Appendix A

Herefordshire Council

Report of Internal Audit Activity

Annual Opinion Report 2017/18

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Chief Executive
Tel: 01935 385906
gerry.cox@swapaudit.co.uk

Ian Baker
Director of Quality
Tel: 07917628774
ian.baker@swapaudit.co.uk

Jacqui Gooding
Assistant Director
Tel: 07872500675
jacqui.gooding@swapaudit.co.uk

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 opinion 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 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 and the Annual Internal Audit Opinion given.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 1

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 position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

The Three Lines of Defense Model

Governing Body / Board / Audit Committee

Senior Management

1st Line of Defense
- Management Controls
- Internal Control Measures

2nd Line of Defense
- Financial Control
- Security
- Risk Management
- Quality
- Inspection
- Compliance

3rd Line of Defense
- Internal Audit

External audit

Regulator

Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 2

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

Annual Opinion

This Annual Report gives the opinion of the Assistant Director (Head of Internal Audit) on the adequacy and effectiveness of internal control, governance and risk management within Herefordshire Council. Internal Audit has not reviewed all risks and assurances relating to the Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix C**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success. Under control could expose the organisation to unacceptable risk and destroy value as over control takes valuable resources and can create inefficiency. Therefore, the Internal Control Environment needs the right balance to help Herefordshire Council to deliver its services with decreasing resources.

For the 2017-18 audit plan for Herefordshire Council a total of 55 reviews have been delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed' as the need to respond to new and emerging risks was identified.

All reviews have been completed to report stage. Of the 55 2017-18 reviews, 29 have returned opinions with 15 (52%) having received Partial Assurance. There have been two (7%) reviews that have received a Substantial Assurance and this is highly commendable with, 12 (41%) reviews also receiving Reasonable Assurance.

It is also worth noting that eight Advisory' audits were completed during 2017-18. Given the level of change within the authority, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we have been involved in a number of areas of organisational change.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 3

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

Annual Opinion contd.

The Council has recognised the failings in respect of Blueschool House and has put in place an Internal Control Improvement Board to oversee implementation of actions to address the thirteen recommendations made as part of this review and similar recommendations made in previous audit reports around governance. This demonstrates management's commitment to ensuring that these weaknesses are addressed. The Council has recently undergone a Corporate Peer Challenge review by the Local Government Association (LGA). The peer team did not find evidence that the issues in relation to Blueschool House were a manifestation of systemic cultural issues within the Council. The peer team noted the Council's improvement actions planned, to strengthen capital management and mitigate against any further incidents of this type and emphasised the importance of maintaining this focus. We would agree that this focus needs to be continued across the Council.

Overall, based on the audit work completed in 2017-18, we can report that there is generally a healthy system of internal control designed to meet the organisations objectives. However, some weaknesses have been identified in the inconsistent application of controls that put the achievement of a particular objective at risk in some areas reviewed. Management respond positively to Internal Audit recommendations for improvements and corrective action is often taken quickly, wherever this is possible or practical. Significant findings not completed by their original target implementation date are reported to the Audit and Governance Committee, so the Committee can take assurance that actions are being monitored.

While the number of reviews being assessed as partial has increased it should be recognised that in conjunction with senior management we have effectively targeted the audit resource to areas of identified risk and concern. In these cases, although the audit opinion is important it is managements response that is equally important. I am pleased to report that management have been fully supportive to our reviews and there is a commitment to address the findings in a positive and proactive manner. Based on the Councils commitment to address findings and their openness to request audits in higher risk areas I can offer a '**Reasonable Assurance'** annual opinion. However, it is important that the Council continues its commitment to ensure that prompt action is taken when weaknesses are identified.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 4

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 C** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2017-18 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.

Of the 55 audits in the revised 2017-18 audit plan, they are broken down as follows:

Type of audit	2017-18 original plan	2017-18 revised plan
• Operational Audits	24	16
• Advisory	8	0
• Information Systems	4	5
• Key Control	8	8
• Governance, Fraud & Corruption	2	8
• Grants	2	3
• Special Reviews	0	3
• Follow-up	8	8
• Schools	4	4
• TOTAL	52	55

The variation in the plan relates to three audits that were removed and six audits which have been added to the 2017-18 plan.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 5

Identified Significant 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 none were assessed with a 'High' corporate risk.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 6

SWAP Performance - Summary of Audit Opinions

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

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

Summary of Control Assurance

Taking only the reviews that return an audit opinion, the breakdown is summarised below. Definitions for each assurance category can be found in Appendix B.

