

Flintshire County Council

Internal Audit Annual Report

Year ended 31 March 2013

Presented at the Audit Committee meeting of: 12th June 2013

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1 Introduction

1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of Flintshire County Council (FCC)'s assurance cycle and if used effectively can inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the Council and Audit Committee.

The definition of internal audit, as described in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, 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, efficient and effective use of resources.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

1.2 Governance Statement

Under the Accounts and Audit (Wales) Regulations 2005 Local Authorities are required to publish a statement on internal control. They have a choice as to whether they go further and complete a wider ranging Governance Statement. The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 published by CIPFA recommends that the annual review of the system of internal control should be reported in an Annual Governance Statement.

The assignment opinions that the Internal Audit service provides during the year are part of the framework of assurances that assist the Council prepare an informed Annual Governance Statement.

1.3 RSM Tenon

RSM Tenon provided the Internal Audit Manager for the Council's audit service throughout the year. During the year the Council decided to bring the position in-house. The effective date for this is 1st June 2013. The RSM Tenon contract covered

- The day to day management of the Internal Audit section
- Implementation of the revised Service Model and staff structure, and
- Regional Collaboration. Leading the Council's contribution to the pursuit of collaborative opportunities within North Wales for the delivery of Internal Audit and its management.

1.4 Professional Standards

The professional responsibilities for internal auditors are set out in the International Standards for the Professional Practice of Internal Auditing, published by the Chartered Institute of Internal Auditors (CIIA) in the UK and Ireland.

As such, the approach to internal audit also meets the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

The quality of audit work is ensured by the use of an audit manual, ongoing supervision and management of staff and the review of all audit work. Performance targets are set and actual performance reported to each Audit Committee meeting.

An independent review during the year found that the department would benefit from a greater degree of oversight and check of the files by the Audit Manager and Principal Auditors, and that further training on the RSM Tenon audit tools should be offered to the auditors.

A self assessment against the CIPFA Code of Practice in early 2013 showed substantial compliance with the standards.

The Wales Audit Office review of Internal Audit in early 2013 found that the department fully complied with nine of the CIPFA standards and partially complied with two. The two areas were staffing of the department where there is a need to ensure that staffing is maintained at an adequate level to deliver the agreed plan, and performance quality where the learning points from the independent review need to be addressed.

The review was carried out for the purposes of the statutory audit. It was not an evaluation to provide an assurance to FCC about its Internal Audit function, but it is clearly relevant.

2 Internal Audit Assurance for 2012/2013

2.1 Context

The internal audit service to FCC is required to provide the Council through the Audit Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving that opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council 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 and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

2.2 Resources

At the beginning of the year planned recruitment did not take place as the appointed person subsequently decided not to join FCC. The decision was taken to cover the vacancy with temporary staff during 2012/13, which was carried out. Subsequently a major investigation arose which required almost 350 audit days during 2012/13. The total amount of time spent on all investigations during 2012/13 was 470 days, against a budget of 200 days.

The Audit Committee resolved in September 2012 that additional resources be made available. These resources were obtained but could not be put in place until the last quarter of the year and into April 2013. As a result, the audit plan has not been compromised due to a lack of resources but there are a large number of projects that were either completed after the year end or where the report has not yet been finalised. This is reflected in the statistics later in this report, which only include final reports.

Internal Audit Assurance Statement

I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion on the adequacy and effectiveness of FCC's arrangements.

For the year ending 31 March 2013 based on the work we have undertaken my opinion is that FCC have adequate and effective arrangements in place for governance, risk management and internal control.

Where weaknesses have been identified I am happy that action plans are in place to address those weaknesses.

