

## **Bridgend and Vale Internal Audit Service: Head of Internal Audit's Annual Opinion Report April 2017 to March 2018 Vale of Glamorgan Council**

### **Section 1 - 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.

### **Section 2 - 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).

### Section 3 - 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 (as amended from time to time) 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 (as amended from time to time) must make provision for internal audit in accordance with the Public Sector Internal Audit Standards (PSIAS).

### Section 4 - 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.

### Section 5 - 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 2016-17 an External Assessment was undertaken to review our compliance with the Public Sector Internal Audit Standards. The External Assessor concluded that overall the assessment identified no areas of non-compliance with the standards that would affect the overall scope or operation of the internal audit activity. Indeed, the Assessor further stated that all auditees and statutory officers were positive in their responses and understanding of the audit process and the value it added.

A number of recommendations and suggestions for improvement were made at the conclusion of the assessment and progress against implementation has been reported to the Council's Audit Committee at regular intervals. The target of implementing all recommendations by the end of the financial year 2017/18 and this has been achieved.

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 1<sup>st</sup> April 2013 and therefore as a consequence of the external assessment undertaken during 2016/17, the Internal Audit Shared Service has met this requirement.

**Section 6 - Internal Audit Coverage – April 2017 to March 2018**

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 2017/18 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 24<sup>th</sup> April 2017. The plan provided for a total commitment of 1,145 productive days for the year. Table 1 below provides the outturn for the Financial Year ending March 2018 and further detail is provided in Appendix B. The current structure for the Shared Service is now based on 14 Full Time Equivalent employees (FTE's) which came into effect on the 1<sup>st</sup> October 2017. 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. This was also taken into account when developing the revised structure. The service has already been vastly streamlined and continues to apply lean auditing risk based methodologies to its plan of work. As at the end of the Financial Year 2017/2018, the service is carrying 7.5 vacancies. This lack of adequate resourcing has had an impact on the number of productive days delivered as indicated below. As a consequence it has been necessary to commission the services of the South West Audit Partnership (SWAP) to assist in the delivery of the Plan. Whilst there is still a shortfall in the number of days delivered, with the assistance of SWAP and in particular the Healthy Organisation review undertaken on four of the eight corporate themes, this has provided an objective assessment of the management control framework or "health" of the Council in these areas and has therefore contributed not only to the delivery of the Plan but also to the Head of Audit's annual audit opinion.

**Table 1 – Productive outturn for the period April 2017 to March 2018**

Directorate	2017/18 Full Year Plan Days	2017/18 Actual Days Achieved
Managing Director / Resources	315	282
Social Services	130	43
Environment & Housing	150	81
Learning and Skills	130	95
Cross Cutting – (including Fraud and Error)	420	288
<b>Total</b>	<b>1,145</b>	<b>789</b>

