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Appendix A

# Herefordshire Council

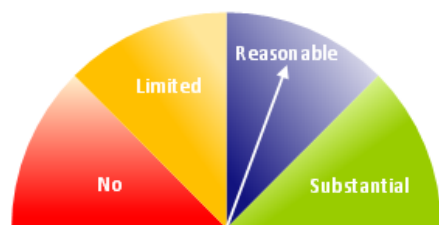
## Internal Audit Annual Opinion Report 2023/24

**Internal Audit ■ Risk ■ Special Investigations ■ Consultancy**

Unrestricted

# Internal Audit Annual Opinion – 2023/24: ‘At a glance’

## Annual Opinion



There is generally a sound system of governance, risk management and control in place. We identified some issues, instances of non-compliance or scope for improvement which may put at risk the achievement of objectives.

## The Headlines

	Our overall opinion on the governance, risk management and internal control environment in place at Herefordshire Council is Reasonable. This is based on the balance of the individual internal audit reviews delivered throughout the year, as well as considering other sources of assurance, any notable changes to the organisation, and the results of our follow up work.
	There were no ‘High’ residual organisational risks that we identified in our work throughout the year. Our assurance framework that explains the categorisation of our work is included below.
	There were 34 individual internal audit reviews that were delivered as part of the 2023/24 internal audit programme of work. This includes a balance of assurance work, grant certifications, advisory work, follow up of agreed management actions, and special investigations.
	Throughout the year we have aimed to align our programme of internal audit work with the authority’s strategic risk register to provide coverage and assurance over these risks. We note that risk management arrangements at the authority are changing and still developing, and therefore we were unable to fully dovetail our programme of work with the existing risk management framework.
	There were no instances of material risks throughout the year where management did not accept the need for mitigating action.

## Internal Audit Assurance Opinions 2023/24

Substantial	1
Reasonable /Certified	15
Limited	5
No Assurance	0
Advisory	7
Follow Up	5
Investigations	1

## Organisational Risk Assessments 2023/24

High	0
Medium	9
Low	12

## Internal Audit Agreed Actions 2023/24

Priority 1	0
Priority 2	25
Priority 3	17

## Internal Audit Annual Opinion 2023/24

**Internal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.**



### Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment.
- The potential for the occurrence of fraud and how the organisation manages fraud risk.
- 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.
- Provide the opportunity to review the work undertaken during the year, and summarise the performance of the Internal Audit function against its performance measures, criteria and standards; and
- 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.



### Background

The Internal Audit service for Herefordshire Council is provided by SWAP Internal Audit Services. The team's 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. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

This report summarises the activity of the Internal Audit team for the 2023/24 year. The framework used as the basis for the overall opinion is included as the final page to this report.

