

Appendix A

Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2018/19 Quarter 3/4

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 848540

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

➡	Role of Internal Audit	Page 1
➡	Internal Audit Work Programme – Summary of Partial Assurances	Page 2 -7
➡	Follow Up Audits	Page 7-8
➡	Added Value	Page 9
➡	Summary of Control Assurance and Summary of Recommendations	Page 10-11
➡	Approved Changes to the Audit Plan	Page 12
➡	Conclusion	Page 12
➡	Appendices:	
	Appendix B – Internal Audit Definitions	Page 13 - 14
	Appendix C – Internal Audit Work Plan	Page 15 - 18

Internal Audit Plan Progress 2018/19

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 SWAP Internal Audit Services (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 the CIPFA Local Government Application Note. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 21 March 2018.

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
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit Plan Progress 2018/2019

Outturn to Date



Internal Audit Work Programme

The schedule provided at Appendix C contains a list of all audits as agreed in the Annual Audit Plan 2018/19. 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.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in Appendix B of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in the audit receiving a ‘Partial Assurance Opinion’ is given as part of this report.

In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

Internal Audit Plan Progress 2018/2019

Outturn to Date



Internal Audit Work Programme

This is the quarter 3/4 update for 2018-19. Seven audits have been completed since my last update and there are two audits at Draft report and ten audits in progress. Six audits were assessed as Reasonable assurance and three priority 2 findings were identified across the six audits. One audit was a follow up audit.

The following audits have been completed since the last update:

Audit	Assurance
Emergency Planning – Public Health	Follow Up
Hoople	Reasonable
Honorarium, Market Forces and Standby and on call payments	Reasonable
Compliance with contract and financial procedure rules – revenue	Reasonable
Accounts Receivable	Reasonable
Accounts Payable	Reasonable
Internal Communications	Reasonable

Internal Audit Plan Progress 2018/2019

Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit and Governance Committee.



Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.

Internal Audit Plan Progress 2018/2019

SWAP Performance - Summary of Partial Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.



Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

Two audits assessed as Reasonable assurance reported three significant findings. The significant findings have been summarised below.

Hoople – Reasonable

Hoople Ltd was created in 2011 by the Council as a 'Teckal' company. The original Shared Services Agreement was drafted in April 2011 between the Council and the Shared Services Partnership Ltd. The Council and Wye Valley NHS Trust are the two shareholders with 85% and 15% shareholding respectively. The current Hoople Ltd Board who govern Hoople Ltd currently comprises of one Board member from Wye Valley NHS trust; one cabinet member from the Council and the Director of Economy and Place, each role having equal voting rights on Board decisions. The Council, as the majority shareholder, recognises Hoople Ltd service provision and the partnership which is inclusive of honesty, openness and transparency.

The objective of the audit was to confirm that Hoople contracted services are delivered in accordance with the terms and conditions of the service level agreement contract and the desired outcomes are achieved.

Most of the areas reviewed were found to be adequately controlled and risks were found to be monitored, reported, reviewed and discussed through to Board level.

There was one priority 2 finding identifying improvements required in the calculation of some KPIs. During audit testing we found that not all KPIs had written KPI methodologies in support of the KPI calculation and on re-performance testing of original KPI calculations we found that some KPIs reported different figures and supporting data for original calculations was not always retained for a set period.

The Commercial and Contracts Manager has accepted the recommendation and will put actions in place to address the findings by 31st March 2019.

Internal Audit Plan Progress 2018/2019

SWAP Performance - Summary of Partial Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.



Summary of Partial Assurances and significant service findings (Priority 1 and 2)

Compliance with contract and financial procedure rules – revenue – Reasonable

The previous audit report on Commissioning and Procurement was completed in October 2016 and identified that the Council's Contracts register required a review due to inconsistencies in the contract information recorded by Directorates and the Commercial Team and highlighted a risk that the Council may not be able to demonstrate compliance with procurement legislation.