Chart 1

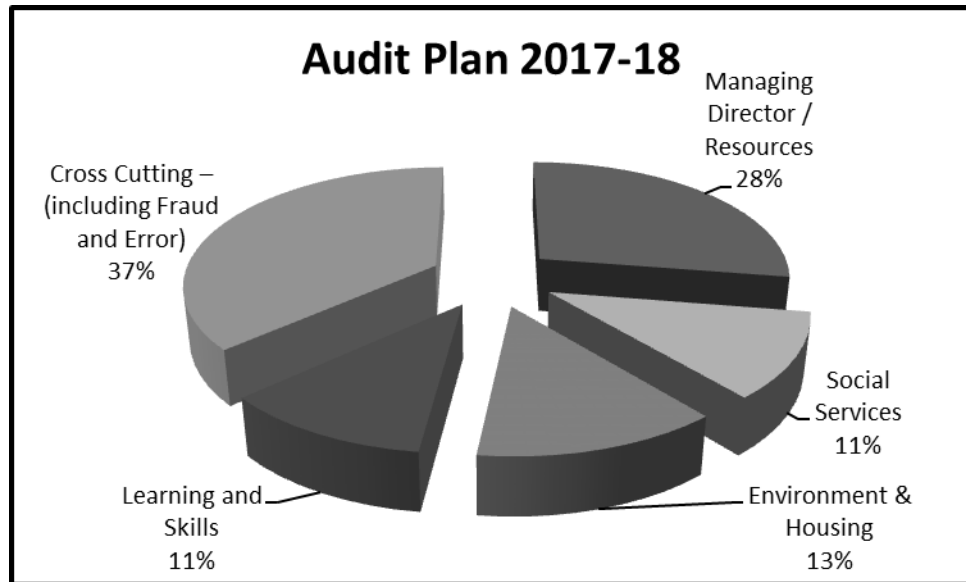
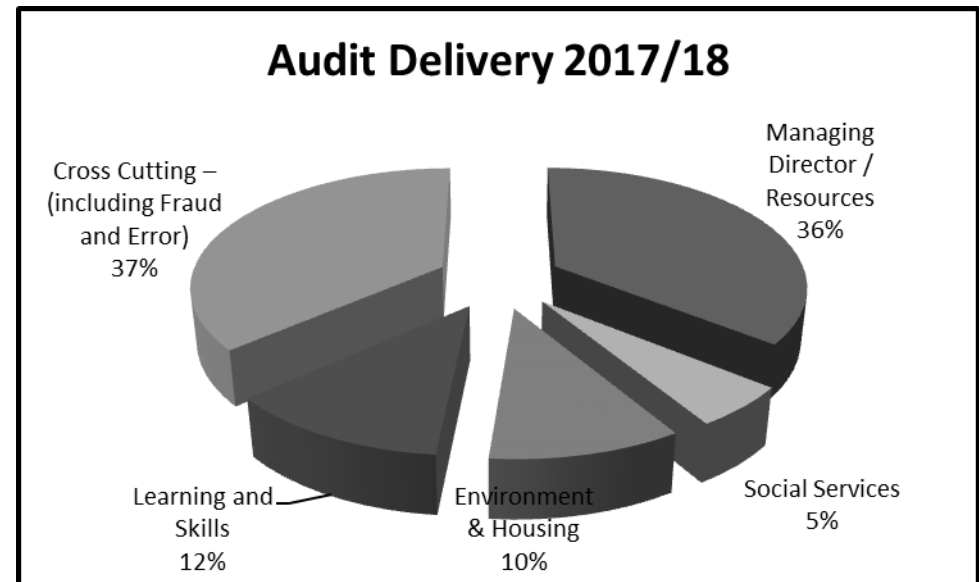


Chart 2



As can be seen from the table above, the actual outturn for the year shows that the overall productive days originally planned for have not been achieved. The shortfall of 356 productive days on that expected is as a direct result of staff vacancies throughout the year and long term absences during the first half of the year. The new re-structure of the service was completed and implemented on 1<sup>st</sup> October 2017 and the Service is moving forward into the new Financial Year 2018/19 with 50% vacancies. The lack of resources continues to be of specific concern, however it is intended that the services of the South West Audit Partnership will once again be commissioned during 2018/19 in order to assist with addressing the shortfall. In addition, we must be mindful of the fact that during 2018/19, work will be underway to further explore the proposal to extend the Shared Internal Audit Service and as a consequence, should this proceed, some latitude will be needed during this transitional year. The extension of the Shared Service should provide more resilience and provide for a more flexible and agile service delivery.

A total of 78 assignments were raised during the year. 4 were carried forwarded into 2018/19 and 6 were closed not requiring an opinion due to the nature of the work undertaken (e.g. advice & guidance). Of the balance of 68, 50 (74%) have been closed with either a substantial or reasonable assurance opinion level. 7 (10%) of the assignments completed have identified weaknesses in the internal control environment to such an extent that the overall audit opinion was limited. Of the remaining 11 assignments (16%), although necessary and the work required, they did not necessitate an opinion to be provided. It should be noted that of the 7 assignments where weaknesses have been identified 3 were as a result of a specific investigation.

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

##### **Deprivation of Liberties (DOLS)**

A further audit review of the application of Deprivation of Liberty Safeguards (DoLS) was undertaken as part of the 2017/18 annual Internal Audit Plan following a limited assurance report issued in January 2017. The objectives of the audit were to ensure the Authority has appropriate arrangements in place for the application of the DoLS in compliance with the Code of Practice and Mental Capacity Act.

The following key issues were identified during the Audit:

- A significant backlog of DoLS referrals still exist. The report highlighted that as at 12/1/2018 there was a backlog of 2,005 DoLS application/referrals that had yet to be assessed. The Auditor was advised that due to the outcome of the decision of the Supreme Court in 2014 (commonly referred to as “*Cheshire West*”) there was a significant increase in referrals which the Team were unable

to manage. As a means to prioritise referrals a matrix is in place that categorises them as Highest, High, Medium and Lower. The backlog is regularly reported to the Partnership Board.