Control Assurance By Category

0.0%

7.0%

52.0%

41.0%

■ Substantial ■ Reasonable ■ Partial ■ None

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 7

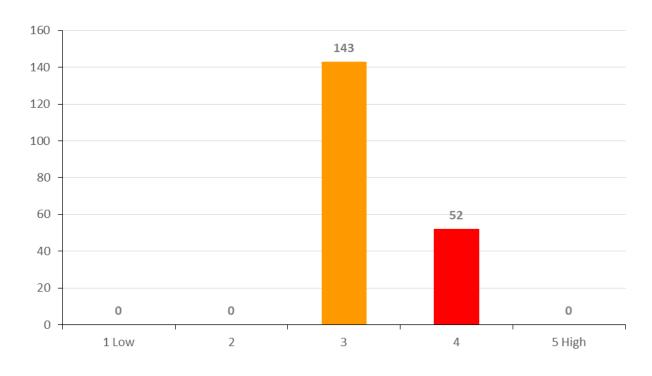## Summary of Recommendations

When making recommendations to Management it is important that they know how significant 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. Therefore, recommendations are assessed as to how important they are to the scope of the area audited. Priority 5 recommendations being more important than priority 1. All recommendations in Appendix C are summarised below.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 8

Audit Recommendations by Priority

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 9

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 this will continue to be the main purpose. 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".

In addition to audits undertaken in Appendix B, where requested by officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where the Council has requested us to produce Cross Comparison reports:

- Part-time timetables - SWAP Partner comparison was carried out to collate information relating to the partner Council's educational provision for students who cannot attend school due to medical reasons and how attendance is recorded at such establishments.

- Choice Based lettings – the survey requested information on the system used, reporting, performance indicators and how application stages are recorded.

- Serious and Organised Crime – A survey was completed to establish which roles within a Council required a DBS check.

- Emergency Planning - Public Health – the survey requested information on training of staff and members, on call staff (paid or unpaid), communication and links to local Health Resilience Partnership.

- Schools – Prevention of Fraud – A themed report produced to summarise weaknesses identified and areas of good practice which this is shared with schools through Spotlight for Children.

- Management Board Terms of Reference

Plan Performance

Summary of Audit Recommendations by Priority

Added Value contd.

We also share with the Council Cross Comparison reports where a request is made by another Partner as well as ongoing information and training.

The following additional work has been delivered:

- Flexible Homeless Grant benchmarking
- Private Sector Housing Enforcement and HMOs
- Members Training
- Regular Fraud Bulletins
- Use of Apprenticeship Levy Scheme
- Environmental Protection Permitted Installations
- Elections payroll
- Electoral Registration Practice

Plan Performance

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 18 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the SWAP Board and the Member Meetings. The respective outturn performance results for Herefordshire Council for the 2017-18 year are as follows;

Performance Target	Average Performance
Audit Plan – Percentage Progress Final, Draft and Discussion Fieldwork Completed awaiting report In progress	 100% 0% 0%
Draft Reports Issued within 5 working days of fieldwork completion	78%
Final Reports Issued within 10 working days of draft report	22%
Quality of Audit Work *Customer Satisfaction Questionnaire	91%

*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. A score of 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report.

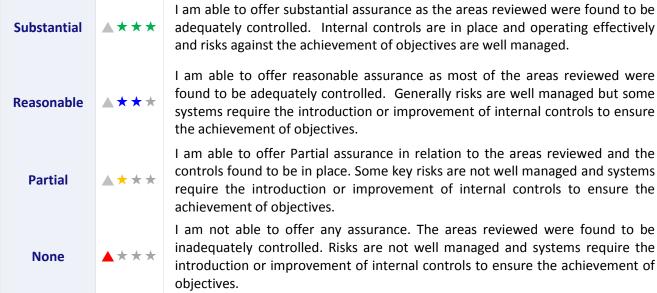SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 12

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.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 13

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.

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 14

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ⟷ 5 = M Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Small Holdings Phase 1	1	Completed	Advisory	2	0	0	1	1	0
Governance, Fraud & Corruption	Small Holdings Phase 2	1	In Progress	Advisory	–	–	–	–	–	–
Governance, Fraud & Corruption	Project assurance - (Q1 to Q4) Procurement of a Wide Area Network contract	1	Completed	Advisory	–	–	–	–	–	–
Governance, Fraud & Corruption	Project assurance - (Q1 to Q4) - Mosaic Board Governance	1	Completed	Advisory	–	–	–	–	–	–
ICT	Firewall Security management	1	Completed	Reasonable	4	0	0	4	0	0
Operational	Annual Care Assessment Process – Social Care Workforce Performance	1	Completed	Partial	7	0	0	6	1	0
Operational	Areas - Business Support Function – Adults Wellbeing	1	Completed	Advisory	3	0	0	3	0	0
Operational	Market Intelligence	1	Completed	Partial	16	0	0	10	6	0
Operational	Safeguarding – Adults Wellbeing	1	Completed	Reasonable	5	0	0	5	0	0
Operational	Data Sharing Protocols	1	Completed	Partial	8	0	0	5	3	0
Operational	Land in public ownership	1	Completed	Advisory	2	0	0	2	0	0
Schools	Schools - prevention of fraud	1	Completed	Themed Report	–	–	–	–	–	–
Schools	School 1 – prevention of fraud	1	Completed	Partial	10	0	0	7	3	0
Schools	School 2 - prevention of fraud	1	Completed	Partial	6	0	0	5	1	0
Schools	School 3 – prevention of fraud	1	Completed	Partial	10	0	0	8	2	0