The objective was to review that External Supplier expenditure is in accordance with Financial, Procurement and Contract Rules and to test that operational processes are meeting external codes of practice, best practice and statutory regulations. This audit only included Revenue contracts up to the current EU threshold of £181K and sampled a selection of Low, Medium and High value contracts across all Directorates currently live within the Council's Contracts Register and being serviced within BusinessWorld.

The Commercial Team provide good training, support and advice to the Directorate commercial teams throughout the initial procurement stages of a contract. The Council has in place Contract Procedure Rules and Finance Procedure Rules. There is localised Directorate reliance on compliance with the CPRs and FPRs. However, there is no centralised governance control and oversight in place which includes supplier contract compliance; monitoring and review of value for money and whole contract life management

There were two priority 2 findings:

Central Governance Oversight The primary role of the Commercial Team is to provide advice on procurement process. The Contract Register has a Governance button but there was uncertainty how this should be used, and a number of contracts sampled from the Contract Register did not have the Governance button ticked as Yes. A centralised control should be put into place in support of the governance process before the Commercial Team assist with the procurement process in order to formally establish that all of key governance requirements have been fully completed.

Internal Audit Plan Progress 2018/2019

SWAP Performance - Summary of Partial Opinions

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.



Summary of Partial Assurances and Significant Service Findings (Priority 1 and 2)

The recommendation has been agreed with Chief Finance Officer with a target date for completion of May 2019.

Spend Analysis

There is no current centralised spend analysis being conducted on whether it would be beneficial for the Council to enter into a contract arrangement with a supplier. Without regular spend analysis there is a risk that the Council may not be maximising value for money.

The Chief Finance Officer has agreed to review the best way of achieving regular spend analysis in order to inform the relevant Directorates whether it would be beneficial to enter into a contract arrangement, whether there is a Framework agreement in place which could be utilised or to advise Directorates of how they can be supported with procurement strategies. The target date for completion is June 2019.

Follow Up Audits

Follow Up Audits

Follow Up audits are completed where the auditor could only provide partial assurance. The follow-up audit is to provide assurance to the Director, Senior Management and the Audit and Governance Committee that the key risks have been mitigated to an acceptable level of risk. Evidence is obtained to demonstrate implementation and progress made in relation to all 2017-18 priority 4 and 5 recommendations. For the priority 3 recommendations progress reported is based on self-assessment by relevant officers. The following table demonstrates progress against agreed actions at the time of the follow up audit completed and correct when this report was prepared on 12 February 2019. The overdue recommendation has a revised target date of 31 May 2019.

Priority of recommendation	Complete	Overdue	Not yet due	In Progress	Superseded
Emergency Planning					

Internal Audit Plan Progress 2018/2019

4	1	1	0	0	0
3	6	0	0	0	0

Follow Up audits are completed where the auditor could only provide partial assurance.



Follow Up Audits

Internal Control Improvement Board

The further follow up audit is in progress with the majority of testing complete however the report is currently in progress and has yet to be issued to relevant officers. Once the report has been finalised, I will provide the Committee with a copy of the report. For the meeting today I have provided a summary of the audit findings for the work completed to date.

In quarter 2 2018/19 a follow up audit was undertaken for Blueschool House Refurbishment Special Investigation. At this time, it was not possible to assess the overall effectiveness of the control improvements either implemented or in progress because some key deliverables were incomplete. This was in part attributed to the development of in-house project management software, which was not providing all the requirements to satisfy the business need.

The positive findings identified in the previous review are still evident and becoming embedded across the Council:

- Council governance - Modern.Gov system software is utilised to accept/amend or challenge decision reports before submission. Each decision paper must be approved through legal, governance, finance, procurement, risk and communication.
- Governance training – new constitution, use of Modern.Gov, decision making, and report writing is available throughout the year.
- Introduction to Procurement – comprehensive workshop or on-line training is available regularly.
- Financial – overarching holistic view of the capital programme. Monthly monitoring of both revenue and capital expenditure associated with projects.
- Culture – officers within the Council continue to recognise the need for accountability, transparency and a good audit trail.

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

Internal Audit Plan Progress 2018/2019

Follow Up audits are completed where the auditor could only provide partial assurance.