# Internal Audit Annual Opinion 2023/24

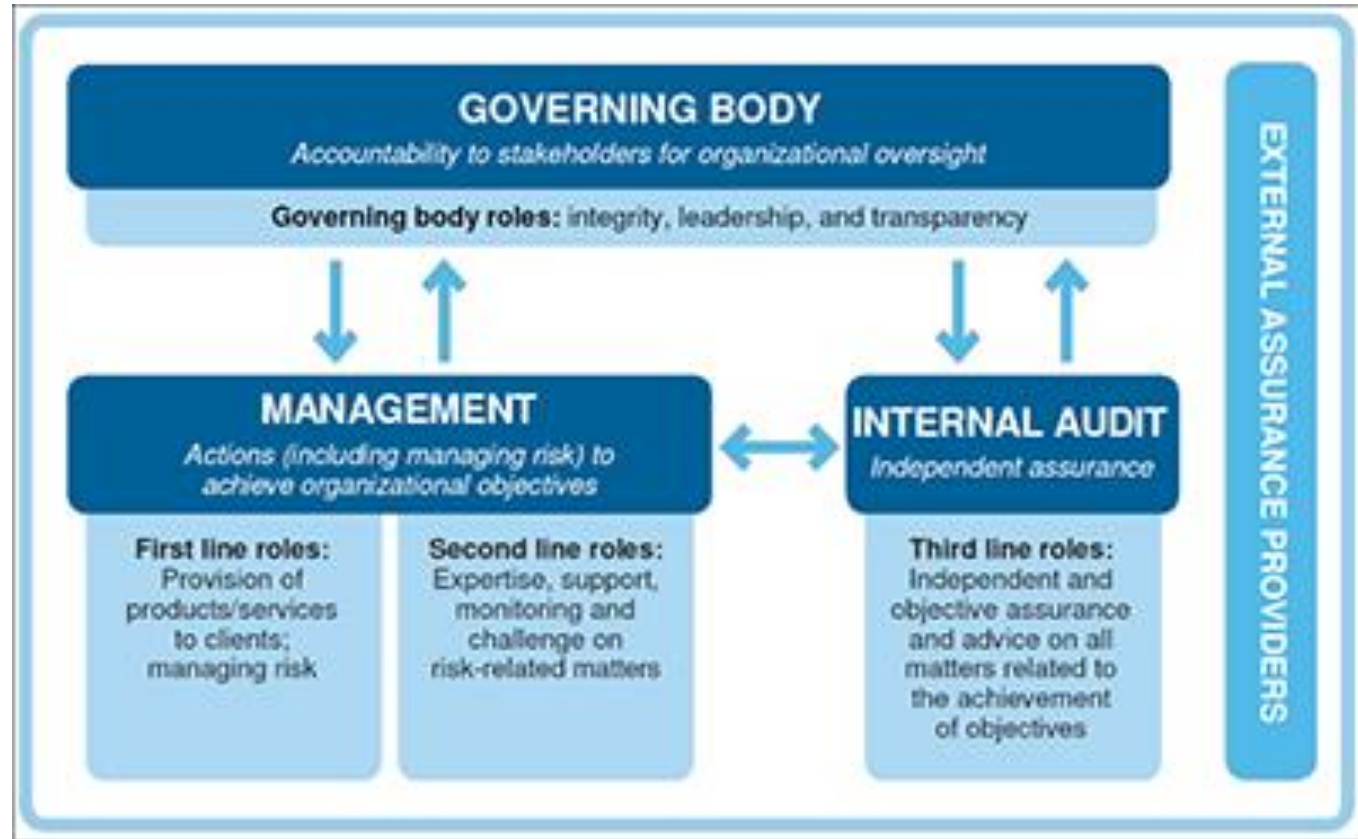
The position of Internal Audit within an organisation's governance framework is best summarised in the 'Three Lines' model.

The Three Lines model looks to explain the relationship between various functions in an organisation, as well as setting out a guide as to how responsibilities should be divided:

- the first line – functions that own and manage risk.
- the second line – functions that oversee or specialise in risk management and/or compliance.
- the third line – functions that provide independent assurance.



## Three Lines Model



The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.



## Annual Opinion

On the balance of our 2023/24 audit work for Herefordshire Council, enhanced by the work of external agencies, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

The Annual Opinion is made based on the following sources of information:

- Completed audits during 2023/24 which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from advisory/ consultancy-type pieces of work.
- Follow-up of previous audit activity, including agreed audit actions.
- Any significant risks where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, and counter fraud arrangements etc.

Most areas reviewed were found to be adequately controlled. There were also no outcomes from our individual audits where we rated the residual risk to the organisation as 'High'.

There are certain aspects of the risk management and/ or internal control environment that would benefit from enhancement, as these have been briefly detailed below:

### Risk Management

The current risk management framework is due to be reviewed, with a view to enhancing the current processes. The corporate risk register has recently been refreshed and we would support the regular update, monitoring and reporting of these risks moving forwards. SWAP is providing insight and support in relation to the development of the risk management framework, based on our experiences in other local authorities.

### Follow Up of Agreed Actions

The Councils Corporate Performance team have historically reported an update regarding agreed actions from the audit work completed to the Audit & Governance committee. Due to recent changes at the authority, this process has now ceased. SWAP intend to refresh the follow up process, utilising AuditBoard to provide a live view to key council stakeholders of all outstanding audit actions across the authority.

