

# **Flintshire County Council**

Internal Audit Annual Report

Year ended 31 March 2012

Presented at the Audit Committee meeting of: 25<sup>th</sup> June 2012

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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. As they did last year, FCC is publishing a 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 governance statement.

### **1.3 RSM Tenon**

RSM Tenon were re-appointed after a tendering exercise to provide the Internal Audit Manager for the Council's audit service from April 2011. The length of the contract is two years with the possibility to extend it for up to another year.

The contract covers

- 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.

A self assessment against the CIPFA Code of Practice in early 2012 showed substantial compliance with the standards.

The Wales Audit Office review of Internal Audit in early 2012 found that the department fully complied with eight of the CIPFA standards, partially complied with two and did not comply with one. That one was in relation to staffing where WAO noted that the department had not had sufficient staff to deliver the planned work programme, largely as a result of the ongoing finance function review. There was also an unusually large amount of time devoted to fraud and irregularity investigations during the year.

More than 100 audit days were 'bought in' during the year to help meet the shortfall, and recruitment has taken place. The department will have a full establishment from July 2012.

Although the plan was reduced, this was done in such a way as to enable the annual opinion given in Paragraph 2.2 to be formed, and to continue to support WAO in the delivery of regulatory work.

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.

## **2 Internal Audit Assurance for 2011/2012**

### **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.

## 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 2012 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 2012 (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 been set up 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, the Flintshire Futures Finance Lead and the Finance Manager – Strategy and Technical. The group has reviewed the content of the self assessment assurance certificates, issued them to Directors and Heads of Service, challenged the responses and reported the results. This process provides 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 has 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 2011/12. The Strategic Assessment of Risks and Challenges (SARC) has been refreshed towards the end of the year, with a refocus on emerging risks. Work is continuing on formalising the approach to operational risks.

Internal Audit carried out an evaluation of risk maturity during the year. This 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 a reduced number of 'limited assurance' audit opinions, down from 46% of the audits to 37%. The overall proportion of recommendations classified as fundamental remains at 3%, but significant recommendations are down from 55% to 51%. The overall number of recommendations made in the year was 364, compared to 448 last year in the same number of reports.

Finance, HR and Environment show 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.

**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**

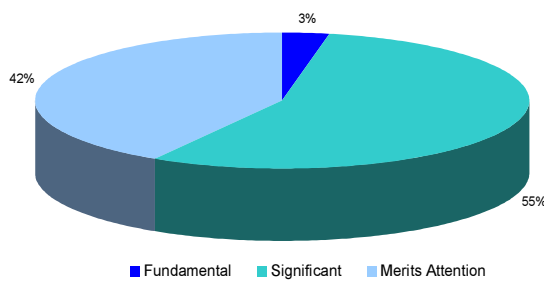
The department has not undertaken any work or activity during 2011/12 that would lead me to declare any conflict of interests.

**2.7 Benchmarking Data**

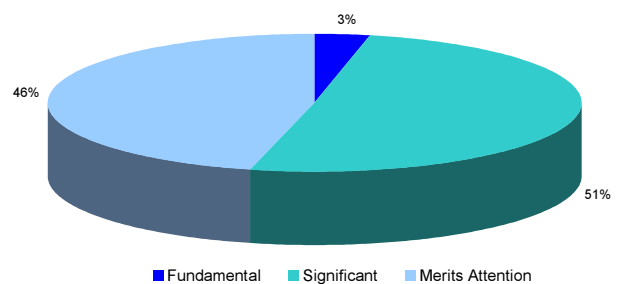
The tables below show the split of internal audit recommendations and opinions for FCC in 2010/11 and those made in 2011/12. There was an increase in the proportion of significant recommendations given this year and an increase in the number of limited assurance audit reports. This reflects audit involvement in high risk areas, leading to a greater number of recommendations.

