Flintshire County Council

Internal Audit Annual Report

Year ended 31 March 2015

Presented at the Audit Committee meeting of: 3rd June 2015

Contents

1   Introduction

1.1   The Definition and Role of Internal Audit

The definition of Internal Auditing in the Public Sector Internal Audit Standards (PSIAS) 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.

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, that assist the Council prepare the Annual Governance Statement.

1.2   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 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 in March 2015. The assessment included a review of the QAIP showing actions taken to from the previous year and to maintain continuous improvement against the QAIP components.

The Internal Audit Department Generally Conforms to 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.

2   Internal Audit Assurance for 2014/2015

2.1   Context

The internal audit service to FCC is required to provide the Council through the Audit Committee with an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. 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.

There have been no limitations made on the scope of Internal Audit coverage during the year.

2.2   Resources

The department started the year with a vacancy. This was filled from the start of July 2014 and the department has been fully resourced since then. For most of the year an Accounting Technician Trainee was seconded to the department, however this secondment was completed in early 2015. Overall therefore there was a slight shortfall in resources during the year against the original plan, however sufficient work was undertaken in order for me to draw a reasonable conclusion on the adequacy and effectiveness of FCC's arrangements.

2.3   Internal Audit Opinion

For the year ending 31 March 2015 based on the work we have undertaken my opinion is that FCC has an adequate and effective framework of governance, risk management and control.

Four audits were given a 'red' assurance level during the year (2013/14 six audits), where an urgent system revision was required. These audits were spread across a range of portfolios indicating that weaknesses are not concentrated in any one area. Whilst these audits indicated areas where controls needed to be improved, they are not significant in the context of the Authority's whole control environment.

2.4   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 2015 (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;

- Matters arising from previous reports or other assurance providers to the Audit Committee and/or Council;

No limitations have been placed on the scope of internal audit;

No resource constraints have been imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and

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

2.5 The Basis of the Opinion

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

Governance

A Corporate Governance Working Group operated during the year, charged with co-ordinating the annual governance self assessment and preparation of the annual governance statement. The group was chaired by the Democracy and Governance Manager and members included the Internal Audit Manager, the Policy Performance and Partnerships Manager, the Business Performance Officer and a Principal Accountant. The group issued corporate governance self-assessment assurance certificates to Chief Officers, reviewed and 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 were 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) Regulations 2014.

During the year the Wales Audit Office completed a Corporate Assessment of Flintshire as part of its four year cycle of corporate assessments of improvement authorities in Wales. The assessment covered the following

- Performance and Outcomes
- Vision and Strategic Direction
- Governance and Accountability
- Use of Resources
- Collaboration and Partnerships
- Managing Improvement

The Auditor General has concluded that:

'The Council's track record suggests that it is likely to respond positively to the internal and external challenges it faces and make arrangements to secure continuous improvement for 2015-16.'

The judgment reflects the conclusions of the corporate assessment, that:

'The Council has made significant progress in a number of difficult areas during the last year; although it needs to strengthen aspects of its arrangements the Council is reasonably well placed to continue to deliver its priorities in the face of further financial challenges.'
'Despite some strengths and areas of progress, aspects of the Council's arrangements are not fully supporting decision-making and the delivery of the Council's agreed priorities.'
'The Council has taken significant strides forward in its use of resources and now needs to coordinate the elements more systematically in the face of future financial challenges.'
'The Council has made good progress against the improvement priorities we looked at but its performance against the national indicators declined slightly.'

The Auditor General did not make any statutory recommendations with which the Council must comply. Instead seven advisory proposals for improvement were made.

Risk Management

Internal Audit reported on risk management at the start of the year, focusing on the identification and reporting of strategic and operational risks. The WAO Corporate Assessment also included risk management and one of the advisory proposals related to this area. In response the Authority is taking specific actions to enhance the risk matrix and the format of reporting. Quarterly progress reports against the Improvement Plan have been presented to Overview and Scrutiny Committees. More needs to be done with regards to operational, project and partnership risks, however the new electronic performance management system currently being introduced will help to address this.