One of the roles of the Audit & Governance Committee is to oversee the independence, objectivity, performance and professionalism of internal audit.

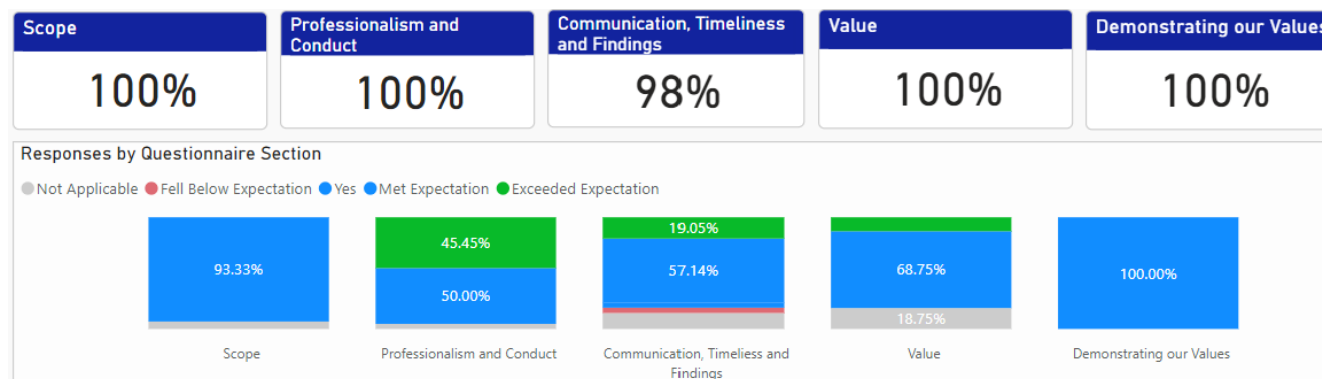
SWAP promote a range of performance areas and indicators to assess our effectiveness and professionalism.



## SWAP Performance

Following the conclusion of internal audit work, a customer satisfaction questionnaire is issued to the key audit contact to complete. This asks a range of questions; including the value that the audit delivered, the professionalism and conduct of the auditor, and the communication and timeliness of the review.

From the 17 returned questionnaires (a return rate of 74%, from the 23 issued), feedback was strong; especially in relation to our professionalism and conduct. The below visual summarises this feedback across five themes:



Throughout the year, we have tried to add additional value wherever possible. We have now provided senior management and Audit & Governance committee members access to our audit management system AuditBoard. We hope that this provides greater real-time visibility of our work, including any emerging risks, gaps in assurance coverage, and thematic insights.

Within 2023/24 we have continued to support the authority's counter fraud efforts through the provision of Cifas. Cifas uses shared data, intelligence and learning to detect and prevent financial and other crime. We will continue the provision of this service into 2024/25, and hope to expand its current use case, along with the tangible prevention and detection benefits that it can bring.

SWAP continues to provide benchmarking data, intelligence, and insights back to service areas from our work at over 25 other local authorities.

# Internal Audit Completed Work 2023/24

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control.

In giving this opinion, it should be noted that assurance can never be absolute.



## Completed internal audit reviews

Full details of all our completed work can be accessed by senior managers and Audit & Governance Committee members [through our audit management system AuditBoard](#). A summary of completed work in 2023/24, along with the respective assurance opinion and our organisational risk assessment has been provided below:

