

Herefordshire Council

Report of Internal Audit Activity

Annual Opinion Report 2016/17

Contents

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Summary:

Purpose & Background	Page 1-2
Annual Opinion	Page 3-4



Summary of Audit Work:

Internal Audit Work Programme	Page 5
Significant Corporate Risks	Page 6
Summary of Audit Opinion	Page 7
Priority Actions	Page 8



Plan Performance:

Added Value	Page 9
SWAP Performance	Page 10-11
Audit Framework Definitions	Page 12-13
Summary of Work Plan	Page 14-18



Appendices:

Appendix A - SWAP Performance	Page 19
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Summary

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



Purpose

The Accounts and Audit Regulations (England) 2015 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.

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.

Internal Audit Annual Opinion 2016/17

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



Annual Opinion

For the 2016-17 audit plan for Herefordshire Council 58 reviews have been delivered. In agreement with management, and previously reported to this Committee, eight reviews were 'removed'. All eight were replaced with additional reviews.

All audits have been completed to Final report.

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 87%.

Of the 38 Reviews that have an Assurance Opinion, 2 (5%) have received Substantial assurance, 18 (47.5%) Reasonable assurance and 18 (47.5%) Partial Assurance. None received No Assurance.

For reviews with no audit opinion there were 13 Follow Up reviews, 2 Special Reviews and 5 'Advisory' reviews when the work is requested to provide consultancy to help the service move forward.

For those areas not covered by the Annual Internal Audit Plan, the Chief Finance 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 changes to the plan agreed throughout the year reflect the ever-changing environment and challenges that local authority managers are facing.

The number of Advisory reviews has reduced from 2015-16; however, it is positive that requests for these reviews reflects an organisation that is keen to involve internal audit to help address possible 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 by seven. This is more

Internal Audit Annual Opinion 2016/17

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than I would like to see however it is also reflective that the Council ensures that the internal audit focus in on higher risk areas and in particular there is good coverage across both Children and Adult services where inherently, risks are higher. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports; and 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.

The Council has introduced a monitoring system using SWAPs audit automation system MKInsight to monitor all audit recommendations and reports priority 4 and 5, the more significant recommendations that have not been completed by their agreed target date, to this Committee.

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.

I have considered the balance of audit work, the assurance levels provided and outcomes together with the response from Senior Management and the Audit Committee and feel confident to 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.

Summary of Audit Work 2016/17

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 on pages 14-18 contains a list of all audits agreed for inclusion in the Annual Audit Plan 2016-17 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 2016-17 audit plan and 58 audits have been delivered as follows:

Type of audit	2016-17 original plan	2016-17 revised plan
• Operational Audits	23	18
• Information Systems	5	4
• Key Control	8	8
• Governance, Fraud & Corruption	3	3
• Grants	5	4
• Special Reviews	0	2
• Follow Up	5	13
• Schools	6	6
• TOTAL	55	58

Summary of Audit Work 2016/17

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'.

Review/Risks	Auditors Assessment
Pre Paid Cards – Direct Payments Inefficiencies in office practice cause delay in care provision.	High

The audit identified that there was a significant risk with the security of personal and sensitive data managed by the Card Provider on behalf of the Council. There were concerns around the current practices for the transfer of data between the Card Provider and the Council, and at the time a possible increase in system users, due to be extended to the managed account providers.

The Joint Team Manager: Welfare and Financial Assessment has provided the following update:
 The pre-paid card contract has been transferred to another provider and the system went live on 13th July 2017. The contract with the new Provider has incorporated all relevant data security clauses and was developed in conjunction with information governance team. All the Direct Payments team staff have access to Egress secure e-mail to be used when transmitting sensitive data to the card company (if required). System user access within the new system is currently being reviewed as further guidance is needed from the provider in setting up user profiles. User access is being monitored by the Direct Payments Team leader as part of system admin checks. Managed account providers have yet to be set-up on the new Provider portal. When this is done a new user agreement will be drafted in conjunction with PFS and the information governance team to ensure relevant controls are in place.

