Flintshire County Council

Internal Audit Annual Report

Year ended 31 March 2014

Presented at the Audit Committee meeting of: 7th May 2014

Contents

Section		**Page**

1 Introduction

1.1 The Role of Internal Audit

The role of internal audit is to provide an independent and objective opinion to the organisation on the overall adequacy and effectiveness of the framework of internal control, risk management and governance. 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.

At the start of 2013/14 Public Sector Internal Audit Standards (PSIAS) came into force, replacing CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom. CIPFA published a Local Government Application Note on how to apply the Standards within Local Government.

The definition of Internal Auditing in the Standards is as follows:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The role and responsibilities of the FCC Internal Audit department are outlined in the Internal Audit Charter, which has been approved by the Audit Committee and is part of the Constitution. It also specifies the department's independence, authority, scope of work and reporting arrangements. All audit work is carried out in accordance with the contents of the Charter.

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 until the end of May 2013, when the position was brought in-house. The Manager completed a TUPE transfer and is now employed by FCC. 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. PSIAS is based on these Standards.

The Internal Audit Department Generally Conforms with the Standards.

That means that the relevant structures, policies and procedures of the department, as well as the processes by which they are applied, comply with the requirements of the standards and of the Code of Ethics in all material respects. General Conformance does not require complete/perfect conformance, the ideal situation, etc.

The Standards require the Audit manager to develop a Quality Assurance and Improvement Programme (QAIP), designed to enable an evaluation of internal audit's conformance with the Standards. The QAIP must include both internal and external assessments. External assessments must be completed at least every five years.

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments

Ongoing monitoring of performance is in place. 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 quarterly Audit Committee meetings.

A self assessment against the Standards has been completed and the results reported to the Audit Committee, showing General Conformance with PSIAS.

2   Internal Audit Assurance for 2013/2014

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

The decision was taken to leave a vacancy unfilled during the year, which was reflected in the audit plan. A part time employee was seconded to the Union for the year. As reported to the September Audit Committee meeting a replacement was not approved under the vacancy management control procedure, which impacted on the plan. A full time employee left the department at the end of the year. Efforts are being made to recruit a replacement, in the meantime 1½ days per week are being covered by increasing the hours of two part-time members of staff.

Internal Audit Opinion

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 2014 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 2014 (see Appendix A for a summary of audits);

- The results of follow-up action taken in respect of audits from previous years;

- Whether 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 Business Performance Officer and a Principal Accountant. 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

Internal Audit carried out an audit of risk management during the year, focusing on the identification and reporting of strategic and operational risks. The opinion is also informed by the total of risk based audit assignments completed during the year.

Risk Management systems have continued to develop in 2013/14. The Risk Management Strategy was revised in September 2013. Strategic Risks are now aligned to the Council's Improvement Priorities through the Improvement Plan. They are monitored on an ongoing basis with updates being provided to Overview and Scrutiny Committees every quarter using a standard template to show gross, net and target risk levels. There are still inconsistencies in the management and reporting of operational risks, however progress is being made. 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

Audits were carried out in all areas of the Council during the year. The overall level of control found in audit assignments this year was good. 68% of audits resulted in a 'green' or 'amber +' assurance level. No area stood out as being worse than the others. In all cases the findings were reported in detail to the Audit Committee. Recommendation tracking also showed a greater degree of implementation of recommendations within the agreed timescale. Detailed results are given in the Appendix, together with definitions of the assurance levels.

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 2013/14 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 2012/13 and those made in 2013/14. Comparisons are difficult as the categorisation of recommendations and assurance levels changed between the years. Previously for example, the definition of a fundamental recommendation was 'action is imperative to ensure that the objectives of the area under review are met', so that there were very few recommendations at this level, most were significant. Now recommendations are categorised according to the level of risk that they address, which is more meaningful. There are now four assurance levels instead of three, giving more realistic overall opinion. The definitions for the assurance levels are given in the last page of this report. In addition, during 2012/13 a substantial amount of time was spent on investigations, which affected the number of reports finalised – only 39 in that year. 65 reports were finalised in 2013/14.