Filter by Audit Period		Filter by Directorate		Number of Actions & Priority			Organisational Risk Assessments	Completed Date	Link to Final Report
2023/24		All		1	2	3			
Audit Title	Assurance Opinion	1	2	3	Organisational Risk Assessments	Completed Date	Link to Final Report		
HC Supporting Families Q4	Reasonable (High)				N/A	14 May 2024	<a href="#">Link</a>		
HC Hereford Enterprise Zone - Sales	Limited (Medium)		5		N/A	09 May 2024			
HC Project Management (Public Realm/BBLP Related Audits) Follow Up	Follow Up			2	N/A	02 May 2024			
HC Museum Project Review	Advisory				Medium	26 April 2024			
HC Destination BID Lessons Learned (Herefordshire DBID)	Limited (Low)		5	1	Medium	18 April 2024	<a href="#">Link</a>		
HC Direct Payments Support Services: Managed Accounts	Reasonable (Medium)		2		Medium	15 April 2024	<a href="#">Link</a>		
HC Data Breaches	Substantial (High)			1	Low	09 April 2024	<a href="#">Link</a>		
HC Taskforce Commissioning & Resources Delivery Board	Advisory				N/A	31 March 2024			
HC Taskforce Service and Practice Delivery Board	Advisory				N/A	31 March 2024			
HC Taskforce Workforce Delivery Board	Advisory				N/A	31 March 2024			
HC Procurement Card Proactive Fraud Review	Limited (Medium)		2	3	Medium	14 March 2024			
HC Accounts Payable	Reasonable (Low)		3	1	Medium	04 March 2024			
Food Waste Collections – Capital Transitional Grant No. 31/7069	Grant Certification				Medium	01 March 2024			
HC Supporting Families Q3	Limited (High)		1		Low	01 March 2024	<a href="#">Link</a>		
HC HUG2 (Ph.2) Grant - Contract Status Review	Advisory				Medium	27 February 2024			
HC Blue Badge	Reasonable (Low)			2	Low	09 January 2024			
HC Payroll	Reasonable (Low)		2	4	Medium	20 December 2023			

The opinion is based solely on the work undertaken as part of the agreed internal audit plan.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention.

## Completed internal audit reviews (continued)

Filter by Audit Period		Filter by Directorate		Number of Actions & Priority			Organisational Risk Assessments	Completed Date	Link to Final Report
2023/24		All		1	2	3			
Audit Title	Assurance Opinion	1	2	3	Organisational Risk Assessments	Completed Date	Link to Final Report		
HC ICT Backup	Limited (High)		2		Medium	15 December 2023			
HC Green Homes Grant LAD 3 31/5775	Grant Certification				Low	04 December 2023			
HC - Local Transport Capital Block Funding Grant 2022/23	Grant Certification				Low	29 September 2023			
HC Bus Subsidy Grant 2022/23	Grant Certification				N/A	29 September 2023			
HC Education Health Care Plan Follow Up	Follow Up				N/A	29 September 2023			
HC Supporting Families Q2 2023/24	Reasonable (Medium)			1	Low	29 September 2023			
HC - Biodiversity Net Gain Grant Determination 2022/23, Grant No.:31/6499	Advisory				Low	28 September 2023			
HC Disaster Recovery - Follow Up	Follow Up				N/A	20 September 2023			
HC Housing England Compliance Audit 2023/24	Grant Certification				Low	20 September 2023			
HC Whistleblowing	Reasonable (High)		3	1	Low	28 July 2023			
HC Home Upgrade Grant HUG 1 - 31/5775	Grant Certification				Low	27 July 2023			
Audit #1382					N/A	25 July 2023			
HC Green Homes Grant HUG 2 Mobilisation- 31/6400 - 2022/23	Grant Certification				Low	21 July 2023			
HC Supporting Families Q1 2023/24	Reasonable (Medium)				Low	17 July 2023			
HC S106 Agreement Follow up	Follow Up			1	N/A	20 June 2023			
HC Whitbourne S106 Follow Up	Follow Up				N/A	16 June 2023			
HC Grants Working Group	Advisory				N/A				

Over the year, the internal audit team have found senior management of Herefordshire Council to be supportive of internal audit work and findings, and responsive to the actions that are agreed. In addition, there is a good relationship with management whereby they feel they can approach the Internal Audit Team openly in areas where they perceive potential problems.



The work of internal audit should align strategically with the aims and objectives of the organisation, taking into account key risks, operations and changes.

The coverage assessments provide an assessment from an internal audit perspective. It is possible that other sources of assurance exist for those areas where our coverage assessment is 'None'.



