

In partnership with



# Herefordshire Council

## Annual Report and Opinion 2018-19

### Appendix A

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

Unrestricted

# Contents

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

### David Hill

Chief Executive

Tel: 01935 848540

[david.hill@swapaudit.co.uk](mailto:david.hill@swapaudit.co.uk)

### Ian Baker

Director Executive

Tel: 01935 848540

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

### Jacqui Gooding

Assistant Director

Tel 07872500675

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

➡	Summary:		
	Purpose		Page 1
	Scope		Page 2
	Annual Opinion		Page 3-5
➡	Summary of Audit Work:		
	High Corporate Risks		Page 5
	Partial Assurance Audit Summary		Page 6
	Summary of Control Assurance Opinions		Page 7
	Summary of Recommendations		Page 8
➡	Plan Performance:		
	Value Added		Page 9
	Team Performance		Page 10
➡	Appendix 1	Summary of Work Plan	Page 11-17
	Appendix 2	Annual Opinion Definitions	Page 18

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

## **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, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities;
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives;
  - the effectiveness of risk management processes;
  - 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
- 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 and the Annual Internal Audit Opinion given.

### Three lines of defence

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

The 'Three Lines of Defence' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

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

### Scope

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.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of the Internal Audit team for the 2018/19 year against the Internal Audit Plan (approved by the Audit and Governance Committee on 21 March 2018).

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



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

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

### Annual Opinion

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

- Completed audits (during the year 2018/19) which evaluate risk exposures (including new and emerging risks) 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 consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk 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, regulator reports etc.

Opinions are a balanced reflection not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources (including advice/ consultancy work). The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

After considering the above, the Annual Opinion Definitions (which differ from assignment assurance definitions) are explained in Appendix 2.

This Annual Opinion informs the Review of Effectiveness within the Annual Governance Statement.

Internal Audit has not reviewed all risks and assurances relating to Herefordshire Council and cannot provide absolute assurance on the internal control environment. Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control.

Over the year, the Internal Audit Team have found Senior Management of Herefordshire Council to be supportive of Internal Audit findings and responsive to the recommendations made. In addition,

## Annual Opinion Continued

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.

## Annual Opinion

Generally, the follow up work confirms the responsive nature of management at Herefordshire Council in implementing agreed recommendations to mitigate exposure to areas of significant risk. Follow up audits completed in the year have not identified any significant issues regarding non-implementation of recommendations.

54% of completed audits received Substantial or Reasonable assurance opinions in relation to the control environment. Of the audits completed in 2018/19 (57 in total), there are 10 areas (18%) that have been awarded Partial assurance opinions in relation to their control environment (none of them Key Financial Control Systems). The findings within these audits have been accepted and appropriately addressed by management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit as part of the 2019/20 Plan. Further details of audits with Partial assurance opinions can be found on page 8.

A small number of audits (5) remain at in review or are still in the process of being finalised.

A number of audits originally scheduled in the internal audit plan have been removed or deferred over the course of the year and are detailed in the Appendix to this report. A number of unplanned audits have been added to the plan over the year as the need arose and the risk environment altered. These changes have ensured audit resources have been focussed where it matters.

There are no specific concerns in relation to fraud risk at this time and there have been no fraud investigations in the year. Internal Audit have however completed assurance work for Treasury Management Counterparty, Section 20 Children Accommodated by the Local Authority and Honorarium, Market Forces and Standby and on call payments; plus further review of progress against the recommendations addressed by the Internal Control Improvement Board following concerns that were raised in these areas.

There will be occasions where audit make recommendations to mitigate risk exposure and after consideration of the recommendation, the service decide to accept the risk. In 2018/19, there have been no instances to bring to the attention of the Audit and Governance Committee.

## Annual Opinion Continued

## Definitions of Corporate Risk

### High Risk

**Issues that we consider need to be brought to the attention of both senior management and the Audit and Governance Committee.**

### Medium Risk

Issues which should be addressed by management in their areas of responsibility.

### Low Risk

Issues of a minor nature or best practice where some improvement can be made.