**Comparison of the categories of internal audit recommendations made 2010/11 and 2011/12**

Recommendations 2010/11

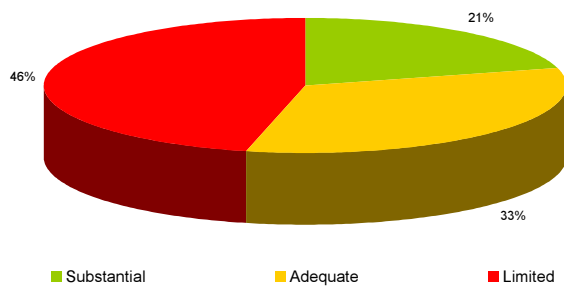


Recommendations 2011/12

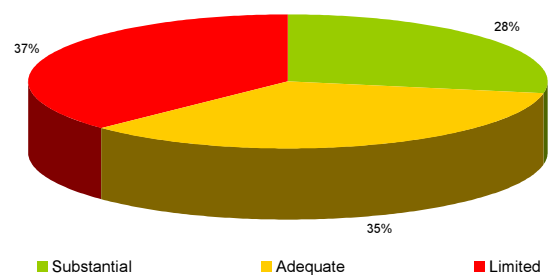


**Comparison of assurance levels provided by internal audit in 2010/11 and 2011/12**

Assurance Levels 2010/11



Assurance Levels 2011/12



**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 69 Primary schools and 12 Secondary Schools
Investigations	12 investigations carried out in the year, taking 208 days
National Fraud Initiative	104 days on work relating to NFI
Consultancy	86 days on consultancy work in the year.
Follow up reviews	2 follow up reviews, with good progress reported in both
Grant audits	4 audits of grants.
Non-assurance work	4 other reviews that did not produce an assurance level – Medium Term Financial Strategy, Streetscene, Benefits Printing and Transportation.

**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 and a secondment from the team. At the same time the department was not at full strength pending the completion of the Finance Function Review. As a result a revised plan was produced and submitted to the Audit Committee in January 2012. This plan was designed to fulfil regulatory requirements whilst still providing a range of risk based and advisory work, and also to provide sufficient information to reach an overall audit opinion for this report and the Annual Governance Statement.

22 audits were deferred in the revised plan. All were then considered during the planning meetings for the 2012/13 to 2014/15 audit strategy. As a result, 14 of them appear in the strategy. The remaining 8 had originally been requested by management during the planning meetings for 2011/12, but on further consideration were not considered to be necessary for the forthcoming years.

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	11/12	11/12 Target
Audits completed within planned time	72%	82%	80%	90%	81%	80%
Average number of days from closure meeting to issue of draft report	16.4	12.9	12.5	15.9	14.4	20
Average number of days from response to issue of final report	7.4	3.5	3.10	4.0	4.5	5
Return of client questionnaires	75%	42%	25%	100%	61%	70%
Client questionnaires responses as satisfied	100%	100%	100%	100%	100%	95%
Proportion of audit plan completed					79%	75%
Chargeable audit days					76%	70%



**Appendix A: Internal Audit Opinions and Recommendations 2011/12**

Auditable Area	Audit Opinions				Number of Recommendations made				
	Limited	Adequate	Substantial	In Total	Fundamental	Significant	Merits Attention	In Total	Agreed
Corporate	2	1	0	3	0	21	4	25	25
Finance	4	3	2	9	4	48	53	105	105
Legal and Democratic	1	0	0	1	2	3	0	5	5
HR&OD	3	1	1	5	2	27	17	46	46
ICT	1	1	3	5	1	6	11	18	18
Community Services	0	5	3	8	0	16	21	37	37
Environment	3	3	2	8	1	54	51	106	106
Lifelong Learning	2	1	1	4	2	9	11	22	22
<b>Total</b>	<b>16</b>	<b>15</b>	<b>12</b>	<b>43</b>	<b>12</b>	<b>184</b>	<b>168</b>	<b>364</b>	<b>364</b>

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

	Level	Effectiveness	Control Adequacy	Control Application
<b>positive opinions</b>	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.
<b>negative opinion</b>	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.