Summary of Audit Work 2016/17

SWAP Performance - Summary of Audit Opinions

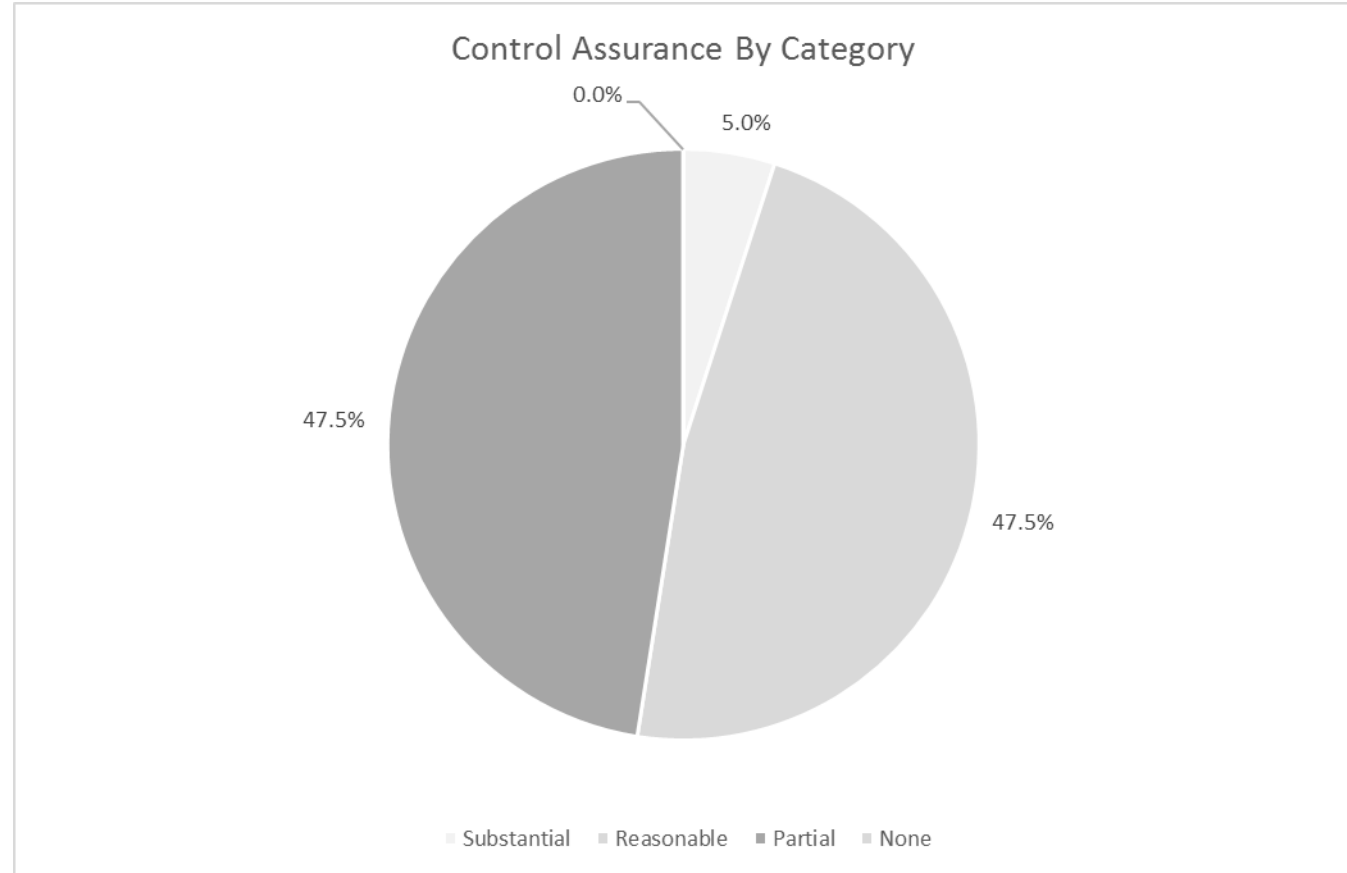
At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- None



Summary of Audit Opinion

Of the 38 reviews with an audit opinion that have a final report, the opinions offered are summarised below.



