



Herefordshire Council

Annual Report and Opinion – 2014-15

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SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

Annual Opinion:

The Director of Quality is required to provide an annual opinion report to support the Annual Governance Statement.

SWAP Director's Opinion

With regards to the 2014/15 Annual Plan for Herefordshire Council, there will be a total of 50 reviews delivered which includes 12 individual School Reports delivered against the Prevention of Fraud theme. In agreement with management, and previously reported to this Committee, a number of reviews were 'exchanged' or 'removed' as the need to respond to new and emerging risks was identified.

Most audits have been completed to report stage. There remain 5 reviews either currently being drafted or are 'In Progress'; these reviews will remain a priority for completing.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 80% would reflect the fact that the client agreed that the review was delivered to the expected standard. For Herefordshire Council the average feedback score was 82%.

Of the 45 Reviews that have an Assurance Opinion, 9 (32%) have received Partial Assurance and one (4%) received No Assurance. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports.

On the other hand there have been 2 reviews (7%) that have received a Substantial Assurance and this is highly commendable with the remaining 57% receiving Reasonable Assurance.

For those areas not covered by the Annual Internal Audit Plan, the Chief Financial officer seeks assurance from Service Managers as to the adequacy of the internal control environment for their service areas. Any matters arising are reported in the Council's Annual Governance Statement.

The high proportion of 'Non-Opinion' reviews (37%) and the changes agreed throughout the year, reflects the ever changing environment and challenges that local authority managers are facing.



Annual Opinion:

Continued.....

SWAP Director's Opinion

Whilst I would like to see this number reduce in the next year as things settle down, this also reflects an organisation that is keen to involve internal audit to help address problem areas and this can be seen as a positive commitment to improving governance arrangements.

This is our first Annual Report and Opinion for the Council, however for comparison with the 2013-14 report provided by the previous Audit Provider – of the 15 Audits completed four (26%) were graded as Limited Assurance equivalent to SWAPs Partial assurance. While the number of 'Partial' Opinions has increased and there was one No Assurance for the 45 audits completed in 2014-15; I take a positive view in that it indicates the success of our planning and risk assessment and the openness of service managers to assist in pointing internal audit resource to those areas in greatest need of review.

I believe that the Senior Management of Herefordshire Council have worked hard to cooperate with the audit process and while there have been difficulties in progressing some audits expediently, I recognise the pressures they face through managing the changing environment. In this regard I have also been grateful for the support of the Chief Financial Officer which has enabled us to make good progress against the agreed plan.

I have considered the balance of audit work, the assurance levels provided and outcomes together with the response from Senior Management and the Audit and Governance Committee and offer ▲★★★ 'Reasonable Assurance' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives. However, as this is my first full annual report, I will keep this opinion under review as we monitor management's implementation of higher priority actions throughout the coming year.



Annual Opinion:

The SWAP Director of Quality is required to provide an annual opinion report to support the Annual Governance Statement.

Purpose of Report and Recommendation

The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

Overview of Internal Audit Activity

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the International Professional Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards (PSIAS). The Partnership is also guided by the Internal Audit Charter which is reviewed annually.