- Failure to implement governance documents despite recommendations made in the previous Internal Audit report.

### **Previously reported to Audit Committee**

**E Procurement Review** – This review highlighted weaknesses in the project implementation. The integration between the systems required greater resources than was initially anticipated, there were delays in installing the required software whilst awaiting the set-up of new hardware and governance arrangements needed to be more robust. Six recommendations for improvement were made which management agreed with a supporting action plan in place to address the issues. Internal Audit are in the process of undertaking a follow-up review to ensure that the actions agreed have been implemented.

**Leasehold surveys** – earlier control weaknesses in regard to the record management of surveys had been identified. This work was to review the new procedures that had been formulated. However at the time of the review, although developed, the new procedures were in the early stages of implementation and therefore substantial testing could not be undertaken. Therefore it could not be demonstrated that these would address and mitigate the control weaknesses that had previously been identified.

**Leisure Equipment & Plant Security** – An audit review was undertaken as part of the 2017/18 audit plan. The key issues related specifically to equipment being stored at Court Road Depot but repaired at the Alps Depot with different computer systems used at each location. Equipment is accepted for repair at the Alps Depot without a formal request from Parks and there is no cover for the Storekeeper in times of absence. Six recommendations for improvement have been made, all of which have been accepted by management and immediate action taken. A follow up review has been concluded and the Auditor was able evidence that all but one of the recommendations have been implemented. This recommendation was reiterated and management have agreed to implement the recommendation as a matter of urgency. The overall opinion provided was one of reasonable assurance.

### **Section 7 - Audit Recommendations – 2017/2018**

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 Financial Year 2017/18, Internal Audit has made a total of **73** 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 2 below.

Table 2

<b>2017 – 18 Recommendation Priority</b>	<b>No. Made</b>	<b>No. Agreed</b>	<b>No. Implemented</b>	<b>No. not yet due to be actioned</b>	<b>No. overdue action date</b>
			Complete	Pending	Outstanding
<b>Fundamental (Priority One) – Immediate Action</b>	1	1	1		
<b>Significant (Priority Two) – Action within 6 – 12 months</b>	72	72	48	21	3
<b>Total</b>	73	73	49	21	3

Table 3. Analysis of Overdue Recommendations

<b>Analysis of Overdue Implementation of Recommendations for 2017-18</b>	<b>No. Overdue</b>	<b>One / Two months overdue Target date</b>	<b>Three or more months overdue target date</b>
		<b>Amber</b>	<b>Red</b>
<b>Fundamental (Priority One)</b> Rating - D and E (+ to -) Action – Immediate Implementation	0		
<b>Significant (Priority Two)</b> Rating – C (+ to -) Action – Implementation within 6 – 12 months	3	1	2
<b>Total</b>	<b>3</b>	<b>1</b>	<b>2</b>



In addition to the above, each recommendation will be grouped by risk. The risk categories are as follows:

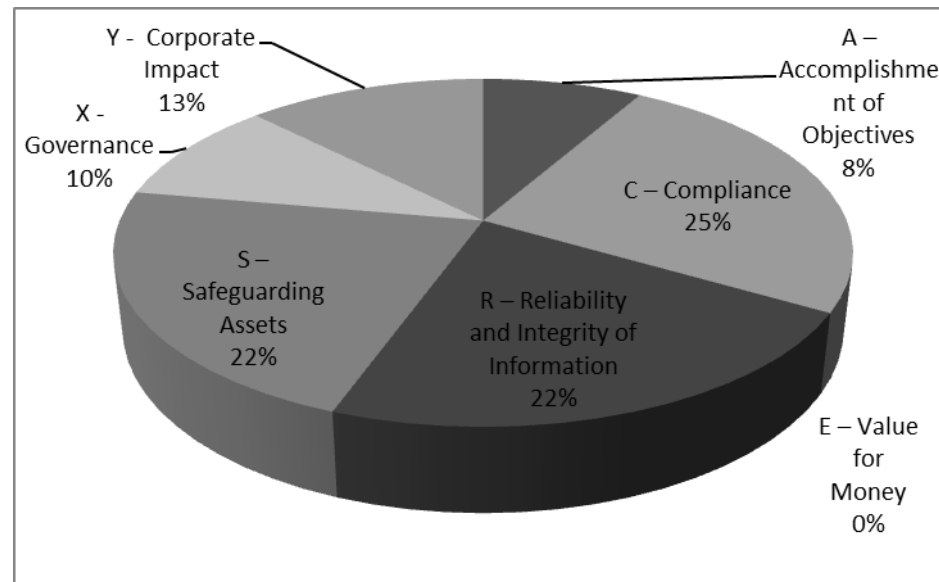
A – Accomplishment of Objectives; C – Compliance; E – Value for Money; R – Reliability and Integrity of Information;

