



## **Herefordshire Council**

Report of Internal Audit Activity

Plan Progress 2014-15 up to 20<sup>th</sup> February 2014

# Contents

---

## The contacts at SWAP in connection with this report are:

### Gerry Cox

Chief Executive

Tel: 01935 385906

[gerry.cox@southwestaudit.co.uk](mailto:gerry.cox@southwestaudit.co.uk)

### Ian Baker

Director of Quality

Tel: 07917628774

[ian.baker@southwestaudit.co.uk](mailto:ian.baker@southwestaudit.co.uk)

### Jacqui Gooding

Assistant Director

Tel: 01432 260426 or 07872500675

[Jacqui.gooding@southwestaudit.co.uk](mailto:Jacqui.gooding@southwestaudit.co.uk)

## Summary:

|                                     |        |
|-------------------------------------|--------|
| Role of Internal Audit              | Page 1 |
| Overview of Internal Audit Activity |        |

## Internal Audit Work Plan 2014/15:

|                                |           |
|--------------------------------|-----------|
| Report on Significant Findings | Pages 2-4 |
| Audit Plan Progress            | Pages 5-6 |
| Future Planned Work }          |           |
| Conclusions }                  | Pages 7-8 |

## APPENDICES:

|                                       |              |
|---------------------------------------|--------------|
| 2014-15 Annual Plan Progress          | Appendix 'B' |
| High Priority Service Recommendations | Appendix 'C' |
| Audit Framework Definitions           | Appendix 'D' |



Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

## Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 23<sup>rd</sup> June 2014.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- School Themes
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Reviews

## Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Chief Financial Officer (Section 151 Officer) following consultation with the Senior Management Team. This year's (2014/15) Plan was presented to this Committee on 23<sup>rd</sup> June 2014.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

## Report on Significant Findings/Risk

Appendix B is a summary of the Annual Plan for 2014/15 – a list of all audits as agreed in the Annual Audit Plan 2014/15. It is important that Members are aware of the status of audits as this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Where a review has a status of ‘Completed’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since my last report Procurement and four school audits have been assessed as ‘Partial’ and one school has been assessed as ‘No Assurance’ and I include the Auditor’s Opinion as follows:

- **Procurement**

The purpose of this audit was to assess the Council’s achievement against the objective to maintain a robust procurement process, which includes up to date systems, so that best value is achieved; and to support staff in compliance with the procurement rules.

The review has been split into two main elements: review of the Council’s documentation and the activities of the Commercial Services team in supporting procurement activity, and assessment of a sample of contracts identified through purchasing records for compliance with requirements.

The Council’s guidance to staff was found to be largely satisfactory, with some minor enhancements recommended. I was also able to confirm that the Commercial Services team are appropriately equipped and resourced to support the wider organisation, with each Directorate allocated a specific officer as a point of contact. Progress in making improvements within each Directorate is ongoing, and staff demonstrated a clear knowledge of upcoming issues. The team is also involved in strategic improvements, including joint working initiatives.



These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

## Report on Significant Findings/Risk

However, the team is only able to advise on current and future procurement activity. The review of sampled purchases identified that many Service Managers do not hold documentation to support the contract award decision and in some cases contract documentation was not provided.

Decisions made and document retention by Service Managers is outside the control of the Commercial Services team, but indicates that the training programme currently being rolled out is a timely and appropriate initiative.

Consequently, I consider the Council’s priority should be the identification of all purchasing where a contract is or should be in place. Once the Council has identified any gaps in its current records, improvements in monitoring and supporting contract managers to prevent inappropriate procurement can be undertaken. A new e-tendering system is currently planned and should assist in maintaining an adequate contracts register. Once this is in place, monitoring should assist in identifying issues and any training needs, to feed in to the current training initiative.



These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

- **Schools**

Schools manage substantial sums of public money and consequently need to be safeguarded. Having adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers is also one of the 23 questions that make up the Schools Financial Value Standard (SFVS). A school needs to ensure that it has a robust system of controls to safeguard itself against fraudulent or improper use of public money and assets; and these arrangements should both prevent malpractice, and enable prompt detection should it nonetheless occur.