2.3 Scope of the Internal Audit Opinion

In arriving at that opinion, I have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2013 (see Appendix A for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether fundamental or significant recommendations have been accepted by management and, if not, the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports or other assurance providers to the Audit Committee and/or Council;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

2.4 The Basis of the Opinion

In reaching this opinion the following factors were taken into particular consideration:-

Governance

A Corporate Governance Working Group has operated during the year, charged with co-ordinating the annual governance self assessment and preparation of the annual governance statement. The group is chaired by the Democracy and Governance Manager and members include the Internal Audit Manager, the Policy Performance and Partnerships Manager, the Risk Manager and the Finance Manager – Strategy and Technical. The group reviewed the content of corporate governance self assessment assurance certificates, issued them to Directors and Heads of Service, challenged the responses and reported the results. This process provided an opportunity for senior officers to consider the effectiveness of governance arrangements and a number of areas of continued improvement have been identified. The group also considered the overall assurance framework and drafted the Annual Governance Statement. The Statement explains how Flintshire County Council complies with its own Code of Corporate Governance and also meets the requirements of the Accounts and Audit (Wales) (Amendment) Regulations 2010.

Risk Management

Risk Management systems have continued to develop in 2012/13. The Strategic Assessment of Risks and Challenges (SARC) has been refreshed during the year to include internal and external risks and to show recent changes. A new template for operational risks was issued. Work is continuing on aligning risks to the council's Improvement Priorities.

Internal Audit carried out an audit of risk management during the year, concentrating on risk assessment and risk mitigation. This concluded that the council is making progress in embedding risk management. The Strategy has been updated and covers all key components of risk management. However, there is a need to refresh the way risk is reported, and develop the use of risk appetite within the council. The audit will be used as a basis to identify areas for further improvement and to continue to develop risk management within the Council.

Internal Control

The overall level of control has improved from last year.

There is an increased level of 'substantial assurance' (green) audit opinions, up from 28% of the audits to 40%. The overall proportion of recommendations classified as fundamental significant and merits attention remained broadly the same. The overall number of recommendations made in the year was 235, compared to 364 last year. However, the number of reports finalised is reduced because of the effect of the major investigation. The remaining reports will be reflected in next year's annual report.

Lifelong Learning, Finance, Environment and Corporate reports showed the greatest number of audits where only limited assurance could be gained. In each case the findings were reported in detail to the Audit Committee, the recommendations have been tracked and progress is being made in improving the levels of control. Details are given in Appendix A.

Acceptance of Recommendations

All of the recommendations made during the year were accepted by management. The Corporate Management Team have committed to a more robust process of recommendation tracking to ensure follow through of recommendations.

2.5 Governance Statement

The overall opinion may be used by the Council in the preparation of the annual governance statement.

2.6 Conflicts of Interest

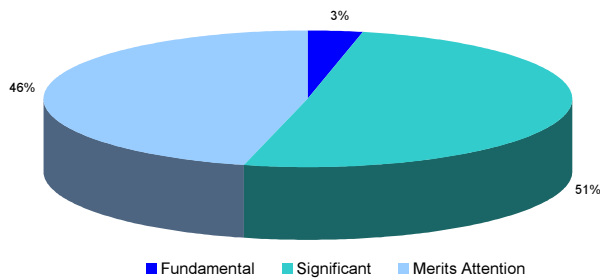
The department has not undertaken any work or activity during 2012/13 that would lead me to declare any conflict of interests.

2.7 Benchmarking Data

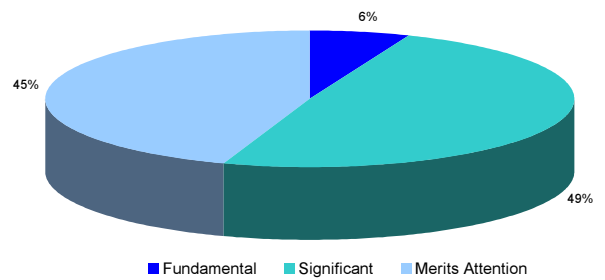
The tables below show the split of internal audit recommendations and opinions for FCC in 2011/12 and those made in 2012/13. There was an increase in the proportion of substantial (green) audit assurance levels given this year with the proportion of fundamental, significant and merits attention recommendations being similar.