S – Safeguarding Assets; X – Governance and Y – Corporate Impact.

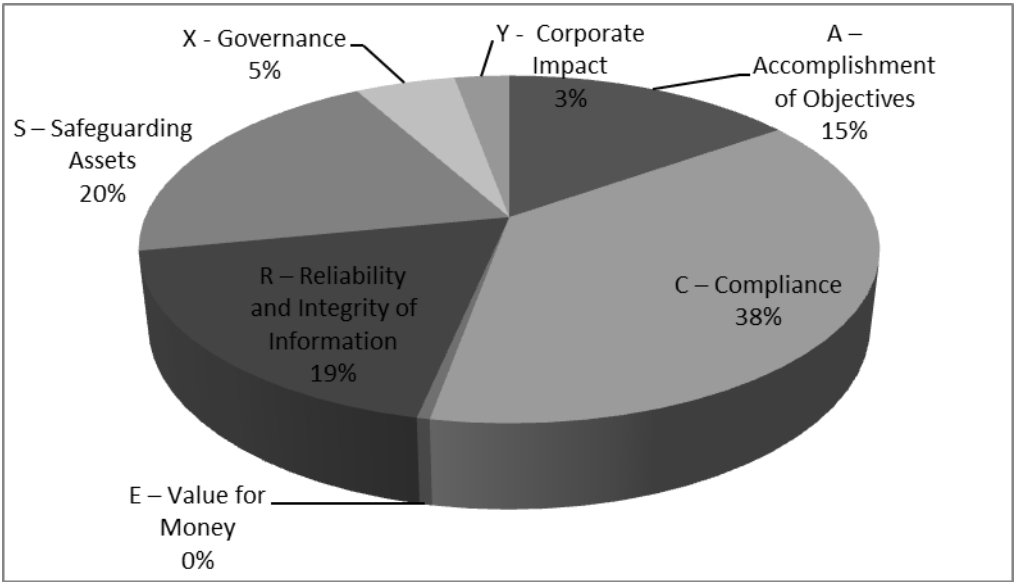
**Table 4 below details the number of recommendations made grouped by risk April 2017 to March 2018.**

Description	No. of Fundamental Recommendations	No. of Significant Recommendations	Comparison – 2016 / 2017	
			Fundamental	Significant
A – Accomplishment of Objectives	1	6	1	32
C – Compliance	0	18	6	79
E – Value for Money	0	0	0	1
R – Reliability and Integrity of Information	0	16	0	39
S – Safeguarding Assets	0	16	0	42
X - Governance	0	7	0	11
Y - Corporate Impact	0	9	0	6
Totals	1	72	7	210

**Chart 3: Significant Recommendations 2017 – 2018**



**Chart 4: Significant Recommendations 2016 -2017**



**Section 8 - 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 2017, based on a provision of 1,145 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 1<sup>st</sup> April 2017 the staffing structure is listed in table 5 below, however this has subsequently changed as a result of the re-structure which came into effect from 1<sup>st</sup> October 2017.

**Table 5**

<b>2017-18 Staffing Structure As at 1<sup>st</sup> April 2017</b>	<b>FTE</b>		<b>New Staffing Structure As at 1<sup>st</sup> October 2017</b>	<b>FTE</b>
Operational Manager Audit - Head of Audit	1		Operational Manager Audit – Head of Audit	1
Principal Auditor (1 vacant at present)	2		Client Audit Manager (1 vacant post)	2
Group Auditor	2		Senior Auditor (4 vacant posts)	5
Group Auditor (Information Systems – vacant at present)	1		Auditor (1/2 vacant post)	4
Auditor (5.5 posts are vacant at present)	9.5		Audit Assistant (2 vacant posts)	2
Trainee Auditor (vacant at present)	1			
Trainee Auditor (Information Systems) (vacant at present)	1			
Administrative Assistant	0.5			
<b>Total</b>	<b>18</b>			<b>14</b>

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.