## Annual Opinion

Although no areas of significant risk have been identified there have been findings where governance processes or guidance are not always followed to ensure compliance with existing procedures in place across the Council. Management is responsible for ensuring compliance to policies and procedures and should have oversight to address non-compliance.

The Council has recognised Governance as an area for improvement and the new Council structure with a corporate services centre will assist in supporting managers and responsible officers to follow processes and address corporate oversight where there are gaps in control.

I have considered the balance of 2018/19 audit work, the sources of information referred to above and outcomes against this environment enhanced by the work of external agencies and am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

## High Corporate Risk

For those audits which have reached report stage through the year, none have been assessed as a 'High' Corporate Risk.



## Assurance Definitions

### Assurance Definitions

<b>None</b>	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.
<b>Partial</b>	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.
<b>Reasonable</b>	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.
<b>Substantial</b>	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.

## Partial or None Assurance Summary

The following audits received a Partial assurance opinion in respect of their control environments in 2018/19. Each audit will have a follow up audit in 2019-20.

<b>Audit Name</b>
Highways Projects – Financial Reporting
Special Educational Needs Transport
Schools Financial Value Standard - School 1
Schools Financial Value Standard - School 3
IT Access Controls –Mosaic and other systems used by AWB and CWB
Health and Safety
Use of regional framework for foster care (External Residential and Fostering Placements
Third Party Agreements (including Cloud)
EU General Data Protection Regulation
Prevention of Fraud School 3

There were no audits assessed with the assurance opinion None.



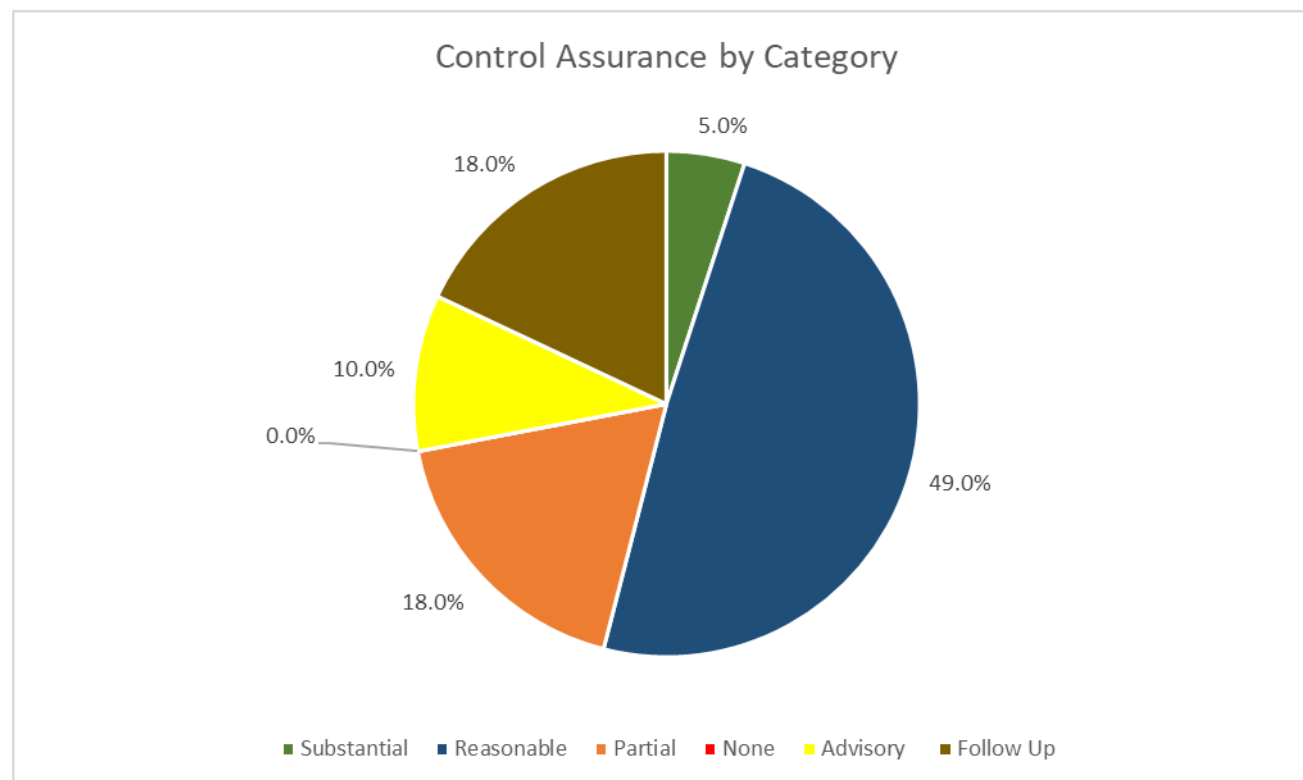
At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