Comparison of the categories of internal audit recommendations made 2011/12 and 2012/13

Recommendations 2011/12

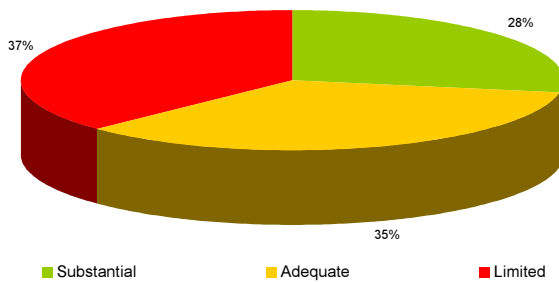


Recommendations 2012/13

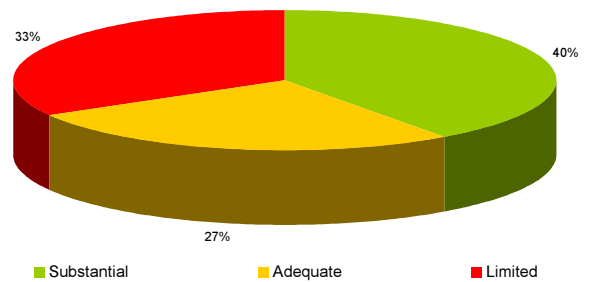


Comparison of assurance levels provided by internal audit in 2011/12 and 2012/13

Assurance Levels 2011/12



Assurance Levels 2012/13



2.8 Other Internal Audit Work

In addition to the reviews analysed above, we have also carried out the following internal audit work during the year.

Area of review	Comments
Schools	Control and Risk Self Assessment carried out. Responses received from 55 Primary schools and 11 Secondary Schools
Investigations	11 investigations carried out in the year, taking 470 days
National Fraud Initiative	36 days on work relating to NFI
Advisory work	32 days on advisory work in the year.
Follow up reviews	28 days on follow up reviews in the year
Grant audits	3 audits of grants.

2.9 Internal Audit Performance

The performance of the department against performance measures and targets is set out below. During the year progress against the plan was adversely affected by higher than expected need for investigations. At the same time the department was not at full strength following difficulty in recruiting at the start of the year. As a result the Audit Committee sanctioned the use of additional resource in order to complete the plan.

7 audits were added to the plan during the year after management requests, with 8 audits deferred. All the deferred audits were then considered during the planning meetings for the 2013/14 to 2015/16 audit strategic plan. As a result, 4 of them appear in the strategy. A further 2 were deferred too late to be included in the strategy but will be added to the 2013/14 work.

Progress against the revised plan was good with most projects commenced and many completed before the year end. The figure of 79% in the table is the number of draft reports issued in the year compared to the number in the original plan.

Performance Measure	Q1	Q2	Q3	Q4	12/13	12/13 Target
Audits completed within planned time	67%	89%	78%	89%	81%	80%
Average number of days from closure meeting to issue of draft report	13.79	13.20	48.18	31.80	26.07	20
Average number of days from response to issue of final report	3.07	2.70	2.00	7.80	3.78	5
Return of client questionnaires	92%	100%	83%	47%	75%	70%
Client questionnaires responses as satisfied	100%	100%	100%	100%	100%	95%
Proportion of audit plan completed					79%	75%
Chargeable audit days	71%	82%	69%	71%	73%	70%

Appendix A: Internal Audit Opinions and Recommendations 2012/13

Auditable Area	Audit Opinions				Number of Recommendations made				
	Limited	Adequate	Substantial	In Total	Fundamental	Significant	Merits Attention	In Total	Agreed
Corporate	2	0	0	2	0	17	8	25	25
Finance	2	3	2	7	0	23	37	60	60
Legal and Democratic	0	1	1	2	0	3	3	6	6
HR&OD	0	2	0	2	1	8	6	15	15
ICT	0	0	4	4	0	4	8	12	12
Community Services	1	0	0	1	0	7	4	11	11
Environment	2	1	0	3	1	15	6	22	22
Lifelong Learning	3	0	1	4	3	17	5	25	25
Total	10	7	8	25	5	94	77	176	176