Table 6

Post Designation	Qualification Expectation	No of FTE's	No. Qualified	No. of Employees with no. of audit years' experience			
				1 – 2 Years	3 – 5 Years	6 – 10 Years	Over 10 Years
<b>Operational Manager Audit – Head of Audit</b>	CCAB qualified and relevant experience	1	1				1
<b>Audit Client Manager (one vacant post)</b>	CCAB qualified or equivalent	2	1				1
<b>Senior Auditor (four vacant posts)</b>	Level 6 educational qualification e.g. Part Qualified Audit or Accountancy professional qualification e.g. PIIA, CIA or CCAB	5	1				1
<b>Auditor (1/2 vacant post)</b>	Level 4 educational qualification e.g. Qualified Accounting Technician (AAT) or equivalent.	4	2		1	2	1
<b>Audit Assistant (2 vacant posts)</b>	Level 3 educational qualification e.g. A levels, BTEC National Aware or part qualified AAT.	2					

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.

### Section 9 - 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.

## Section 10 - Internal Audit – Review of Performance Management and Quality Assurance Framework

The Public Sector Internal Audit Standards require 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 Internal 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.

The Section participates annually in the Welsh Chief Auditors Group benchmarking exercise. The results for 2017/18 are in the process of being collated and will be forwarded to the coordinator for the Welsh Chief Auditors Group by the submission deadline of 14<sup>th</sup> May 2018.

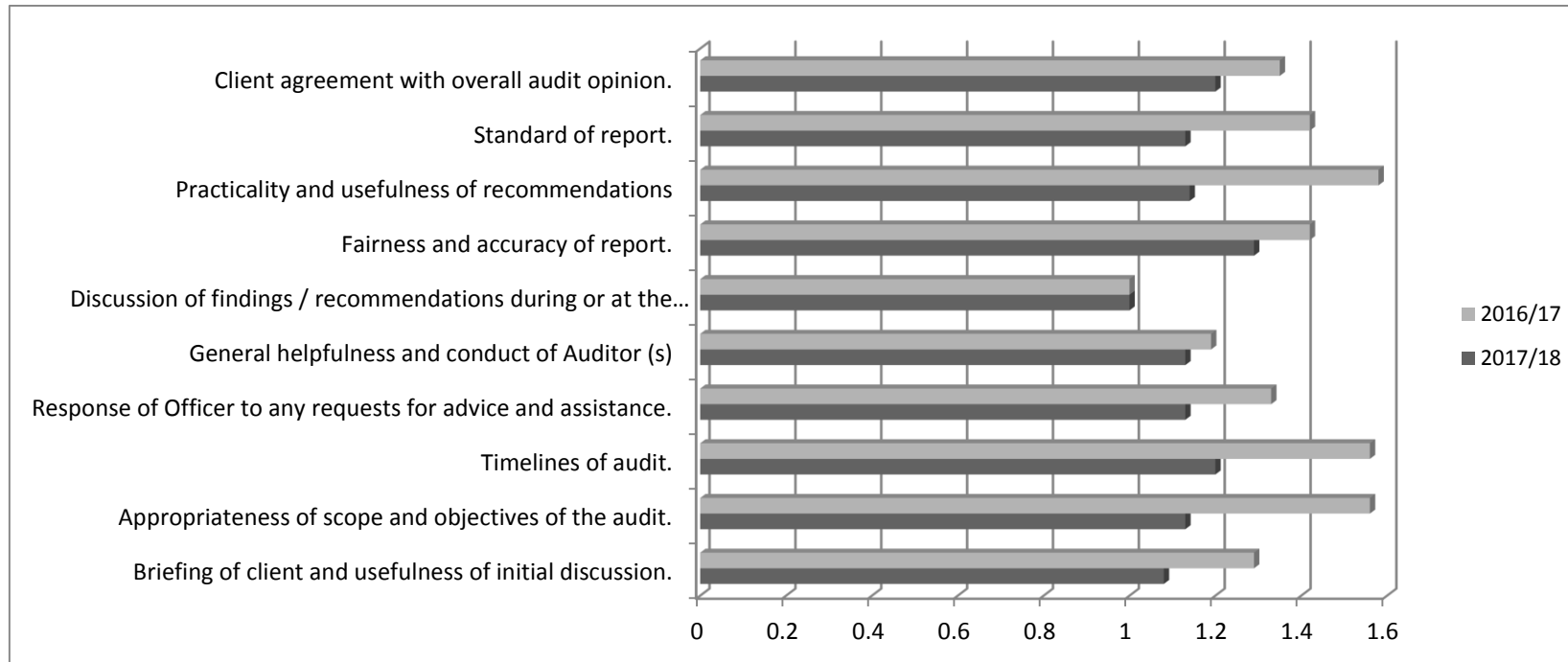
### Audit Client Satisfaction Questionnaires

