarter 3 performance April to December 2016 Achievement: 89.74% Vale - 66.67% BCBC Overall Achievement: Number of Audit Completed = 60 Number completed within planned time = 49 Overall percentage achieved = 81.67%</p>
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Therefore from the number of audits completed for the third 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 6.5 at present.

The Section also participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2015/16 have been received and are as follows:

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 64% of the Welsh Chief Auditors Group returning their performance figures (8 councils have failed to return their data sets).

Governance Arrangements

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 role in governing and leading their communities. Effective local government relies on public confidence in elected members and officers.

The Vale of Glamorgan Council is committed to the principles of good governance and as a result has adopted a formal Code of Corporate Governance 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 Code of Corporate Governance is in the process of being reviewed to ensure that the Council’s Governance Framework meets the requirements of the new CIPFA publication / delivering good governance in local government framework 2016, is aligned to the Council’s values of “Ambitious, Open, Together and Proud” as well as incorporating the five things that public bodies need to think about to show that they have applied sustainable development principle introduced as a statutory duty by the Well-being of Future Generations (Wales) Act.

One of the main issues raised and highlighted over the last few years has been the ability of the Council to carry on meeting its service objectives and delivering positive outcomes for its customers and clients in the light of continued reductions in Welsh Government Funding.

The Council recognises that it is facing unprecedented challenges with continuing year on year reductions in Council funding and the impact this has on the services delivered. At the same time the Council is dealing with increasing expectations and demands on services. The Council has already identified approaching £35 million in savings since 2010 yet, the challenges continue. With diminishing funding impacting on how the Council delivers its services, embarking on an ambitious programme of transformational change makes planning for the future difficult.

The Council addressed this by undertaking regular Budget reviews and putting in place a financial strategy for the Council which presently runs until 2018. The purpose of this is to ensure:

- A sustainable budget is achieved within predicted funding levels,
- The budget is aligned to the Council’s priorities as set out in the Corporate Plan,
- Best value for money is being obtained, i.e. identifying efficiency savings, opportunities for income generation and better use of external grants and.
- Collaborative initiatives and options for alternative service delivery are considered.

Separate financial strategies have been established for funding education and schools, social services and other services having regard to the relative risks and priorities of each. In total over the next 3 years to 2019-20 savings of £24.146M minimum will need to be achieved as set out in the Medium Term Financial Strategy 2016/17 to 2019/20. In accordance with the financial strategies agreed, savings targets together with areas for savings have been identified. In addition, the Council continues its Reshaping Services programme in order to fundamentally review the need for and methods of service delivery across all Council services. It is anticipated that a large proportion of the required savings will be found through the programme and a number of specific

services have been identified in two tranches for delivery from this Financial Year onwards. Further work will be required to ensure that all necessary action has been taken to mitigate any potential impact upon service delivery and clients e.g. consultation and scoping/completion of equality impact assessments.

The Head of Audit's Annual Opinion report was presented to the Audit Committee at their meeting held on 25th April 2016. The overall opinion provided reasonable assurance on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control with a moderate risk level. Significant issues were identified and reported to Audit Committee which related to the Internal Audit reviews undertaken within Waste Management and Contract Management across the Council. As a consequence it was considered appropriate that this matter was reflected in the Council's Annual Governance Statement for 2015/16. Internal Audit concluded all their work on contract management during the early part of 2016/17. It was clear from these reviews that contract management was a key issue throughout the Council and one that was taken very seriously by the Managing Director and the Corporate Management Team. Since last reporting, the Contract Management Guidance and Toolkit have now been updated; Corporate Management Team has continued to have oversight to ensure that progress is being made and improvements to Contract Management throughout the Council are evident. An update report has been produced and presented to the Council's Audit Committee and comprehensive Senior Management Training has been organised across the Council to commence in March 2017. Therefore, as a consequence of the significant amount of work that has been undertaken which has been fully supported by Corporate Management Team to address the governance issues as identified in the 2015/16 Annual Governance Statement, this is no longer considered a significant risk for 2016/17. However, Contract Management across the Council will feature extensively in the 2017/18 audit plan.

In addition to these areas the challenge from an audit perspective, as recognised by corporate and senior management, continues to be the financial context in which the Council is required to operate. The impact of delivering the further 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 and encompassed within the Council's Reshaping Services programme. Whilst the Council is well placed to respond to this challenge, and the Section 151 Officer is of the opinion that the savings whilst extremely challenging are achievable, the scale and pace of required change continues to remain a fundamental risk. Of significant issue for the Internal Audit Shared Service is the current lack of resource and this will have an impact on the 2017/18 Audit Risk Based Plan? Carrying over 36% of its resource in vacant posts is unsustainable and without doubt it is going to be a very difficult year for the service. Discussions are underway as to how the gap in resources can best be resolved.

Early in 2016/17, the Council received its Corporate Assessment report. The corporate assessment is designed to answer on key question; whether as a local authority the Council is capable of delivering the priorities we have set ourselves and improved outcomes for Vale citizens. In this respect the report is glowing.

The WAO concluded that: *“The Council has a clear vision of what it wishes to achieve and is making positive changes which should ensure it is well place to continue securing improvements”*.

The report is further evidence that, despite increasing pressures on budgets and demands on services, the Council is performing better than ever.

The WAO also found that:

- The Council’s vision reflects local needs and national priorities and that senior political and officer leadership is engaging effectively with staff to support change and planning for the future;
- The change agenda is supported by effective leadership, and there are clear lines of responsibility which are securing improvement.
- Effective governance arrangements have secured improvements and that scrutiny arrangements have been refined to evaluate outcomes, with information about the Council’s performance being readily available; and
- The human resources service and extensive staff engagement is supporting Council priorities and the change agenda.

In a Council of this size and complexity, with its significant savings requirements, there is an inherent risk of breakdown in the systems of control particularly where roles, responsibilities and systems are changing. 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.