In October 2018 the Council's Management Board agreed to roll out 'Verto,' an industry standard Project Management software, used by many councils and already employed within the Adult and Community Directorate. This was to replace the in-house project management software.

Follow Up Audits

The South Wye Transport Package was one project that was considered for review as part of this follow up. However following review of progress of the project and discussion with the Strategic Capital Finance Manager it was determined that the project was not at a point on its journey where it could be used to test compliance with the actions put in place following Blueschool House and would not enable us to form a view at this stage as part of this follow up. The South Wye Transport package has been included in the 2019-10 Internal audit plan as a Governance review in quarter 1 and compliance with the recommended internal controls improvements will be tested as part of that audit.

This work completed to date as part of the follow up found that there were still some areas where although significant progress has been made there are some actions that need to be completed to ensure governance and internal control of projects is fully embedded:

- 'Verto,' to be embedded as the project management system so all projects which meet the criteria for inclusion on the software are captured. Additional project managers have recently been recruited and more are planned to support project management using the software.
- Some change requests to 'Verto' to match business needs are still in progress.
- All projects need to be assessed under the project scorecard to determine the risk rating and apply an appropriate level of project management.
- A designated Project Board should be put in place should be put in place for each project that falls under a higher-level delivery board.

From the financial year 2019-20 quarterly Management Board meetings are planned, dedicated to the review of capital projects. This will be supported at the directorate levels, where projects will be monitored at both existing and newly formed monthly delivery boards.

Internal Audit Plan Progress 2018/2019

In conclusion the infrastructure is in place to have a solid control framework, which needs to be fully embedded. At this stage there is no reason to believe that this will not happen, but as always good oversight will be required.

Internal Audit Plan Progress 2018/2019

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 followings audits have provided a cross comparison survey for the SWAP Partners:

Internal Communications - The cross comparison undertaken demonstrated that Herefordshire Council’s communications is not out of line with other local authorities but there are channels used elsewhere, which may benefit the organisation.

Elections – Compliance with Data Protection Act 2018 - Comparisons were made against the different data subjects, the methods used to collect data, the notification methods used for the purpose and legal basis for processing the data, retention periods for both paper documents and electronic records, the security arrangements that are in place for both paper and electronic documents, the parties to which data is shared and the methods used to share this data.

Parking Services - Parking is one of the key sources of income for a Council. The benchmarking covered areas they for consideration to improve the service or increase the income received from car parks.

The findings of each survey have been shared with the SWAP Partners.