Summary of Audit Work 2016/17

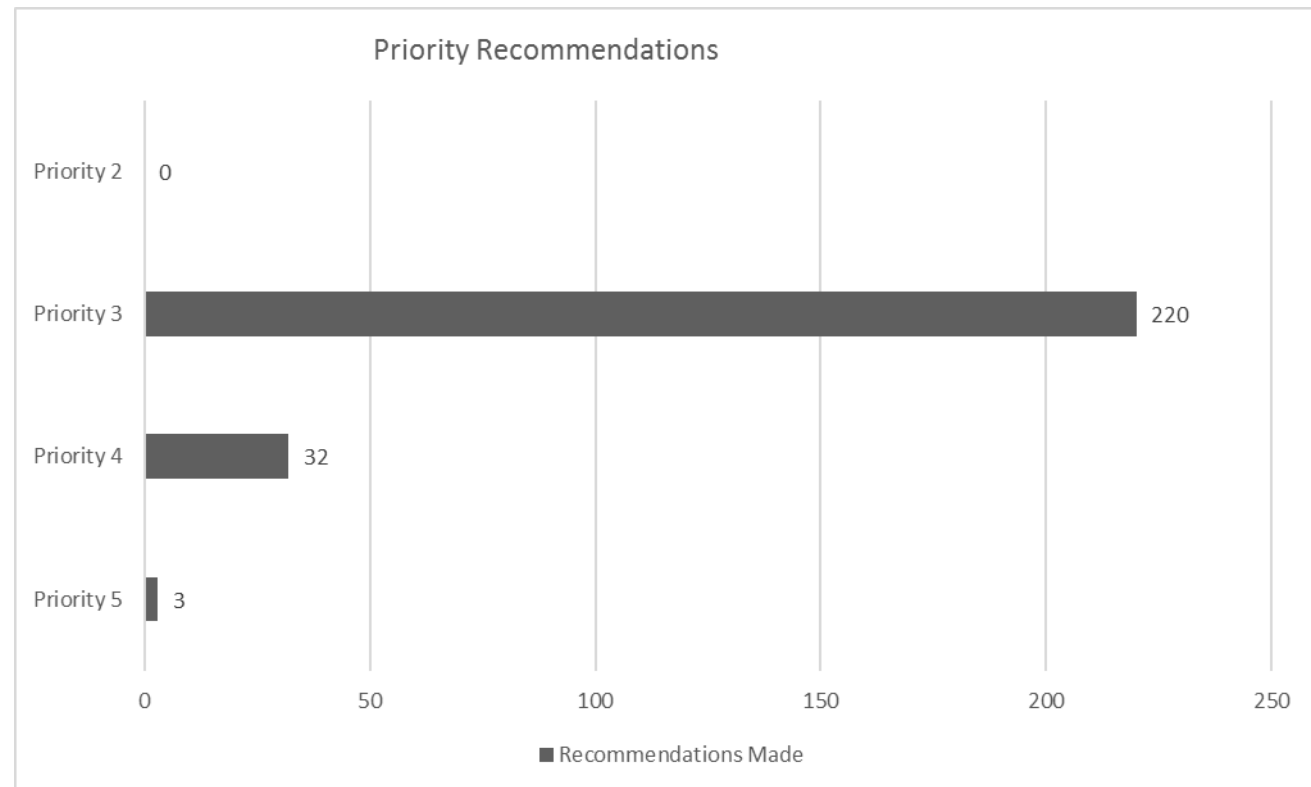
SWAP Performance - Summary of Audit Recommendations by Priority

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 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 report has been issued there have been 255 agreed actions for improvement; three of these were rated at a level 5, 32 at a level 4 and 220 at level 3.



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 are examples of where Added Value has been provided for the Council or across the Partnership during 2016/17: -

- Sharing findings from the recent Pensions Board audit that reviewed the regional group
- Regular fraud awareness bulletins - as attempted frauds are identified through both our partners and nationally
- Audit Committee Member Training offered to all SWAP partners
- Pest Control audit - a survey was conducted within the SWAP Partnership to establish how pest control services are being delivered with regard to costs, resources and performance monitoring
- Audit Committee Workplans
- Equality Impact Assessment process comparison
- Fees and Charges – comparisons with other Partners
- Cyber Security Awareness – Best practice shared
- Partnering and Voluntary Organisation benchmarking
- Revenues and Benefits service - benchmarking how the service is being delivered with regard to costs, resources and performance monitoring

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 24 Partner Organisations and also many subsidiary bodies. SWAP performance is subject to regular monitoring and review by both the Board and the Member Meetings. The respective outturn performance results for Herefordshire Council for the 2016-17 year are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion Fieldwork Completed awaiting report In progress</p>	<p>100% 0% 0%</p>
<p><u>Draft Reports</u> Issued within 5 working days</p>	<p>55%</p>
<p><u>Final Reports</u> Issued within 10 working days of draft report</p>	<p>32%</p>
<p><u>Quality of Audit Work</u> Customer Satisfaction Questionnaire</p>	<p>87%</p>

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



SWAP Performance

Under the Accounts and Audit (England) Regulations 2011 there was a requirement for an annual review of the effectiveness of the Internal Audit Function; the 2015 Regulations are much less prescriptive.