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note. **Page 15**

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ⟷ 5 = M				
						Recommendation				
						1	2	3	4	5
Special Investigation	Blueschool Refurbishment	1	Completed	Special Investigation	13	_	_	_	_	_
Special Review	Data Sharing Breach	1	Completed	Special Review	2	0	0	1	1	0
ICT	Protection from Malicious Code	2	Completed	Follow Up	_	_	_	_	_	_
Governance, Fraud & Corruption	Serious and Organised Crime Audit Checklist	2	Completed	Partial	7	0	0	6	1	0
Grant Certification	Local Transport Block Funding	2	Grant Certification	Reasonable	1	0	0	1	0	0
ICT	Domain Management	2	Completed	Reasonable	3	0	0	3	0	0
Operational	Integrated Short Term Support and Care Pathway - review of each pathway and advisory	2	Completed	Reasonable	7	0	0	7	0	0
Operational	Integration – Clinical Commissioning Group (Adults and Children's) Governance of Better Care Fund (BCF) and Spend of BCF Money	2	Completed	Reasonable	5	0	0	5	0	0
Schools	Children, young people and families - Part time timetables	2	Completed	Partial	7	0	0	1	6	0
Operational	On-line choice based letting scheme - Homepoint (Home Hunt)	2	Completed	Partial	12	0	0	7	5	0
Operational	New Communications Strategy	2	Removed	-	_	_	_	_	_	_
Operational	Emergency Planning - Public Health	2	Completed	Partial	8	0	0	6	2	0
Operational	Public Health Contracts	2	Completed	Partial	12	0	0	3	9	0
Operational	Electronic Signatures	2	Completed	Reasonable	4	0	0	4	0	0
Grant Certification	Bus Subsidy Grant	2	Grant Certification	Reasonable	0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation (1 = Minor — 5 = M)				
						1	2	3	4	5
Follow up	SVFS – Schools Follow Up	3	Completed	Follow Up	_	_	_	_	_	_
Follow up	Brokerage Follow up	3	Completed	Follow Up	_	_	_	_	_	_
Follow up	Client Finances Follow up	3	Completed	Follow Up	_	_	_	_	_	_
Follow up	Car parking Income and Enforcement Follow up	3	Completed	Follow Up	_	_	_	_	_	_
Grant Certification	Troubled Families	3	Completed	Substantial	1	0	0	1	0	0
ICT	PSN Submission+	3	Completed	Substantial	0	0	0	0	0	0
Operational	EziTracker – Adults Wellbeing	3	Completed	Advisory	0	0	0	2	0	0
Key Control	Accounts Payable	3	Completed	Follow Up	_	_	_	_	_	_
Key Control	Accounts Receivable	3	Completed	Follow Up	_	_	_	_	_	_
Key Control	Capital Accounting	3	Completed	Follow Up	_	_	_	_	_	_
Key Control	Main Accounting	3	Completed	Follow Up	_	_	_	_	_	_
Key Control	Council Tax	3	Completed	Follow Up	_	_	_	_	_	_
Key Control	NNDR - Business Rates Avoidance	3	Completed	Reasonable	5	0	0	5	0	0
Key Control	Payroll - Review of IR35	3	Completed	Reasonable	1	0	0	1	0	0
Operational	Short breaks – Children's Wellbeing	3	Completed	Partial	6	0	0	3	3	0
Operational	Disabled Facilities Grants	3	In Progress	Reasonable	4	0	0	4	0	0

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 17

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	Recommendation 1 = Minor ↔ 5 = M				
						1	2	3	4	5
Governance, Fraud & Corruption	EU General Data Protection Regulation readiness	3	Completed	Partial	9	0	0	5	4	0
Governance, Fraud & Corruption	Healthy Organisation	3	Draft Report	Advisory	_	_	_	_	_	_
Follow Up	Property Services - Accounts Payable Follow Up	4	Completed	Follow Up	_	_	_	_	_	_
Follow Up	Hardware & Software Asset Management	4	Completed	Follow Up	_	_	_	_	_	_
Follow Up	Catering Contract Follow up	4	Completed	Follow Up	_	_	_	_	_	_
Follow Up	Recruitment Contracts Follow up	4	Completed	Follow Up	_	_	_	_	_	_
Follow up	Housing and Council Tax Benefits	4	Completed	Follow up	_	_	_	_	_	_
Operational	Carers (Support for) inc WISH – Adults Wellbeing	4	Removed	-	_	_	_	_	_	_
Operational	Maintenance of property	4	Completed	Partial	9	0	0	7	2	0
Operational	Mandatory Training – days for School Special Investigation	4	Removed	-	_	_	_	_	_	_
Special Investigation	School	4	Completed	Special Investigation	10	0	0	7	3	0
Operational	Fastershire BDUK	4	Removed	-	_	_	_	_	_	_
ICT	ICT client management	4	Completed	Reasonable	7	0	0	7	0	0
Governance, Fraud & Corruption	Data Quality - Decision Making Reports and Corporate Budget Performance Reports	4	Completed	Partial	9	0	0	6	3	0

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 Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Page 18