Internal Audit Plan Progress 2018/2019

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

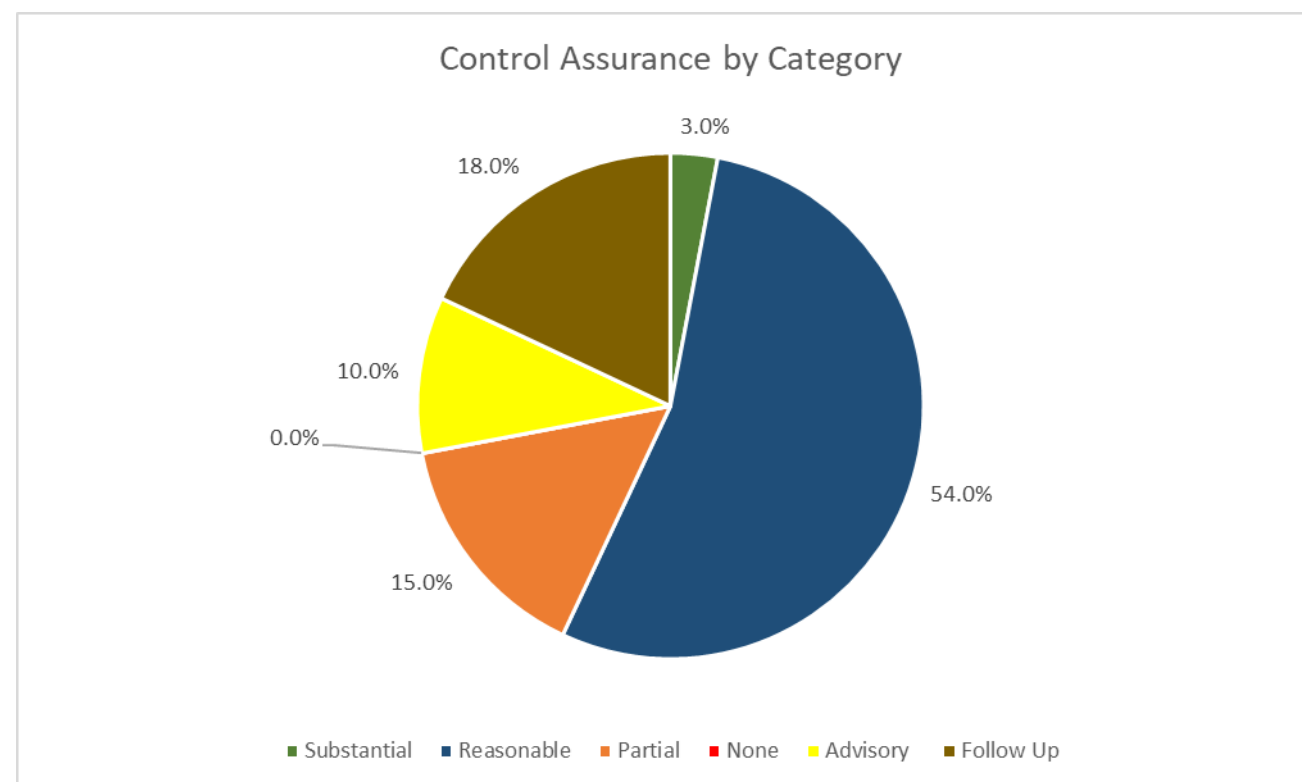
We also undertake Advisory / Non-Opinion work on a consultancy basis where we have been asked to look at a specific area of potential concern.

Where we follow up on a previous adverse audit opinion the opinion is stated as follow up.



Summary of Audit Opinion

Of the reviews that have a final report, the opinions offered are summarised below.



Internal Audit Plan Progress 2018/2019

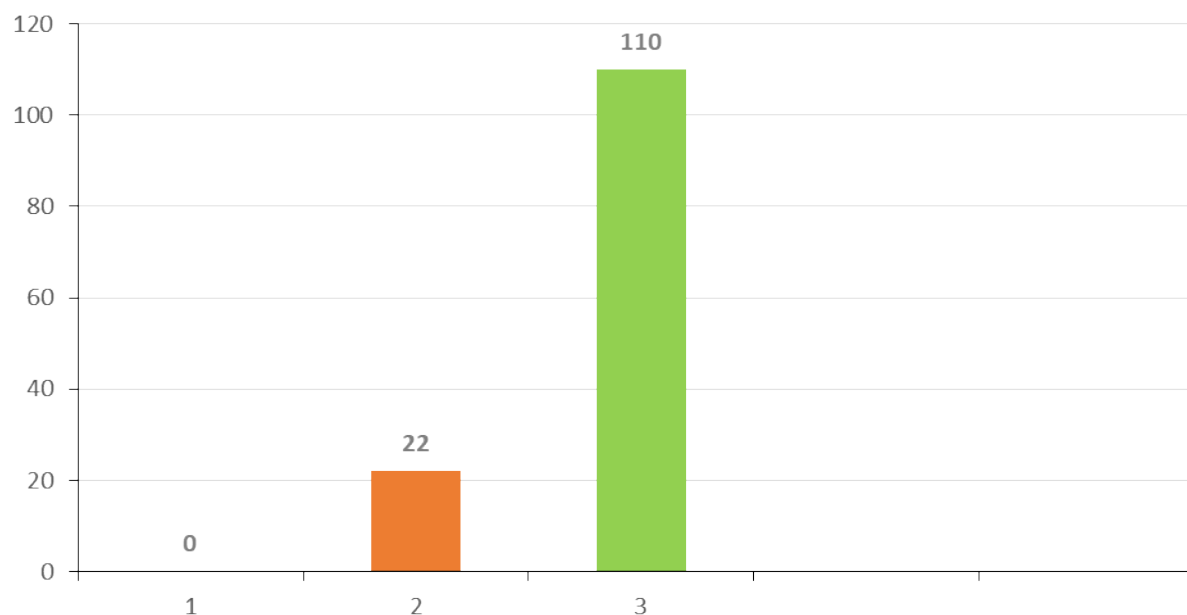
Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 3, with 3 being medium or administrative concerns to 1 being areas of fundamental concern requiring immediate corrective action.