However, the International Professional Practice Standards of the Institute of Internal Auditors, further supplemented by the Public Sector Internal Auditing Standards require both Internal and External Assessments (Standard 1300) of the Internal Audit function.

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 year and therefore we commissioned our next review to take place in September 2015. This review was completed and again confirmed SWAP to be in full conformance to the International Professional Practices Framework and the PSIAS. (See Appendix A)

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.

Internal Audit Definitions

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.

Internal Audit Definitions

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.

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
Grant Certification	Heat Network Delivery Units	April 2016	Removed	–	–	–	–	–	–	–
Special Review	Link Road Scheme (LEP & HC)	April 2016	Completed	Non-Opinion	1	0	0	1	0	0
Grant Certification	Redundant Building Grant Scheme - Round 4	April 2016	Completed	Grant Certification	–	–	–	–	–	–
Operational	Brokerage	April 2016	Completed	Partial	7	0	0	3	4	0
Operational	Client Finances	April 2016	Completed	Partial	10	0	0	10	0	0
Operational	Car Parking Income/Enforcement	April 2016	Completed	Partial	18	0	0	16	2	0
Operational	Cash Handling & Collection	April 2016	Completed	Reasonable	9	0	0	8	1	0
Operational	Recruitment - Contracts	April 2016	Completed	Partial	10	0	0	10	0	0
Operational	FWI EDRMS/Mosaic Upgrade - Implementation & Assurance -	April 2016	Completed	Advisory	–	–	–	–	–	–
School	SFVS (School Financial Value Standard) Governance - Bridstow Primary School	April 2016	Completed	Partial	9	0	0	8	1	0
School	SFVS (School Financial Value Standard) Governance - Pembridge CE Primary School	April 2016	Completed	Reasonable	5	0	0	4	1	0
School	SFVS (School Financial Value Standard) Governance - Weobley Primary School	April 2016	Completed	Reasonable	9	0	0	9	0	0
School	SFVS (School Financial Value Standard) Governance - Ameley Primary School	April 2016	Completed	Reasonable	7	0	0	7	0	0

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
School	SFVS (School Financial Value Standard) Governance - Peterchurch Primary School	April 2016	Completed	Partial	8	0	0	7	1	0
School	SFVS (School Financial Value Standard) Governance - St Marys RC High School	April 2016	Completed	Partial	14	0	0	12	2	0
Special Review	Special Review	April 2016	Completed	Non-Opinion	-	-	-	-	-	-
Follow Up	Modern Records follow up	July 2016	Completed	Follow Up	-	-	-	-	-	-
Grant Certification	Local Transport Block Funding	July 2016	Completed	Grant Certification	-	-	-	-	-	-
Operational	Residential & Nursing Care	July 2016	Removed	-	-	-	-	-	-	-
Operational	Deferred Payments	July 2016	Completed	Partial	9	0	0	6	3	0
Operational	Pre Paid Cards (Direct Payments)	July 2016	Completed	Partial	9	0	0	5	2	2
Operational	Public Health Contracts	July 2016	Completed	Reasonable	7	0	0	6	1	0
Operational	Children Missing Education (Safeguarding)	July 2016	Draft Report	Partial	7	0	0	5	1	1
Operational	Food Safety	July 2016	Completed	Reasonable	7	0	0	7	0	0
Operational	Property Services - Accounts Payable	July 2016	Completed	Advisory	4	0	0	4	0	0
Follow Up	Use of Agency	July 2016	Completed	Follow Up	-	-	-	-	-	-
Operational	Protection from Malicious Code	July 2016	Completed	Reasonable	4	0	0	4	0	0

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational	Performance Management Framework - Performance Indicators Corporate	July 2016	Completed	Reasonable	6	0	0	6	0	0
Operational	S106 Agreements	July 2016	Completed	Reasonable	7	0	0	7	0	0
Operational	Concessionary Fares	July 2016	Completed	Partial	1	0	0	0	1	0
Operational	Catering Contract	October 2016	Completed	Advisory	-	-	-	-	-	-
Follow Up	Licensing	October 2016	Completed	Follow Up	-	-	-	-	-	-
Follow Up	Treasury Management	October 2016	Completed	Follow up	-	-	-	-	-	-
Follow Up	Changes to Role & Exit - ICT Access Controls	October 2016	Completed	Follow Up	-	-	-	-	-	-
Follow Up	Home to School Transport	October 2016	Completed	Follow Up	-	-	-	-	-	-
Governance, Fraud & Corruption	NFI	October 2016	Completed	Advisory	-	-	-	-	-	-
Grant Certification	Troubled Families	October 2016	Completed	Substantial	3	0	0	3	0	0
Key Control	Accounts Payable	October 2016	Completed	Reasonable	5	0	0	5	0	0
Key Control	Accounts Receivable	October 2016	Completed	Partial	2	0	0	1	1	0
Key Control	Capital Accounting	October 2016	Completed	Reasonable	1	0	0	1	0	0
Key Control	Main Accounting	October 2016	Completed	Reasonable	5	0	0	5	0	0