## Internal audit work programme coverage

### Year-end assessment of internal audit coverage mapped to strategic risk:

Strategic Risk	Coverage	Average Opinion
HC DEESCALATED R61 - Market workforce economy	None	
HC DEESCALATED R63 - Hereford City Centre Transport Package	Some	Non Opinion Audits
HC DEESCALATED R67 - Ash Dieback (Chalara)	None	
HC DEESCALATED R70 - Hereford City Centre Improvements - delivery within LEP timescale	Some	Non Opinion Audits
HC DEESCALATED R73 - Removal or reduction of ring-fence around Public Health budget	None	
HC DEESCALATED R60 - Development of Sufficiency strategy to support best value model	In Progress	
HC DEESCALATED R68 - Waste Collection Vehicles - lead time for supply of new vehicles	None	
HC DEESCALATED R69 - Hereford City Centre Improvement (HCCI) Programme	Some	Reasonable
HC DEESCALATED R71 - Hereford City Centre Improvement - decision making and VfM	Some	Non Opinion Audits
HC DEESCALATED R72 - Adult Social Care Reform	None	
HC DEESCALATED R76 - Educational Placements	Some	Non Opinion Audits
HC DEESCALATED R78 - Impact of Statutory Direction	Some	Non Opinion Audits
HC DEESCALATED R79 - Herefordshire fuel poverty level	None	

*It should be noted that the authority's strategic risk register was significantly updated in March 2024. We have therefore provided a coverage assessment against the risks that appeared on the strategic risk register throughout 2023/24. The risks removed in this refresh have been prefixed with 'Deescalated in the above visual'.*

**Year-end assessment of internal audit coverage mapped to Corporate Priority:**

Corporate Priority	Coverage	Average Opinion
HC P01 - Environment - Protect and enhance our environment and keep Herefordshire a great place to live	Adequate	Non Opinion Audits
HC P02 - Community - Strengthen communities to ensure everyone lives well and safely together	Good	Reasonable
HC P03 - Economy - Support an economy which builds on the county's strengths and resources	Good	Limited

**Year-end assessment of internal audit coverage mapped to Council Directorate:**

Council Directorate	Coverage	Average Opinion
HC - Children and Young People	Adequate	Reasonable
HC - Community Wellbeing	Good	Reasonable
HC - Corporate Services	Adequate	Reasonable
HC - Economy and Environment	Good	Limited

**Key:**

Coverage	Description
Good	Good audit coverage completed
Adequate	Adequate audit coverage completed
Some	Some aspects of audit coverage completed
In Progress	Some aspects of audit coverage in progress
None	No audit coverage to date

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

Where relevant, we also categorise to what extent the conclusions from our audit represent a risk to the organisation overall.

Agreed audit actions are also rated according to their respective priority.



## Internal Audit Definitions

Audit Assurance Definitions	
<b>No</b>	The review identified fundamental gaps, weaknesses or non-compliance, which require immediate action. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited</b>	The review identified significant gaps, weaknesses, or instances of non-compliance. The system of governance, risk management, and control requires improvement to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable</b>	The review highlighted a generally sound system of governance, risk management and control in place. We identified some issues, non-compliance or scope for improvement which may put at risk the achievement of objectives in the area audited.
<b>Substantial</b>	The review confirmed a sound system of governance, risk management and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Organisational Risk Assessment Definitions	
Assessment	Organisational Risk & Reporting Implications
<b>High</b>	Our audit work includes areas that we consider have a high organisational risk and potential significant impact. Both senior management and the Audit Committee should consider key audit conclusions and resulting outcomes.
<b>Medium</b>	Our audit work includes areas that we consider have a medium organisational risk and potential impact. The key audit conclusions and resulting outcomes warrant further discussion and attention at senior management level.
<b>Low</b>	Our audit work includes areas that we consider have a low organisational risk and potential impact. We believe the key audit conclusions and any resulting outcomes still merit attention, but could be addressed by service management in their area of responsibility.

Categorisation of Actions	
In addition to the organisational risk assessment it is important to know how important the individual management actions are. Each action has been given a priority rating with the following definitions:	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

*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).*