The Prevention of Fraud themed audit reviewed six schools. This is only a small sample of schools and the findings below do not suggest that all schools have inadequate controls in place to prevent fraud. It is also important to note that there was no evidence of fraud identified at the schools.

These findings should be taken in the context of the scope of this review and do not in any way impact on the Council’s priority of protecting and providing a good education for all children.

There were a number of key findings that we consider to be important for management to address. The following is a summary of the key findings.

- a) Not all of the governors and staff with financial responsibilities had completed a declaration of business interests
- b) There was a lack of authorisation and segregation of duties in the purchasing process and in one case evidence of password sharing for the Financial Management System
- c) The Finance Policy was not comprehensive and required updating in many areas, including fraud and theft
- d) Induction arrangements for finance governors was not in place at all schools

**These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘**

- e) There was insufficient segregation of duties for the collection and banking of income for official and unofficial funds and in some cases no clear audit trail of of income from receipt to banking
- f) Unofficial funds have not been audited for a number of years at some schools; are not reconciled on a regular basis; and supporting documentation was not available for all payments made
- g) There was evidence of mixing of official and unofficial funds however this was due to lack of understanding and in one case provided a manageable banking option
- h) Reconciliation of the imprest account (petty cash) not performed on a monthly basis

Each school was very receptive to the audit process and all schools have agreed to an implementation timetable to address weaknesses identified.

No significant corporate risks have been identified since my last report on 2014/15 plan.

## Completed Audit Assignments in the Period

## Audit Plan Progress

The summary of the Annual Plan for 2014/15 (Appendix B) highlights progress to date. Based on the findings of each review, an overall control assurance is offered. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Risk Levels, please refer to [Appendix 'C'](#).

As can be seen from [Appendix 'B'](#), the following audits have been progressed to date:

### Operational:

- Complete, 1 review (Partial)
- Draft, 1 review
- In Progress, 3 reviews
- In Development, 4 reviews

### Governance, Fraud and Corruption:

- Complete, 6 reviews – (2 Reasonable, 4 Non-Opinion)
- Draft, 1 review
- In Progress, 1 reviews
- Not Started, 1 review

### Follow Up Reviews: (Non-Opinion)

- Complete, 4 Reviews
- Draft, 1 Review

### School Themes –: Prevention of Fraud

- Complete, 6 reviews (1 Reasonable, 4 Partial, 1 No)
- In Progress 6 reviews



## Completed Audit Assignments in the Period

## Audit Plan Progress

### Key Control:

- Complete, 4 reviews (1 Substantial, 3 Reasonable)
- Draft Report, 1 review
- In Progress, 4 Reviews

### ICT Reviews:

- Complete, 1 review (Substantial)
- Draft, 1 review
- In Progress, 2 reviews

### Grants:

- Complete, 4 Claims,
- Draft, 1 Claim

### Special reviews

- Complete 1 review (Non-Opinion)

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

## Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested by the Chief Financial Officer (Section 151 Officer).

No reviews have been requested since my last update.

## Future Planned Work

As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Chief Financial Officer. There have been a number of changes to the plan since my last report. Five audits have been removed – Registrar and Coroners, Accounts Payable follow up, Payroll follow up, Hardware Asset Management and Peer Challenge/Benefits Realisation, Safer Recruitment to provide capacity for the following additional work:

Colwall School, Troubled Families, Transport Capital Funding, Agresso upgrade, Expenses Self Serve.

## Conclusion

Good progress continues to be made against the 2014/15 plan. Four reviews have received Partial Assurance and one review No assurance but we have not identified any significant corporate risks from these.

The School theme review – Prevention of fraud was to give assurance that Schools have adequate controls in place to safeguard against fraudulent or improper use of public money and assets has identified some significant findings and it was agreed to extend the review across more Schools. This work is currently in progress but I have reported above the significant findings identified to date.

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

## Conclusion

Key Control audits that have been completed to date have not resulted in any significant findings.

The Special review reported in my last update is now at Final report. There are a number of recommendations that have been agreed with management to improve planning, procedures and to define roles and responsibilities which will help to mitigate the risk of similar situations occurring in the future.

I will continue to update Members on progress against the plan and although hope to deliver the full annual plan there will inevitably be some carry forward into the new year.