The opinion is also informed by the total of risk based audit assignments completed during the year.

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. 55% 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 to the Audit Committee. Recommendation implementation continued to show a high degree of compliance within the agreed timescale. Summary results are given in Appendix A, together with definitions of the assurance levels.

2.6 Level of audit coverage during the year

The number of audit days spent in each area compared to the original and revised plan is given in the table below

	Planned days	Revised Plan days	Actual days
Corporate	65	70	53
Governance	160	157	171
People and Resources	230	252	326
Education and Youth	110	131	111
Social Services	100	85	47
Community and Enterprise	110	126	171
Planning and Environment	40	25	21
Streetscene and Transportation	25	30	20
Organisational Change	65	40	27
Investigations	200	200	180
Follow Ups	50	30	35
New Software	55	55	63
Regional Collaboration	10	5	9
Consultancy	50	30	32
Provisions	110	70	Note *
Total	1380	1301	1266

Note * Used within other totals

The original annual plan showed 64 audits to be completed in 1380 days. This was changed in September 2014 to 73 audits in 1300 days. 8 audits were added to the plan during the year after management requests, with 16 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 2014/15, 53 final reports were brought to the Audit Committee and at the time of this report a further 11 draft reports were awaiting finalisation. Three major areas within the Corporate section of the plan were completed without reports being produced, Corporate Governance and risk management as explained above and the North Wales Residual Waste Partnership. In overall terms, this shows that the plan was substantially achieved.

All the deferred audits were considered during the planning meetings for the 2015/16 to 2017/18 audit strategic plan. As a result, nine of them appear in the strategy. A further one was deferred too late to be included in the strategy but will be added to the 2015/16 work.

2.7 Assurance Levels

The tables in Appendix A show the assurance levels and recommendations made in 2014/15. The definitions for the assurance levels are given in the last page of this report.

2.8 Other Internal Audit Work

In addition to the reviews analysed in the Appendix, 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 66 Primary schools and 12 Secondary Schools
Schools Audits	3 schools audits, and audits of 3 school closures
Investigations	See below
National Fraud Initiative	46 days on work relating to National Fraud Initiative
Advisory work	32 days on advisory work in the year.
Grant audits	3 audits of grants.

2.9 Investigations

At the start of the year there were eight live investigations. During the year five more were started and nine were completed, leaving four ongoing investigations at the end of the year. Of the twelve new investigations, one was corporate, one related to Education and Youth, one to Social Services and two to Streetscene and Transportation. There is no pattern to the subjects of the investigations. The Education and Youth investigation started as a result of a whistleblowing.

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 Community Chest, payroll queries, the Paris system and the Data Protection Team. More recently the department has been contributing to the development of Business Models and Feasibility Studies for Alternative Delivery Models.

2.11 Fraud Awareness

During the year the department presented an updated Whistleblowing Policy to the Audit Committee and Constitution Committee. Once it had been approved it was publicised in the Authority on the Infonet and by a message inserted into all payslips, and also to Members. There was no increase in whistleblowing as a result.

In addition, during the year the department presented an updated Anti-Fraud and Corruption Strategy and Fraud Response Plan to the Audit Committee. These were presented to the Constitution Committee in April 2015 and will be publicised in the same way.

2.12 Internal Audit Performance

The performance of the department against performance measures and targets is set out below.

Performance against target is reported to each quarterly Audit Committee, and is summarised in the table below. Most targets were met. The return of client questionnaires is disappointing, however it remains above the Welsh average of 54% (2013/14).