Comparison of the categories of internal audit recommendations made 2012/13 and 2013/14
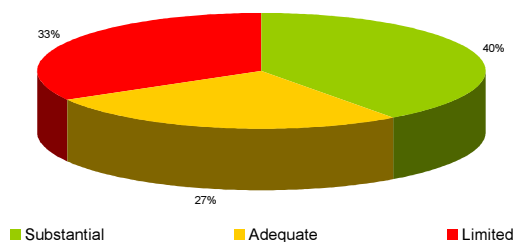
Recommendations 2012/13

2%
46%
52%

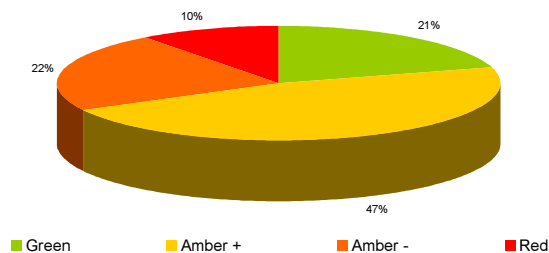Fundamental   Significant   Merits Attention

Recommendations 2013/14

12%
41%
47%

High   Medium   Low
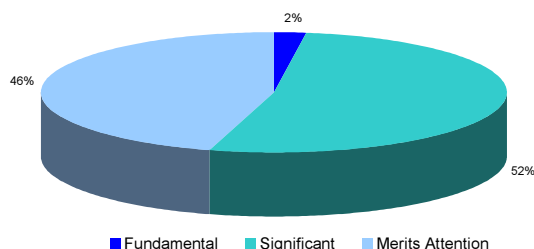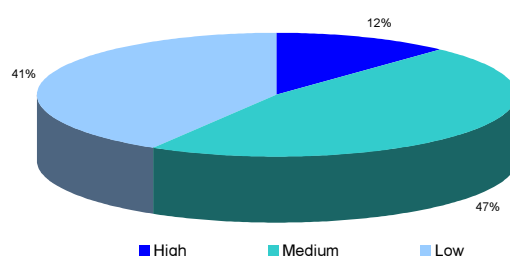
Comparison of assurance levels provided by internal audit in 2012/13 and 2013/14

Assurance Levels 2012/13

33%
40%
27%

Substantial   Adequate   Limited

Assurance Levels 2013/14

10%
22%
21%
47%

Green   Amber +   Amber -   Red

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 CRSA	Control and Risk Self Assessment carried out. Responses received from 69 Primary schools and 12 Secondary Schools
Schools Audits	53 days on schools audits
Investigations	15 investigations carried out in the year, taking 247 days
National Fraud Initiative	61 days on work relating to National Fraud Initiative
Advisory work	90 days on advisory work in the year.
Follow up reviews	8 days on follow up reviews in the year
Grant audits	3 audits of grants.

2.9   Investigations

At the start of the year there were three live investigations. During the year twelve more were started and seven were completed, leaving eight ongoing investigations at the end of the year.
Of the twelve new investigations, six related to the Environment Directorate, three to Community Services, two to Lifelong Learning and one to Pensions. There is no pattern to the subjects of the investigations.

Two of these were raised by 'whistleblowers', relating to the private use of a Council vehicle and the undertaking of private work in Council time. Both allegations were proven and resulted in disciplinary action. They were both reported to the Audit Committee during the year.

2.10   Advisory work

This includes work that does not result in an audit report but adds value to the Authority by contributing to working groups or providing advice. Examples include advice on the new Contract Procedure Rules, the Data Protection Team, Fleet Management Project, Elections Data Matching.

2.11   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 resource issues as noted in para 2.2. The original annual plan showed 72 audits to be completed in 1450 days. This was reduced in December 2013 to 64 audits in 1200 days. 7 audits were added to the plan during the year after management requests, with 15 audits deferred.

There is always a time lag in terms of the dates of audits, with the audit plan for any year not being completed at the end of March but in April/May. Additions and deferrals also make comparison of actual work completed against the plan more difficult. However, within 2013/14, 63 reports were issued in draft and 71 final reports were brought to the Audit Committee, showing that the plan was substantially achieved.