#### Assurance Definitions

<b>None</b>	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.
<b>Partial</b>	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.
<b>Reasonable</b>	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.
<b>Substantial</b>	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.

#### Summary of Control Assurance Opinions

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



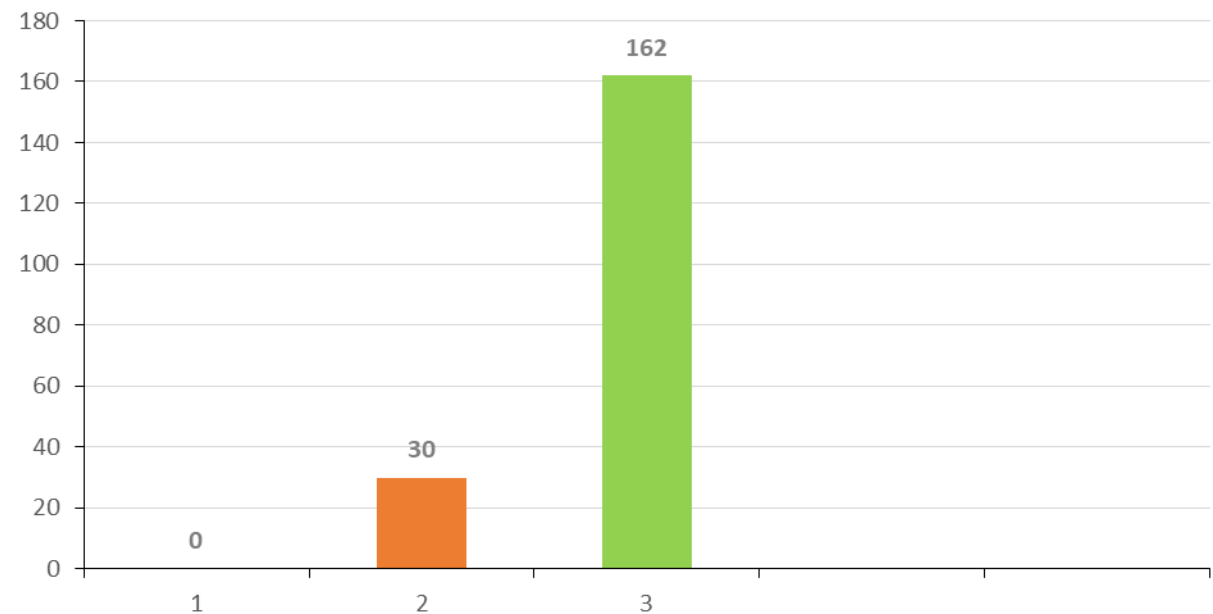
54% of audits resulted in a Substantial or Reasonable assurance opinion (2017/18: 48%); 18% in Partial assurance opinion (2017/18: 52%) and 0% in None assurance opinion (2017/18: 0%).

## 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



The number of Priority 2 (priority 4 in 2017-18) recommendations has reduced from 52 in 2017-18 to 30 for 2018-19. Priority 2 are more significant recommendations, important findings that need to be resolved by management. All recommendations made during 2018-19 have been accepted

by management who have provided a management response and target date for implementation.

## Value Added

**'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.'**



## Value Added

Throughout the year, Internal Audit has strived to add value wherever possible i.e. going beyond the standard expectations and providing something 'more' while adding little or nothing to the cost.

The section continues to provide advice and support on controls across the organisation and responds to requests to assist with specific pieces of work.