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 covering the period April 2017 to January 2018 are summaries in Table 8 below.

Table 7 – Summary

No.	Question	Average Score of Responses to March 2018	Average Score of Responses March 2017
1	Where appropriate, briefing of client and usefulness of initial discussion.	1.080	1.290
2	Appropriateness of scope and objectives of the audit.	1.130	1.560
3	Timelines of audit.	1.200	1.560
4	Response of Officer to any requests for advice and assistance.	1.130	1.330
5	General helpfulness and conduct of Auditor (s)	1.130	1.190
6	Discussion of findings / recommendations during or at the conclusion of the audit.	1.000	1.000
7	Fairness and accuracy of report.	1.290	1.420
8	Practicality and usefulness of recommendations	1.140	1.580
9	Standard of report.	1.130	1.420
10	Client agreement with overall audit opinion.	1.200	1.350

Chart 5.



## Section 11 – Annual Opinion Statement 2017/18

This statement of opinion is underpinned by:

**Internal Control Framework**

The control environment comprises the Council's policies, procedures and operational systems and processes in place to:

- Establish and monitor the achievement of the Council's objectives;
- Facilitate policy and decision making;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies, procedures, laws and regulations;
- Safeguard the council's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.

During the year, core financial and administrative systems were reviewed by Internal Audit either through specific reviews (e.g. Debtors, Council Tax, Housing Benefit, Treasury Management etc.) or generally in the reviews undertaken in respect of directorate systems. Due to the resourcing issues within the Internal Audit Shared Service, the number of audit days delivered fell short of those proposed. However, in order to address this in part, audit work was commissioned from the South West Audit Partnership (SWAP) who undertook an ethics review and a Healthy Organisation Review focusing on four of the eight corporate themes (Risk Management, Commissioning & Procurement, Programme & Project Management and Information Management). For each of the themes the strength of the management control framework in place was assessed against a benchmark model by identifying the presence or otherwise of key controls. The review for each of the four themes referred to above indicates an overall High Assurance opinion.

The Council's External Auditors have advised that their work for the 2017/18 Financial Year is well on track and that they have completed the majority of their planning work and interim testing. This includes:

- A high level assurance of the financial systems and the wider control environment – this work is designed to detect any material risk to the accounts;
- Testing of the income and expenditure transactions made by the Council during 2017/18.

Whilst their work is continuing during April 2018, to-date, there are no significant issues arising from their work that should be referenced within my opinion.

In addition, the Managing Director, each of the Corporate Directors, the Monitoring Officer and the Council's Section 151 Officer have completed an Annual Assurance Statement for 2017/18; as well as Head Teachers and Chairs of Governors. All their responses have been taken into account when forming the Head of Audit's annual opinion. Furthermore, the detailed Council's Annual Self-Assessment dated March 2018 has been a key reference document to support the assurance statement.



**Risk Management**

Effective Risk Management forms a key aspect of assurance and governance. An Organisation that can demonstrate and operate under a structured and active risk management approach is far more likely to be able to focus upon their key priorities and outcomes and, in doing so, take informed and robust decisions.

The review of Risk Management was assigned a green RAG rating because of the strong control framework in place in relation to Risk Management.

**Governance Arrangements**

Good Governance will facilitate effective management that can deliver long term success and performance of an organisation.

Governance arrangements have been reviewed and found to be effective. The review of the Council's Code of Corporate Governance has concluded that there is a strong and robust control framework in place in relation to Corporate Governance.