There was some disruption to departmental procedures during the year with the introduction of new integrated audit software. However, this was kept to a minimum and it is expected that performance will be improved during 2015/16 as the use of the software takes effect.

| Performance Measure	Q1	Q2	Q3	Q4	14/15	14/15 Target
Audits completed within planned time	**70%**	**100%**	**88%**	**78%**	**84%**	**80%**
Average number of days from end of fieldwork to debrief meeting	5.75	6.3	3.33	14.31	7.42	20
Average number of days from debrief meeting to the issue of draft report	5	2.2	1.33	3.77	3.08	2
Days for departments to return draft reports	7.5	15.9	5.2	13.85	10.61	3
Average number of days from response to issue of final report	1.5	0.6	1.93	1.77	1.45	2
Total days from end of fieldwork to issue of final report	**19.75**	**25**	**11.79**	**33.7**	**22.56**	**27**
Client questionnaires responses as satisfied	100%	100%	100%	100%	100%	95%
Productive audit days	**75%**	**73%**	**78%**	**82%**	**77%**	**75%**
Other Targets						
Return of client satisfaction questionnaires	43%	100%	71%	14%	57%	70%

Appendix A: Internal Audit Opinions and Recommendations 2014/15

Auditable Area	Audit Opinions						Number of Recommendations made				
	Red	Amber -	Amber +	Green	No opinion given	In Total	High	Medium	Low	In Total	Agreed
Corporate	0	0	2	0	0	2	1	4	4	9	9
Governance	1	3	3	2	1	10	2	35	15	52	52
People & Resources	2	4	2	5	1	14	7	28	31	71	66
Education & Youth	1	4	0	1	1	7	3	18	17	42	38
Social Services	0	1	0	2	0	3	0	4	7	11	11
Community & Enterprise	0	2	5	2	0	9	2	26	32	60	60
Planning & Environment	0	1	0	0	0	1	0	5	5	10	10
Streetscene & Transportation	0	1	1	0	0	2	0	11	1	12	12
Organisational Change	0	1	1	0	0	2	0	8	8	16	16
Total	4	17	14	12	3	50	15	139	120	274	274

**Urgent system revision required (one or more of the following)**

- Key controls are absent or rarely applied
- Evidence of (or the potential for) significant financial / other losses
- Key management information does not exist
- System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources.
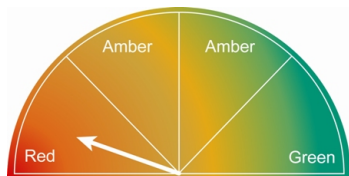
Impact: a lack of adequate or effective controls leading to a high probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.

**Significant improvement in control environment required (one or more of the following)**

- Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively
- Evidence of (or the potential for) financial / other loss
- Key management information exists but is unreliable
- System / process objectives are not being met, or are being met at an unnecessary cost or use of resources.
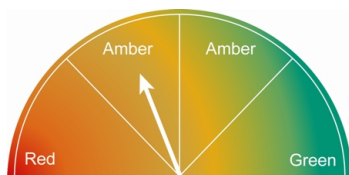
Impact: key controls are generally inadequate or ineffective and there is an increased probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.

Key Controls in place but some fine tuning required (one or more of the following)

- Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact
- Some refinement or addition of controls would enhance the control environment
- Key objectives could be better achieved with some relatively minor adjustments
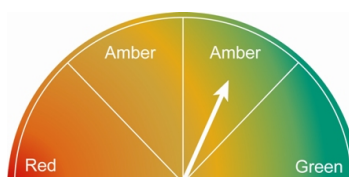
Impact: key controls generally operating effectively but there remains a potential risk of loss, fraud, impropriety or damage to reputation and / or failure to deliver organisational objectives.

Strong controls in place (all or most of the following)

- Key controls exist and are applied consistently and effectively
- Objectives achieved in a pragmatic and cost effective manner
- Compliance with relevant regulations and procedures
- Assets safeguarded
- Information reliable
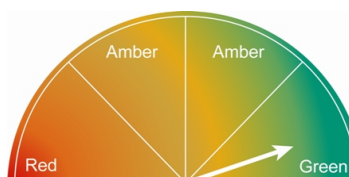
Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.