Summary of Work 2014/15

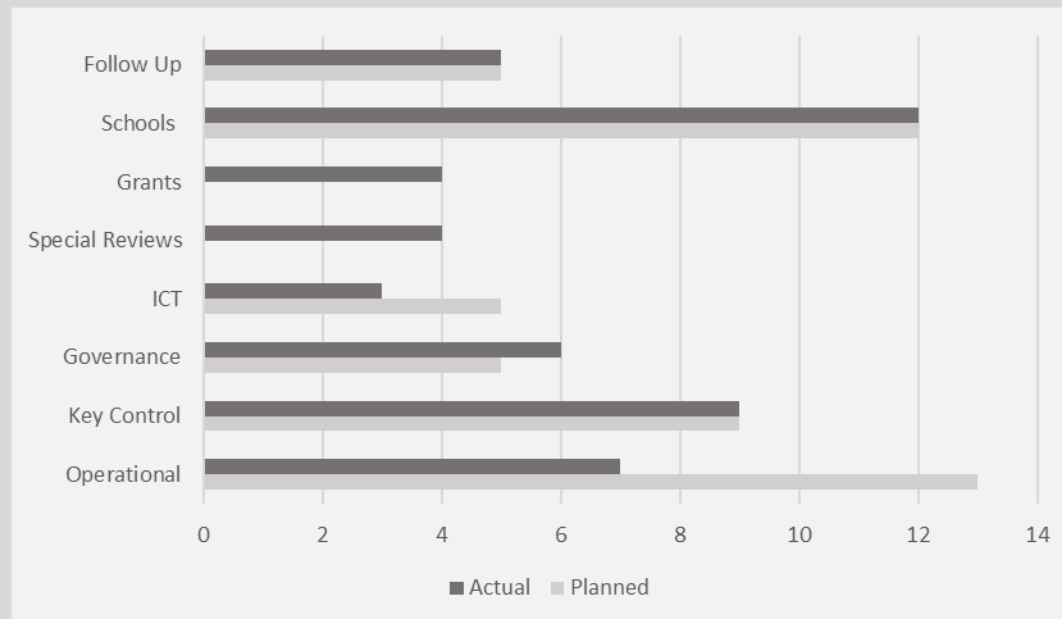
The agreed Annual Audit Plan covers the following key areas of Activity:

- Operational Audit
- Key Control Audit
- Governance Audit
- Schools Audit
- ICT Audit
- Grants
- Follow Up
- Other Reviews

Audits Completed

Internal Audit provides an independent and objective opinion on the Authority’s control environment by evaluating its effectiveness. Primarily the work of the Unit is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the year June 2014 to March 2015.

Members will have considered my progress reports for the Council for work completed and the following tables summarise the current position. There were 49 reviews in the 2014/15 Annual Plan; in all 50 reviews will be progressed as follows:

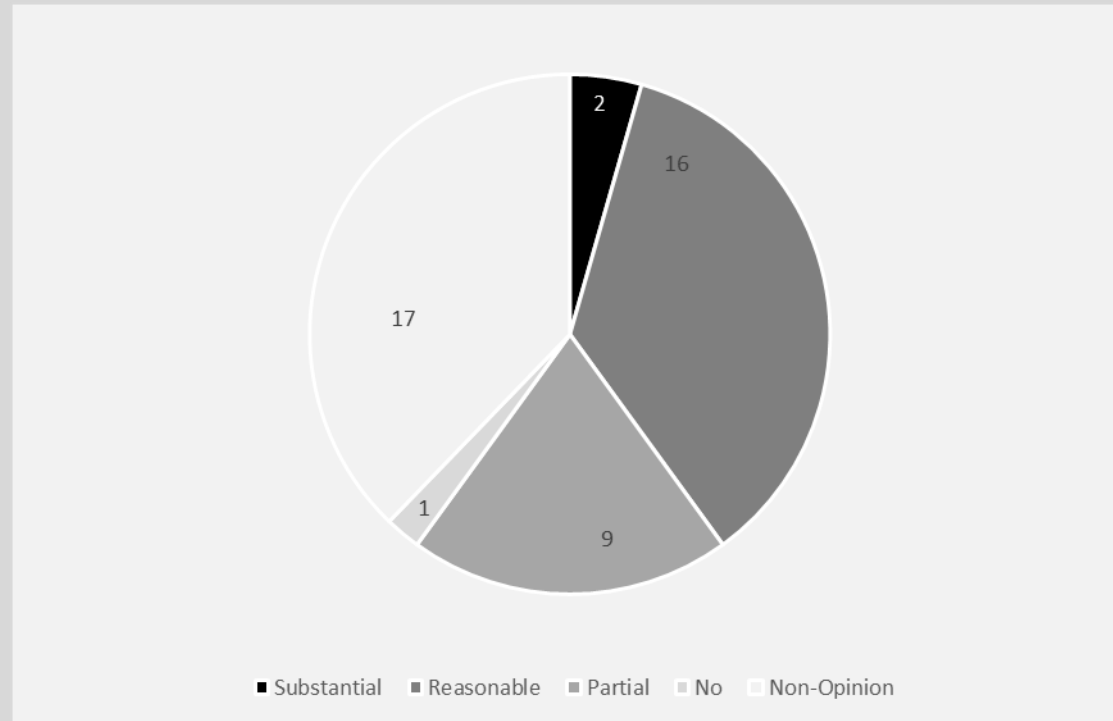


Summary of Work 2014/15

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Audit Completed - *continued*

