# Herefordshire Council

Report of Internal Audit Activity

Annual Opinion Report 2015/16

**Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy**

# Contents

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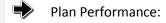jacqui.gooding@southwestaudit.co.uk

**The Assistant Director is required to provide an opinion to support the Annual Governance Statement.**

➡ Purpose

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.

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors and the CIPFA Code of Practice for Internal Audit in England and Wales.

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# Summary

**The Assistant Director is required to provide an opinion to support the Annual Governance Statement.**

➡️ Background

The Internal Audit service for Herefordshire Council is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness through the work based on the Annual Plan agreed by Senior Management and this Committee.

**The Assistant Director is required to provide an opinion to support the Annual Governance Statement.**

## Annual Opinion

For the 2015-16 audit plan for Herefordshire Council there will be a total of 62 reviews delivered which includes six individual school reports for the Pupil Premium 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 8 reviews either currently being drafted or are 'In Progress'; these reviews will remain a priority for completion.

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 a good standard of quality. For Herefordshire Council the average feedback score was 86%.

Of the 34 Reviews that have an Assurance Opinion, 11 (32%) have received Partial Assurance and none received No Assurance. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports.

There have been 3 reviews (9%) that have received a Substantial Assurance and this is highly commendable with the remaining 59% 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.

There were 16 'Non-Opinion' reviews which include the five follow up reviews and four grant certifications that were also completed. The changes to the plan agreed throughout the year reflect the ever changing environment and challenges that local authority managers are facing.

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**The Assistant Director is required to provide an opinion to support the Annual Governance Statement.**

The number of non-opinion reviews has reduced from 2014-15; however it is positive that requests for these reviews 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.

In comparison to last year the number of reviews with a Partial assurance has increased slightly but is not significant and this year there were no reviews with No assurance. Reviews that are assessed as Partial or No assurance are subject to a follow up review to provide assurance that priority 4 and 5 findings have been implemented. I am pleased to report that the number of reviews with Reasonable or Substantial assurance has increased this year to 23 compared to 18 last year.

Service Managers are positive in their approach to internal audit planning and do not hesitate to assist in pointing internal audit resource to those areas in greatest need of review. I take a positive view in that it indicates the success of our planning and risk assessment process.

I believe that the Senior Management of Herefordshire Council has 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. The Council has this year established a Performance, Governance and Audit group to monitor audit reports, particularly those with priority 4 and 5 recommendations and/or Partial or No assurance to help identify themes and areas of significantly higher risk.

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.

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# Summary of Audit Work 2015/16

**Our audit activity is split between:**
- **Operational Audits**
- **Key Control Audits**
- **Governance, Fraud & Corruption Audits**
- **IT Audits**
- **Special Reviews**
- **Follow-up**

**Internal Audit Work Programme**

The schedule provided at Appendix B contains a list of all audits agreed for inclusion in the Annual Audit Plan 2015-16 and the final outturn for the financial year. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

In total, 55 audits were agreed for the 2015-16 audit plan and 62 audits will be delivered as follows:

| Type of audit | 2015-16 original plan | 2015-16 revised plan |
|---|---|---|
| • Operational Audits | 26 | 26 |
| • Information Systems | 8 | 8 |
| • Key Control | 5 | 5 |
| • Governance, Fraud & Corruption | 2 | 4 |
| • Grants | 0 | 4 |
| • Schools | 8 | 8 |
| • Special Reviews | 0 | 2 |
| • Follow-up | 6 | 5 |
| • TOTAL | 55 | 62 |

The additional seven audits comprise two special reviews, four grant certifications and a governance review.

**Significant Corporate Risks**

**Identified Significant Corporate Risks should be brought to the attention of the Audit 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 |
|---|---|
| **Payroll**<br>Incorrect or inappropriate payments may be made due to inaccurate or improperly processed data within the Payroll system, causing the Council financial loss. | High |
| **Public Health Investment and Outcomes**<br>Public health outcomes are not achieved, resulting in possible public criticism, external intervention, or ineffective investment in core public health responsibilities. | High |
| **Shaw Healthcare Care Provision (Contract Management)**<br>The Council loses flexibility in future service provision. | High |

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# Summary of Audit Work 2015/16

**SWAP Performance - Summary of Audit Opinions**

**At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";**

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

Summary of Audit Opinion

Of the 34 reviews with an audit opinion that have a draft or final report, the opinions offered are summarised below.