Auditable Area	Audit Opinions				Number of Recommendations made				
	Red	Amber	Green	In Total	High	Medium	Low	In Total	Agreed
Corporate	0	0	0	0	0	0	0	0	0
Finance	0	0	0	0	0	0	0	0	0
Legal and Democratic	0	0	1	1	0	0	2	2	2
HR&OD	0	0	0	0	0	0	0	0	0
ICT	0	0	0	0	0	0	0	0	0
Community Services	0	1	2	3	0	4	9	13	13
Environment	0	0	0	0	0	0	0	0	0
Lifelong Learning	0	0	1	1	0	0	1	1	1
Total	0	1	4	5	0	4	12	16	16

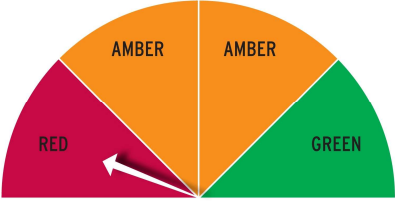
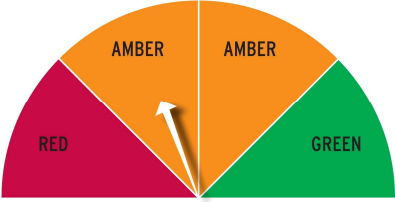
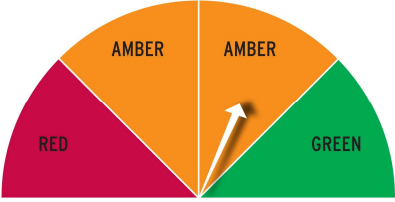
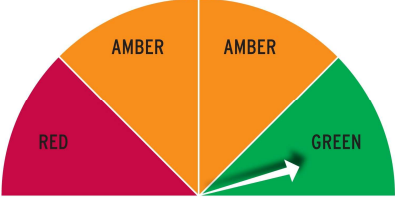
Auditable Area	Audit Opinions		Number of Recommendations made				
	No Assurance	In Total	High	Medium	Low	In Total	Agreed
Corporate	1	1	0	5	4	9	9
Finance	1	1	0	3	0	3	3
Legal and Democratic	0	0	0	0	0	0	0
HR&OD	0	0	0	0	0	0	0
ICT	0	0	0	0	0	0	0
Community Services	0	0	0	0	0	0	0
Environment	1	1	0	4	1	5	5
Lifelong Learning	6	6	0	13	13	26	26
Total	9	9	0	25	18	43	43

The definitions for the level of **assurance** that can be given are:

	Level	Effectiveness	Control Adequacy	Control Application
positive opinions	Substantial Assurance	Targets have been met or exceeded.	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Adequate Assurance	Targets have been closely missed or there are appropriate reasons as to why they have not been met	Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger.	Controls are applied but with some lapses.
negative opinion	Limited Assurance	Targets have not been met and no reasons are given as to why.	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

Recommendations made during the year have been categorised as follows:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits Attention	Action advised to enhance control or improve operational efficiency.

Graphic on Front Cover and in Section 1.2	Opinion (RISK BASED)	Opinion (SYSTEMS BASED)
	<p>Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective.</p> <p>Action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, the Board cannot take assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied or effective.</p> <p>Action needs to be taken to ensure risks in this area are managed.</p>
	<p>Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.</p>	<p>Taking account of the issues identified, whilst the Board can take some assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective, action needs to be taken to ensure risks in this area are managed.</p>
	<p>Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p> <p>However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.</p>	<p>Taking account of the issues identified, the Board can take reasonable assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.</p> <p>However we have identified issues that, if not addressed, increase the likelihood of risk materialising in this area.</p>
	<p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.</p>	<p>Taking account of the issues identified, the Board can take substantial assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied and effective.</p>