- *Attendance at working groups as required*
- *Participation in Knowledge Sharing and Benchmarking requests:*
  - *Building Control – requested by Herefordshire Council*
  - *SEN Transport – requested by Herefordshire Council*
  - *Electoral Registration*
  - *Sickness Management*
  - *Other Funding/Grants*
  - *Anti-Fraud and Corruption Policies & Strategies*
  - *Adult & Community Services Debt Management & Debt Recovery*
  - *Revenues Debt Recovery*
  - *Internal Communications – requested by Herefordshire Council*
  - *Elections*
  - *Parking Services*
- *Audited grant claims to ensure expenditure can be reclaimed from relevant bodies.*
- *Circulated Fraud alerts that we become aware of through professional networks.*

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).

## Internal Audit Team Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board and the SWAP Member Meetings. The respective outturn performance results for Herefordshire Council for the 2018/19 year are as follows;

Performance Target	Actual Performance
<b><u>Audit Plan – Percentage Progress</u></b>	
Final, Draft and Discussion 90%	98.4%
In progress/ Review	1.6%
Yet to start	0%
<b><u>Customer Satisfaction Questionnaire</u></b>	
Feedback 95%	99%

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice Framework of Internal Auditing as set by the Chartered Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). Both standards require an Internal and External Assessments (Standard 1300) of the Internal Audit function.

The standards require an External Assessment to be carried out at least every five years. SWAP was found to be in conformance with the International Professional Practices Framework and the Public Sector Internal Auditing Standards (PSIAS). As a result of the External Assessment, 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.

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2018/19 and the final outturn for the financial year.

At the conclusion of audit assignment work each review is awarded a “Control Assurance”, a summary of the assurance levels is as follows:

Assurance Definitions	
<b>None</b>	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.
<b>Partial</b>	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.
<b>Reasonable</b>	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.
<b>Substantial</b>	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.

Recommendations have been assigned a priority based on the following framework:

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level 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.

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Completed Audits								
Governance, Fraud & Corruption	New Model in Technology and Engineering (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 – Financial Reporting	1	Completed	Partial	5	0	1	4
Operational	Building Control	1	Completed	Reasonable	7	0	0	7
Operational	Special Educational Needs Transport	1	Completed	Partial	7	0	4	3
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



Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
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
Key Control	Council Tax	2	Completed	Reasonable	2	0	0	2
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	Completed	Reasonable	2	0	0	2
Grant Certification	Local Transport Block Funding – Grant Certification	2	Completed	Reasonable	1	0	0	1
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 - Delayed Transfer of Care plan – Front Door Customer Service – Redirected.	2	Completed	Reasonable	5	0	0	5
Operational	Use of regional framework for foster care (External Residential and Fostering Placements	2	Completed	Partial	7	0	1	6
ICT	Third Party Agreements (including Cloud)	2	Completed	Partial	6	0	2	4
Key Control	Accounts Payable	3	Completed	Reasonable	2	0	0	2

Audit Type	Audit Area		Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
							Recommendation		
							1	2	3
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
Key Control	Capital Accounting		3	Completed	Reasonable	2	0	0	2
Key Control	NNDR		3	Completed	Reasonable	5	0	0	5
Governance, Fraud & Corruption	NMITE Project (University) End of October 18 assurance		3	Completed	Advisory	-	-	-	-
Grant Certification	Troubled Families – Monthly assurance on claims to end of March 2019		3	Completed	Substantial	0	0	0	0
Operational	Integrated Short Term Support and Care Pathway - County Teams		3	Completed	Advisory	6	0	1	5
Governance, Fraud & Corruption	Section 20 Children Accommodated by the Local Authority		4	Completed	Reasonable	2	0	1	1
Governance, Fraud & Corruption	NMITE Project (University) End of January 19 assurance		4	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	EU General Data Protection Regulation		4	Completed	Partial	7	0	2	5
Operational	Procurement Cards		4	Completed	Substantial	3	0	0	3
Governance, Fraud & Corruption	Treasury Management Counterparty		3	Completed	Advisory	-	-	-	-
Governance, Fraud & Corruption	Blue Badges		4	Completed	Reasonable	5	0	0	5
Operational	Development Regeneration Partnership		4	Completed	Reasonable	5	0	0	5
Schools	Prevention of	School 1	4	Completed	Reasonable	1	0	0	1