### Control Assurance by Category

- None 0%
- Substantial 9%
- Partial 32%
- Reasonable 59%

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**SWAP Performance - Summary of Audit Recommendations by Priority**

**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 immediate corrective action**

➡ Priority Actions

At the request of the Audit and Governance Committee, where a review 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 recommendation priority to be a level 4 (Medium/High) or 5 (High). For those reviews where a final or draft report has been issued there have been 209 agreed actions for improvement; 3 of these were rated at a level 5; 43 at a level 4 and 163 are level 3.

**Priority Recommendation Yearly Comparison**

| | |
|---|---|
| Priority 3 | 163 |
| Priority 4 | 43 |
| Priority 5 | 3 |

0    20    40    60    80    100    120    140    160    180

■ Recommendations Made

**Added Value**

**Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.**

➡ Added Value

Primarily Internal Audit is an assurance function and will remain as such. However as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of "added value" is "it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost".
The following have provided added value for the Council.

- Regular fraud bulletins
- Accounts Receivable audit - collation of the practices for debt recovery across all SWAP partners to help inform the revision of the Council's Debt Recovery policy.
- As part of the mobile phones audit a potential saving of approx. £10,000 was identified.
- As part of the Coroners audit and Modern Records audit, a cross partnership review was completed for each audit to assist the Service Manager in identifying areas of good practice or potential for improvement.
- School Themed based reports (Pupil Premium) – summaries of key recommendations made available to all schools
- Highlighting the risks of not meeting the timeframes of the Planning Guarantee and comparison of procedures with other Councils
- Assurance for grant certification

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**The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.**

➡️ SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Herefordshire Council for the 2015-16 year (as at 1 June 2016) are as follows;

| Performance Target | Average Performance |
|---|---|
| **Audit Plan – Percentage Progress** <br> Final, Draft and Discussion <br> Fieldwork Completed awaiting report <br> In progress | <br> 87% <br> 3.5% <br> 9.5% |
| **Draft Reports** <br> Issued within 5 working days | 65% |
| **Final Reports** <br> Issued within 10 working days of draft report | 39% |
| **Quality of Audit Work** <br> Customer Satisfaction Questionnaire | 86% |

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**The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.**

SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in Conformance with the Standards.

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 commissioned our next review to take place in September 2015. This review has now been completed and again confirmed SWAP to be in full conformance to the International Professional Practices Framework and the PSIAS. 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.

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**At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";**

- **Substantial**
- **Reasonable**
- **Partial**
- **None**

Audit Framework Definitions

**Control Assurance Definitions**

| | | |
|---|---|---|
| **Substantial** | ▲ ★ ★ ★ | I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed. |
| **Reasonable** | ▲ ★ ★ ★ | I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives. |
| **Partial** | ▲ ★ ★ ★ | I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives. |
| **None** | ▲ ★ ★ ★ | I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives. |

**Categorisation of Recommendations**

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

**We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.**

Audit Framework Definitions

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

**Definitions of Risk**

| Risk | Reporting Implications |
|---|---|
| **Low** | Issues of a minor nature or best practice where some improvement can be made. |
| **Medium** | Issues which should be addressed by management in their areas of responsibility. |
| **High** | Issues that we consider need to be brought to the attention of senior management. |
| **Very High** | Issues that we consider need to be brought to the attention of both senior management and the Audit Committee. |