Summary of Recommendations

Audit Recommendations by Priority



Internal Audit Plan Progress 2018/2019

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



Approved Changes to the Audit Plan

Unplanned work, special reviews or projects carried out on a responsive basis are requested through the Chief Finance Officer (Section 151 Officer). As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Chief Finance Officer (Section 151 Officer) and reported to this Committee.

There have been no changes since my last update.



Conclusion

Thirty- nine audits have been completed and there are two audits at draft report and a further ten audits are in progress. The completed audits are currently reporting 3% substantial assurance, 54% reasonable assurance and 15% partial assurance. There have been no significant corporate risks identified.

Recommendations have been made for improvement at service level and all findings have been accepted by management and a target date agreed for implementation. No areas of significant corporate concern have been identified.

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. The current feedback score for the Council is 100%.

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

- Substantial
- Reasonable
- Partial
- None
- Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	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	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	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	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.

Advisory - In addition to our opinion-based work we will provide consultancy services. The advice offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Risk	Reporting Implications
	In addition to the corporate risk assessment it is important that management 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. Each recommendation has been given a priority rating at service level with the following definitions:
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

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

Summary of Partial Opinions

APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
Governance, Fraud & Corruption	NMITE Project (University)	1	Completed	Reasonable	4	0	1	3
Governance, Fraud & Corruption	Joint Use Agreement - Ledbury Rugby Club	1	Completed	Advisory	2	0	0	2
Governance, Fraud & Corruption	Highways Projects - Capital Spend	1	Draft Report					
Operational	Building Control	1	Completed	Reasonable	7	0	0	7
Operational	Special Educational Needs Transport	1	Completed	Partial	7	0	4	3
Operational	Property Maintenance - Schools	1	Deferred to 2019-20	-	-	-	-	-
Operational	Internal Communications	1	Completed	Reasonable	5	0	0	5
Operational	Records Management	1	Completed	Reasonable	3	0	0	3
Schools	Schools Financial Value Standard - School 1	1	Completed	Partial	13	0	5	8
Schools	Schools Financial Value Standard - School 2	1	Completed	Reasonable	5	0	1	4
Schools	Schools Financial Value Standard - School 3	1	Completed	Partial	8	0	2	6
Schools	Schools Financial Value Standard - School 4	1	Completed	Reasonable	7	0	0	7
Operational	Safer recruitment - Children's Wellbeing - Staff and Agency Staff	1	Completed	Reasonable	6	0	0	6
ICT	Patch Management	1	Completed	Reasonable	4	0	0	4
ICT	IT Access Controls –Mosaic and other systems used by AWB and CWB	1	Completed	Partial	6	0	2	4
Follow Up	Deprivation of Liberties	1	Completed	Follow Up	-	-	-	-
Key Control	Council Tax	2	Completed	Reasonable	2	0	0	2