Audit Type	Audit Area		Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
							Recommendation		
							1	2	3
	Fraud	School 2			Reasonable	4	0	0	4
		School 3			Partial	6	0	2	4
		School 4			Reasonable	7	0	0	7
Governance, Fraud & Corruption	Internal Control Improvement Board		4	Completed	Reasonable	-	-	-	-
Operational	Honorarium, Market Forces and Standby and on call payments		4	Completed	Reasonable	3	0	0	3
Completed Follow Up Audits									
Follow Up	Deprivation of Liberties		1	Completed	Follow up	-	-	-	-
Follow Up	Internal Control Improvement Board		2	Completed	Follow Up	-	-	-	-
Follow Up	Serious and Organised Crime Audit checklist		4	Completed	Follow Up	-	-	-	-
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	-	-	-	-
Follow Up	Annual Care Assessment -Social Care Workforce Performance		4	Completed	Follow Up	-	-	-	-
Follow Up	Short Breaks - Children’s Wellbeing		4	Completed	Follow Up	-	-	-	-
Follow Up	Data Quality - Decision Making Reports and Corporate Budget Performance Reports		4	Completed	Follow Up	-	-	-	-
Follow Up	Continuing Health Care Funding		4	Completed	Follow Up	-	-	-	-

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
<b>Audits in Progress</b>								
Governance, Fraud & Corruption	Effectiveness of programme Boards for major system changes/projects	2	Discussion Document					
Operational	Brokers Service - formally Care Workforce Project – support to Domiciliary Care Agencies recruitment	4	Discussion Document					
Operational	Contract Monitoring	4	Draft Report					
Operational	AWB Contract Monitoring – Quality Assurance Framework	4	Draft Report					
Follow Up	Public Health Contracts	4	In Progress					
<b>Audits Deferred/Removed</b>								
Operational	Property Maintenance - Schools	1	Deferred					
Operational	Client finance System - Interface between all systems –	2	Deferred					
Governance, Fraud & Corruption	Declaration of personal and business interests	3	Removed					
Grant Certification	Redundant Building Grant Funding	3	Deferred					
Operational	Local population forecast using for future planning such as house building requirement	3	Removed					
Governance, Fraud & Corruption	Children's centres – governance and financial control	3	Deferred					

Audit Type	Audit Area	Quarter	Status	Opinion Control Environment	No of Recs	1 = Major 2 = Moderate 3 = Minor		
						Recommendation		
						1	2	3
Operational	Mandatory Training	4	Deferred					
Operational	Homepoint - Review of new provider	4	Deferred					

Annual Opinion Definitions	
<b>None</b>	<p><i>A control framework is not in place to mitigate key risks. The organisation is exposed to abuse, significant error or loss and/or misappropriation. Objectives are unlikely to be met.</i></p> <p>serious systemic control weaknesses identified through aggregation of individual audit engagements significant number of critical and/or high risk rated weaknesses identified for isolated issues internal audit has serious concerns about managements approach to resolving identified issues.</p>
<b>Partial</b>	<p><i>The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.</i></p> <p>significant number of medium and/or critical risk rated weaknesses identified in individual audit engagements isolated critical and/or high risk rated weaknesses identified that are not systemic internal audit has concerns about managements approach to resolving identified issues</p>
<b>Reasonable</b>	<p><i>The control framework is adequate and controls to mitigate key risks are generally operating effectively, although a number of controls need to improve to ensure business objectives are met.</i></p> <p>medium risk rated weaknesses identified in individual audit engagements isolated high risk rated weaknesses identified for isolated issues no critical risk rated weaknesses were identified internal audit is broadly satisfied with management's approach to resolving identified issues.</p>
<b>Substantial</b>	<p><i>There is a sound framework of control operating effectively to mitigate key risks, which is contributing to the achievement of business objectives.</i></p> <p>no individual audit engagement classed as limited or no assurance occasional medium risk rated weaknesses identified in individual audit engagements although mainly only low/efficiency weaknesses</p>

internal audit has confidence in managements attitude to resolving identified issues.