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| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ⟷ 5 = Major Recommendation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| Deferred/Removed | Elections | 1 | Removed – days added to contingency | – | – | – | – | – | – | – |
| Follow Up | Accounts Payable 2015-16 | 1 | Completed | Non-Opinion | – | – | – | – | – | – |
| Follow Up | Main Accounting 2015-16 | 1 | Completed | Non-Opinion | – | – | – | – | – | – |
| Governance, Fraud & Corruption | Fraud Reviews | 1 | Completed | Non-Opinion | – | – | – | – | – | – |
| Governance, Fraud & Corruption | NFI 2015-16 | 1 | Completed | Non-Opinion | – | – | – | – | – | – |
| ICT | Hardware Asset Management | 1 | Completed | Reasonable | 3 | 0 | 0 | 2 | 1 | 0 |
| ICT | Public Services Network (PSN) code - assurance compliance | 1 | Completed | Non Opinion | – | – | – | – | – | – |
| Key Control | Payroll 2015-16 | 1 | Completed | Partial | 17 | 0 | 0 | 9 | 6 | 2 |
| Key Control | Pensions - Auto enrolment 2015-16 | 1 | Completed | Partial | 2 | 0 | 0 | 0 | 2 | 0 |
| Operational | Peer Challenge Benefits Realisation | 1 | Completed | Reasonable | 6 | 0 | 0 | 6 | 0 | 0 |
| Operational | Safer Recruitment | 1 | Completed | Reasonable | 5 | 0 | 0 | 4 | 1 | 0 |
| Operational | Delivery of Projects funded by the Skills Funding Agency 2015-16 | 1 | Completed | Reasonable | 4 | 0 | 0 | 4 | 0 | 0 |
| Operational | HALO contract | 1 | Completed | Reasonable | 6 | 0 | 0 | 4 | 2 | 0 |

| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ⟷ 5 = Major | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Recommendation | | | | |
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| School | Pupil Premium - school theme report | 1 | Completed | Non-Opinion | – | – | – | – | – | – |
| School | Trinity Primary School | 1 | Completed | Substantial | 2 | 0 | 0 | 2 | 0 | 0 |
| School | The Aconbury Centre | 1 | Completed | Reasonable | 6 | 0 | 0 | 6 | 0 | 0 |
| School | Much Marcle C of E Primary School | 1 | Completed | Reasonable | 8 | 0 | 0 | 8 | 0 | 0 |
| School | Madley Community Primary School | 1 | Completed | Reasonable | 8 | 0 | 0 | 8 | 0 | 0 |
| School | St Marys Church of England Primary School | 1 | Completed | Reasonable | 2 | 0 | 0 | 2 | 0 | 0 |
| School | Blackmarston School | 1 | Completed | Reasonable | 4 | 0 | 0 | 4 | 0 | 0 |
| Operational | Democratic Services | 2 | Completed | Reasonable | 2 | | | 2 | | |
| Deferred/Removed | Incident and Problem Management | 2 | Removed – replaced with LAC and Fostering FWi Projects | – | – | – | – | – | – | – |
| Governance, Fraud & Corruption | Buchanan Trust | 2 | Completed | Non-Opinion | – | – | – | – | – | – |
| Governance, Fraud & Corruption | Fraud and Corruption Survey | 2 | Completed | Non-Opinion | – | – | – | – | – | – |
| Grant | Local Transport Block Funding/Pothole Fund | 2 | Completed | Grant Certification | – | – | – | – | – | – |
| ICT | Access Controls  - CIVICA and CRM | 2 | Completed | Reasonable | 7 | 0 | 0 | 6 | 1 | 0 |

| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ⟷ 5 = Major | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Recommendation | | | | |
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| Operational | Shaw Healthcare provider contract | 2 | Completed | Partial | 0 | 0 | 0 | 3 | 1 | 1 |
| Operational | Better Care Fund | 2 | Drafting Report | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | Registrar and Coroners | 2 | Completed | Reasonable | 4 | 0 | 0 | 3 | 1 | 0 |
| Operational | Modern Records | 2 | Completed | Partial | 11 | 0 | 0 | 10 | 1 | 0 |
| Operational | Public Health Investment and Outcomes | 2 | Completed | Partial | 5 | 0 | 0 | 1 | 4 | 0 |
| Operational | Road Maintenance - Public Realm Contract Management | 2 | Completed | Substantial | 1 | 0 | 0 | 1 | 0 | 0 |
| Deferred/Removed | Troubled Families | 3 | Removed – replaced with Social Care Financial Practices | _ | _ | _ | _ | _ | _ | _ |
| Follow Up | Council Tax 2015-16 | 3 | Completed | Non-opinion | _ | _ | _ | _ | _ | _ |
| Follow Up | Housing and Council Tax Benefit | 3 | Completed | Non-opinion | _ | _ | _ | _ | _ | _ |
| Follow Up | Treasury Management 2015-16 | 3 | Completed | Non-Opinion | _ | _ | _ | _ | _ | _ |
| Grant | Gypsy and Traveller Site - Openfields Bromyard | 3 | Completed | Grant Certification | _ | _ | _ | _ | _ | _ |
| Grant | Redundant Building Grant | 3 | Completed | Grant Certification | _ | _ | _ | _ | _ | _ |
| ICT | LAC and Fostering FWi Projects | 3 | Completed | Non-Opinion | _ | _ | _ | _ | _ | _ |

| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ⟷ 5 = Major Recommendation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| ICT | PCI Data Security Standard compliance | 3 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| ICT | Mobile phone usage and strategy | 3 | Completed | Partial | 9 | 0 | 0 | 8 | 1 | 0 |
| Key Control | Accounts Receivable 2015-16 | 3 | Completed | Reasonable | 2 | 0 | 0 | 2 | 0 | 0 |
| Key Control | Capital Accounting 2015-16 | 3 | Completed | Partial | 7 | 0 | 0 | 4 | 3 | 0 |
| Key Control | NNDR | 3 | Completed | Reasonable | 6 | 0 | 0 | 6 | 0 | 0 |
| Operational | Deprivation of Liberty (DOLs) | 3 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | Licensing | 3 | Completed | Partial | 11 | 0 | 0 | 8 | 3 | 0 |
| Operational | Fastershire BDUK | 3 | Draft report | Reasonable | 2 | 0 | 0 | 2 | 0 | 0 |
| Operational | Waste Collection Contract | 3 | Completed | Substantial | 2 | 0 | 0 | 2 | 0 | 0 |
| Operational | Education, Health and Care plans | 3 | Completed | Reasonable | 7 | 0 | 0 | 7 | 0 | 0 |
| Deferred/Removed | Energy Supply Contract | 4 | Removed - replaced with Midland Heart Care Provision | – | – | – | – | – | – | – |
| Deferred/Removed | Local Land Charges | 4 | Removed - replaced with Commissioning and Procurement | – | – | – | – | – | – | – |

| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | Recommendation 1 = Minor ⟷ 5 = Major | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| Schools | Schools Prevention of Fraud | 4 | Completed | Non - opinion | – | – | – | – | – | – |
| Deferred/Removed | Road Maintenance Follow Up | 4 | Removed - replaced with Initial Contract Management review | – | – | – | – | – | – | – |
| Grant | Repair and Renew Grant | 4 | Completed | Grant Certification | – | – | – | – | – | – |
| ICT | Corporate Services  - Digital Channels Project | 4 | In Progress | carried forward to 16-17 for project assurance | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | Initial contract Management review | 4 | Completed | Non-Opinion | – | – | – | – | – | – |
| Operational | Direct Payments | 4 | Completed | Partial | 10 | 0 | 0 | 8 | 2 | 0 |
| Operational | Purchasing Strategy and Market Management  - Care service | 4 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | Commercial Rents | 4 | Completed | Reasonable | 6 | 0 | 0 | 6 | 0 | 0 |
| Operational | Income review - maximising income - income and charging guidance | 4 | In Progress | | 0 | 0 | 0 | 0 | 0 | 0 |
| Operational | Commissioning and Procurement | 4 | Draft Report | Partial | 2 | 0 | 0 | 0 | 2 | 0 |
| Operational | Social Care Financial Practices | 4 | In Progress | | | | | | | |

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| Audit Type | Audit Area | Quarter | Status | Opinion | No of Rec | 1 = Minor ↔ 5 = Major | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Recommendation | | | | |
| | | | | | | 1 | 2 | 3 | 4 | 5 |
| Operational | Planning Applications | 4 | Draft Report | Reasonable | 7 | 0 | 0 | 6 | 1 | 0 |
| ICT | Council and NHS ICT | 4 | In Progress | | | | | | | |
| Operational | Contract Management - Children's Wellbeing - Crossroads and NYAS contracts | 4 | Completed | Reasonable | 4 | 0 | 0 | 4 | 0 | 0 |
| Operational | Midland Heart Care Provision | 4 | Completed | Partial | 12 | 0 | 0 | 7 | 5 | 0 |
| Special Review | Parking Permits | 4 | Completed | Non-Opinion | 6 | 0 | 0 | 6 | 0 | 0 |
| Special Review | Statutory Returns | 4 | Completed | Non-opinion | 8 | 0 | 0 | 2 | 6 | 0 |

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