Of the 45 reviews that have a draft or final report, the Opinions offered are summarised as follows:

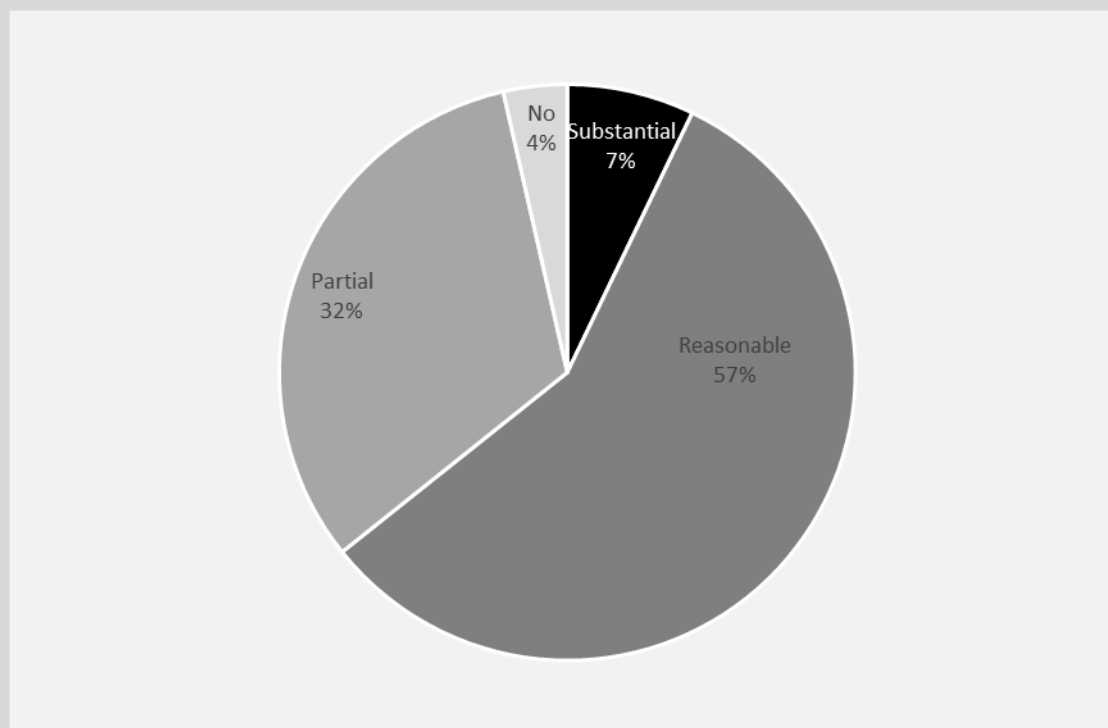


Summary of Work 2014/15

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Audit Completed - Opinions

For those audits (28) with a draft or final report and where an opinion was offered the range of opinions were as follows:



Corporate Risks and Priority Actions

Identified Significant Corporate Risks should be brought to the attention of the Audit and Governance Committee.

Significant Corporate Risks

We provide a definition of the 4 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we have assessed the following risks as 'High' or 'Very High':

Review/Risks	Auditors Assessment
<p>Risk Management - Business objectives are not achieved due to failure to anticipate and react to future uncertainties or events (NOTE: this is due to the possibility of low probability events occurring with a significant impact on the Council.)</p>	<p>High</p>