All the deferred audits were then considered during the planning meetings for the 2014/15 to 2016/17 audit strategic plan. As a result, 11 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 2014/15 work.
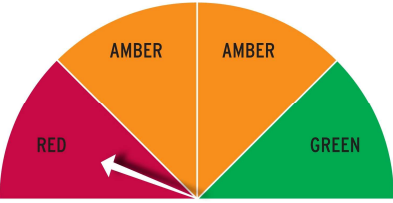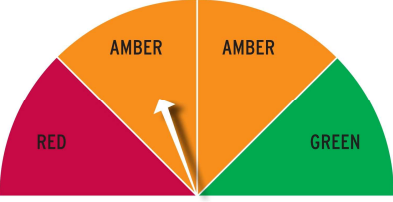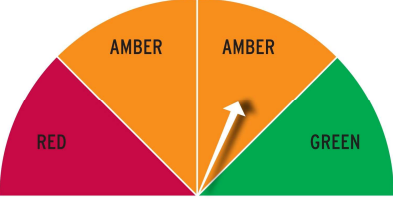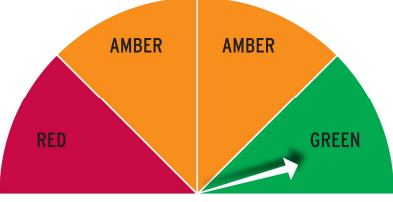
Performance against target is reported to each quarterly Audit Committee, and is summarised in the table below. During the year the methodology for issuing draft and final reports was changed, so that performance against both targets is given. Most targets are met or just missed. More work needs to be done to ensure that audits are completed within the planned number of days.

Performance Measure	Q1	Q2	Q3	Q4	13/14	13/14 Target
Audits completed within planned time	78%	73%	67%	82%	75%	80%
Average number of days from closure meeting to issue of draft report – old system	23	17	21.4	19.8	20.3	20
Average number of days from response to issue of final report – old system	2	4	2.8	1	2.45	5
Average number of days from end of fieldwork to debrief meeting – new system	N/A	N/A	4.33	7.22	5.77	20
Average number of days from closure meeting to issue of draft report – new system	N/A	N/A	0	4.11	2.05	2
Average number of days from response to issue of final report – new system	N/A	N/A	2.6	2.33	2.46	2
Return of client questionnaires	100%	50%	50%	60%	65%	70%
Client questionnaires responses as satisfied	100%	100%	100%	100%	100%	95%
Chargeable audit days	80%	77%	77%	81%	79%	75%

Appendix A: **Internal Audit Opinions and Recommendations 2013/14**

Auditable Area	Audit Opinions					Number of Recommendations made				
	Red	Amber -	Amber +	Green	In Total	High	Medium	Low	In Total	Agreed
Corporate	1	2	3	2	8	7	27	19	53	53
Finance	0	2	5	2	9	0	22	28	50	50
Legal and Democratic	0	0	1	2	3	0	7	2	9	9
HR&OD	0	2	2	0	4	3	11	13	27	27
ICT	0	1	5	1	7	3	7	11	21	21
Community Services	1	1	5	3	10	22	22	22	66	66
Environment	2	3	3	0	8	5	38	12	55	55
Lifelong Learning	2	2	3	2	9	3	23	33	59	59
Total	6	13	27	12	58	43	157	140	340	340

Auditable Area	Audit Opinions		Number of Recommendations made				
	No Assurance	In Total	High	Medium	Low	In Total	Agreed
Corporate	5	5	1	16	11	28	28
Finance	0	0	0	0	0	0	0
Legal and Democratic	0	0	0	0	0	0	0
HR&OD	1	1	0	0	0	0	0
ICT	0	0	0	0	0	0	0
Community Services	0	0	0	0	0	0	0
Environment	0	0	0	0	0	0	0
Lifelong Learning	1	1	0	0	0	0	0
Total	7	7	1	16	11	28	28

Audit Assurance Level	Opinion (RISK BASED)	Opinion (SYSTEMS BASED)
	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. Action needs to be taken to ensure this risk is managed.	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. Action needs to be taken to ensure risks in this area are managed.
	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.	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.
	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. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.	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. However we have identified issues that, if not addressed, increase the likelihood of risk materialising in this area.
	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.	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.