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium Recommendation		
						1	2	3
Key Control	Housing Benefit and Council Tax Reduction	2	Completed	Reasonable	2	0	0	2
Governance, Fraud & Corruption	NMITE Project (University) End of July 18 assurance	2	Completed	Advisory		–	–	–
Governance, Fraud & Corruption	Corporate Peer Challenge	2	In Progress					
Governance, Fraud & Corruption	Internal Control Improvement Board	2	Completed	Follow up	-	-	-	-
Grant Certification	Local Transport Block Funding – Grant Certification	2	Completed	Reasonable	1	0	0	1
Governance, Fraud & Corruption	Effectiveness of programme Boards for major system changes/projects	2	Not Started					
Operational	Health and Safety	2	Completed	Partial	6	0	2	4
Operational	Compliance with contract and financial procedure rules – revenue	2	Completed	Reasonable	9	0	2	7
Operational	Hoople	2	Completed	Reasonable	5	0	1	4
Operational	Integrated Short Term Support and Care Pathway - DToC plan – Front Door Customer Service – Redirected.	2	Completed	Reasonable	5	0	0	5
Operational	Client finance System - Interface between all systems –	2	Deferred to 2019-20	-	-	-	-	-
Operational	Use of regional framework for foster care	2	In Progress					
ICT	Third Party Agreements (including Cloud)	2	Completed	Partial	6	0	2	4
Key Control	Accounts Payable	3	Completed	Reasonable	2	0	0	2
Key Control	Main Accounting	3	Completed	Substantial	1	0	0	1
Key Control	Payroll	3	Completed	Reasonable	4	0	0	4
Key Control	Accounts Receivable	3	Completed	Reasonable	2	0	0	2

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Key Control	Capital Accounting	3	Completed	Reasonable	2	0	0	2
Key Control	NNDR	3	Discussion Document					
Governance, Fraud & Corruption	NMITE Project (University) End of October 18 assurance	3	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Declaration of personal and business interests	3	Removed	-	-	-	-	-
Grant Certification	Redundant Building Grant Funding	3	Not Started					
Operational	Local population forecast using for future planning such as house building requirement	3	Removed	-	-	-	-	-
Grant Certification	Troubled Families – Monthly assurance on claims to end of March 2019	3	In Progress					
Operational	Integrated Short Term Support and Care Pathway - County Teams	3	Draft Report					
Governance, Fraud & Corruption	Children's centres – governance and financial control	3	Deferred to 2019-20	-	-	-	-	-
Operational	Care Workforce Project – support to Domiciliary Care Agencies recruitment	4	Not Started					
Operational	Contract Monitoring	4	In Progress					
Governance, Fraud & Corruption	NMITE Project (University) End of January 19 assurance	4	In Progress					
Governance, Fraud & Corruption	EU General Data Protection Regulation	4	In Progress					
Operational	P- Cards	4	In Progress					
Operational	Mandatory Training	4	Deferred to 2019-20	-	-	-	-	-
Governance, Fraud & Corruption	Treasury Management Counterparty	3	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Blue Badges	4	Completed	Reasonable	5	0	0	5

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 3 = Medium		
						Recommendation		
						1	2	3
Operational	Development Regeneration Partnership	4	Not Started					
Operational	AWB Contract Management	4	In Progress					
Governance, Fraud & Corruption	Quality Assurance Framework	4	In Progress					
Operational	Homepoint - Review of new provider	4	Deferred to 2019-20	-	-	-	-	-
Follow Up	Internal Control Improvement Board	4	In progress					
Schools	Prevention of Fraud (Schools)	4	In Progress					
Follow Up	Serious and Organised Crime Audit checklist	4	Not Started					
Follow Up	Data Sharing Protocols with partners and third parties	4	Completed	Follow Up	-	-	-	-
Follow Up	Market Intelligence	4	Completed	Follow Up	-	-	-	-
Follow up	Emergency Planning - Public Health	4	Completed	Follow Up	-	-	-	-
Operational	Honorarium, Market Forces and Standby and on call payments	4	Completed	Reasonable	3	0	0	3
Follow Up	Annual Care Assessment -Social Care Workforce Performance	4	Completed	Follow Up	-	-	-	-
Follow Up	Short Breaks - Children's Wellbeing	4	Not Started					
Follow Up	Public Health Contracts	4	Not Started					
Follow Up	Data Quality - Decision Making Reports and Corporate Budget Performance Reports	4	Completed	Follow Up	-	-	-	-
Follow Up	CHC Funding	4	Completed	Follow Up	-	-	-	-