**Internal Control**

I have based my opinion on the internal audit work during the year in so much as; a total of 78 assignments were raised during the year. 4 were carried forwarded into 2018/19 and 6 were closed not requiring an opinion due to the nature of the work undertaken. Of the balance of 68, 50 (74%) have been closed with either substantial or reasonable assurance opinion levels. 7 (10%) of the assignments completed have identified weaknesses in the internal control environment so much so that the overall opinion was limited. The remaining 11 assignments (16%), although necessary and the work required, they did not necessitate an opinion to be provided. It should be noted that of the 7 assignments where weaknesses have been identified, 3 were as a result of a specific investigation and the remaining 4 have been summarised in Section 6 above.

In addition, I have taken into consideration the responses to the Annual Assurance Statements completed by Corporate Management Team for 2017/18, the outcome of the Healthy Organisation review completed by the South West Audit Partnership and the detail as contained within the Council's Annual Self-Assessment March 2018.

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 9 below:

Table 8.

	SYSTEM CONTROL	MATERIALITY AND IMPACT		
		HIGH	MEDIUM	LOW
1	<b>Satisfactory</b>	<b>Moderate</b>	<b>Minimal</b>	<b>Minimal</b>
2	<b>Reasonable</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Minimal</b>
3	<b>Limited (Significant Improvements required)</b>	<b>Of Concern</b>	<b>Moderate</b>	<b>Moderate</b>
4	<b>No Assurance (Fundamental Weaknesses identified)</b>	<b>Significant</b>	<b>Of Concern</b>	<b>Moderate</b>

Therefore, having regards to the content of Section 6 above, the follow up work undertaken, the responses received from the Chief Officers; Head Teachers and Chairs of Governors, the work undertaken by SWAP and the impact on the Plan compared with previous years as a result of the resourcing issues, my overall opinion is the Council's overall internal control arrangements are considered to be **reasonable**, resulting in a “**minimal**” level of risk.

### OPINION SUMMARY

In providing my annual audit opinion, it should be noted that assurance can never be absolute. The most that internal audit can provide is a 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 came to our attention during our internal audit work in the financial year 2018/19 and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at my opinion, the following matters have been taken into account:

- The results of all internal audits undertaken during the year ended 31<sup>st</sup> March 2018
- The results of follow-up reviews of action taken to address audit recommendations;
- Whether or not any significant recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the Council's objectives and activities.

**From the work undertaken during the financial year 2017/18 and taking into account other sources of assurance, the Head of Audit has reached the opinion that the Council’s framework of governance, risk management and control is operating adequately.**

## **Section 12 - 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 eight years. The Council’s Code of Corporate Governance was reviewed during 2016/17, with the amendments made being based upon the “Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE, 2016)”. The Framework positions the attainment of sustainable economic, societal and environmental outcomes as a key focus of good governance processes and structures. The focus on sustainability and the links between governance and public financial management are crucial – local authorities must recognise the need to focus on the long term.

The Vale of Glamorgan Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money allocated to it is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Vale of Glamorgan Council sees Corporate Governance as doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. Strong, transparent and responsive governance enables the Vale of Glamorgan Council to put citizens first by pursuing its aims and priorities effectively, and by underpinning them with appropriate mechanisms for managing performance and risk. In order to maintain “citizens” confidence, these mechanisms must be sound and be seen to be sound.

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 £49 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 2020/21. 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 2020-21 savings of **£17m** minimum will need to be achieved. 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. In future years a higher proportion of the required savings will have to 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.

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, impacting 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 continuing lack of resources and the impact this has had on delivering the 2017/18 Audit Risk Based Plan. During the whole of the year, the Shared Service has carried a high level of vacancies and as a consequence it has been necessary to commission audit coverage from an external provider, this being the South West Audit Partnership. The current structure for the Shared Service has been reviewed and

although the staff numbers have been reduced, the number of senior posts has been increased. The purpose of this is to ensure a more resilient service moving forward which will not only meet the requirements of the Public Sector Internal Audit Standards but also the changing environment in which we operate.

2018/19 will continue to be a challenging year for the Shared Service and it is predicted that the South West Audit Partnership will once again be commissioned to assist with the delivery of the 2018/19 Risk Based Plan in the short term. In addition, work is underway to further develop the proposal to extend the Shared Service into a Regional Service with the possibilities of two more Councils joining the partnership. This is likely to gather momentum during 2018/19 and therefore, if this does proceed, then some latitude will be required during this transitional period from all parties concerned.

Notwithstanding the above issues, Internal Audit is very mindful of the fact that 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.