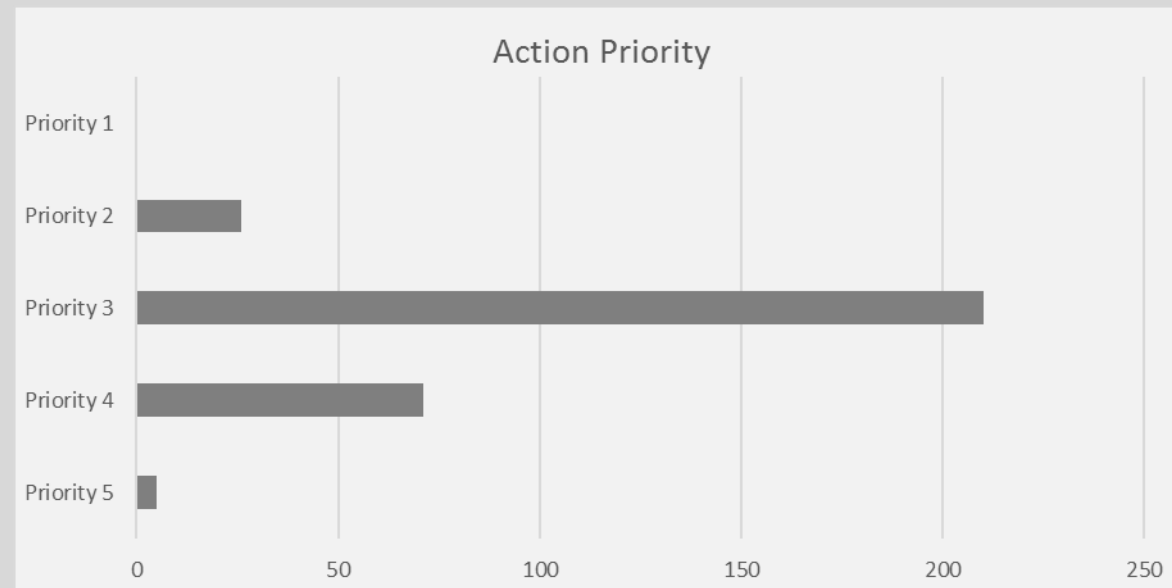
Corporate Risks and Priority Actions

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We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring expedient corrective action.

Priority Actions

At the request of the Audit and Governance Committee, where a review has a status of 'Final' and has been assessed as 'Partial or No Assurance' I provide further details to inform Members of the key issues identified. I normally summarise those actions where the Auditor has assessed the priority to be a level 4 (Medium/High) or 5 (High). For those reviews where a final report has been issued there have been 312 agreed actions for improvement; 5 of these were rated at a level 5 and 71 at a level 4; 210 are level 3 with 26 level 2.



However, the Committee will note that there are a five reviews that are yet to be finalised. I hope to be in a position to summarise any priority actions resulting from these reviews in my quarter one update report for 2015/16.

SWAP strives to deliver audit excellence and works hard to demonstrate VFM, increased productivity and quality outputs for its Partner Councils

SWAP Performance

Two years ago now, SWAP became a publically owned Company Limited by guarantee. A review of SWAP by the Local Partnerships an organisation jointly owned by HM Treasury and the Local Government Association took place in December 2014. The purpose of the review was to assess the benefits realised by the Partnership and its on-going commercial delivery. In short the conclusion of the review, in relation to SWAP, was that “all of its key objectives have been achieved”.

The review team summarised the following as positive outcomes achieved since incorporation:

- More efficient decision-making
- Scope for more flexible and proactive management
- Economies of scale which facilitate the development of specialist skills enabling more resilience
- Effective leveraging of technology
- Training and professional development opportunities for staff
- Effective partnership working and ‘best practice’ knowledge transfer across member organisations
- Ability to provide a cost effective service tailored to individual members budgetary needs.

With regards to the last bullet point, while we have not been able to carry out any further benchmarking for the year, I am pleased to report that for all the SWAP Partners there has been no increase in the day rate, for some Partners this has not increased for the last eight years. Herefordshire Council made significant savings when changing their Audit Provider to SWAP and it is hoped that SWAP can continue to maintain the day rate at its current level.

SWAP strives to deliver audit excellence and works hard to demonstrate VFM, increased productivity and quality outputs for its Partner Councils

SWAP Performance

The Public Sector Internal Audit Standards (PSIAS) require that there should be an external quality review to validate that Internal Audit Teams are conforming to the International Professional Standards at least every five years. SWAP carried out such an assessment in 2012 and at that time agreed that it would be best practice to complete such a review every three years and therefore we have commissioned our next review to take place in September 2015. As a result of the quality review, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other Company and Herefordshire Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