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Key Control	Council Tax	October 2016	Completed	Reasonable	4	0	0	4	0	0
Key Control	Housing & Council Tax Benefits	October 2016	Completed	Partial	7	0	0	7	0	0
Follow Up	NNDR - follow up	October 2016	Completed	Follow Up	-	-	-	-	-	-
Key Control	Payroll	October 2016	Completed	Partial	7	0	0	2	5	0
Key Control	Pensions - Auto enrolment	October 2016	Completed	Reasonable	2	0	0	2	0	0
Operational	Public Services Network Submission Assurance	October 2016	Completed	Substantial	1	0	0	1	0	0
Follow Up	Financial Assessments	January 2017	Completed	Follow Up	-	-	-	-	-	-
Follow Up	Better Care Fund	January 2017	Completed	Follow Up	-	-	-	-	-	-
Operational	Contracts & Contract Management	January 2017	Removed	-	-	-	-	-	-	-
Operational	Hospital Discharges	January 2017	Removed	-	-	-	-	-	-	-
Operational	Telecare - Living Aids & Equipment	January 2017	Removed	-	-	-	-	-	-	-
Operational	Transitions	January 2017	Removed	-	-	-	-	-	-	-
Operational	Complex Care (LD)	January 2017	Removed	-	-	-	-	-	-	-
Operational	Looked After Children	January 2017	Completed	Partial	8	0	0	8	0	0

Internal Audit Work Plan 2016/17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational	Early Years Funding	January 2017	Completed	Reasonable	4	0	0	4	0	0
Operational	Direct Payment/Personal Budgets (Children's) - HC	January 2017	Completed	Partial	10	0	0	9	1	0
Operational	Business Continuity/Disaster Recovery Processes - Data Centre	January 2017	Completed	Partial	15	0	0	12	3	0
Operational	Nottingham Rehab Contract Review	January 2017	Removed	-	-	-	-	-	-	-
Follow Up	PCI Data Security Standard Compliance	January 2017	Completed	Follow Up	-	-	-	-	-	-
Follow up	Mobile Phone Usage and Strategy	January 2017	Completed	Follow Up	-	-	-	-	-	-
Follow up	Direct Payments (Adults)	January 2017	Completed	Follow Up	-	-	-	-	-	-
Follow Up	Midland Heart	January 2017	Completed	Advisory	-	-	-	-	-	-
Operational	Continuing Healthcare Funding	February 2017	Completed	Partial	7	0	0	5	2	0
Operational	Integrated Short Term Support and Care Pathway - Reablement	February 2017	Discussion Document	Advisory	6	0	0	6	0	0
Grant Certification	Troubled Families	Mar-17	Completed	Grant Certification	-	-	-	-	-	-

Appendix A – SWAP Performance

The below is the key summary from the recent External Quality Assessment of SWAP Internal Audit Activity, carried out by the Devon Audit Partnership:

As requested by Gerry Cox, Chief Executive of SWAP, Devon Audit Partnership conducted an external quality assessment of the internal audit activity of the South West Audit Partnership (SWAP). The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards), evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter to its partners), and identify opportunities to enhance its management and work processes.

It is our overall opinion that the internal audit activity generally conforms with the Standards and Code of Ethics. We have identified some opportunities for further improvement, details of which are provided in this report, but none of these issues represent a failure to meet with the Standards.

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

SWAP is a well-established provider of professional internal audit services to a number of public sector organisations. The internal audit activity meets the Standards and SWAP management regularly look to ways to improve the service they provide (e.g. by developing the "healthy organisation" approach) and add value to all their partners and clients. A well-developed Quality Assurance Improvement Plan is in place that captures areas for development and provides a good record of progress against targets. Consequently, our comments and recommendations are intended to build on an already efficient and effective internal audit provider.