

In partnership with



Appendix A

Herefordshire Council

Internal Audit Annual Opinion Report 2020/21

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

Internal Audit Annual Opinion – 2020/21: ‘At a Glance’

Annual Opinion



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

The Headlines

	No Significant Risks identified in year. No Priority 1 Recommendations made in year.
	57 reviews delivered as part of the 2020/21 Internal Audit Plan. Includes assurance, advisory and follow up reviews.
	Internal Audit staff redeployed to support the Council to assist with the COVID response. COVID 19 Business Grant processing and post payment checks.
	Completion of baseline assessment of maturity to fraud and introduction of fraud quarterly updates.
	Range of innovations and enhancements made to our internal audit process throughout the year. One-page audit report and quarterly planning.

Internal Audit Assurance Opinions 2020/21

Substantial	7
Reasonable (inc. Grant Certifications)	24
Limited	7
No Assurance	0
Internal Audit Agreed Actions 2020/21	
Priority 1	0
Priority 2	22
Priority 3	73
Total	95



Executive Summary

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, 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, and
 - 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 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.

Executive Summary

Three Lines Model

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' model is a way of explaining the relationship between these functions and as a guide 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, compliance.
- the third line – functions that provide independent assurance.

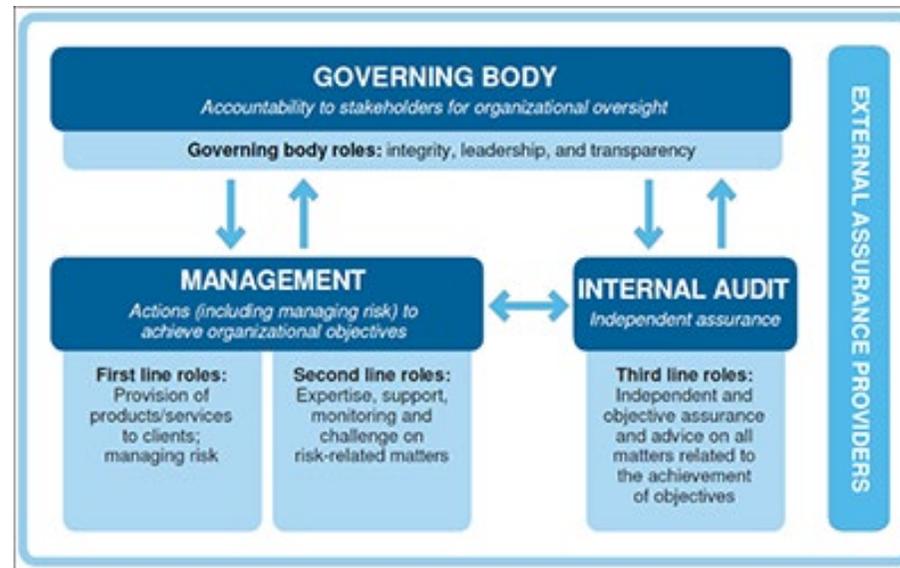


Background

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.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. This report summarises the activity of the Internal Audit team for the 2020/21 year.

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



Internal Audit Annual Opinion 2020/21

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.



Annual Opinion

On the balance of our 2020/21 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.

Just as in more normal times, audit work has been planned to ensure that sufficient assurance will be available to support the annual opinion. The professional requirements of PSIAS have remained unchanged and in line with these, new audit priorities to cover the risks from the impact of the COVID-19 pandemic have been agreed throughout the year and that work supports the annual opinion.

The additional audits performed to carry out assurance work on new risks associated with the COVID-19 pandemic emergency response were (these are identified clearly outlined within the summary audit table on pages 15 and 16):

- Work around business support grants including focused analytical work,
- Audit of COVID-19 grants,
- Relevant advisory work.

As a result of the additional work arising from the COVID-19 pandemic, it has been agreed to defer some of the less urgent audit work to 2021/22. Audits had to be deferred due to:

- Additional audit work on new risks associated with the COVID-19 pandemic being delivered.
- Some areas of the Council facing significant resource challenges as leading the Council's response to the pandemic, meaning key staff/information/systems not accessible to internal auditors.
- Redeployment of audit staff to support the Council's response reducing the resource base for internal audit.
- Some demands on internal audit for advisory and non-audit support work that may not directly support the audit opinion.

Plan Performance 2020/21

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

Planning meetings will be held with relevant officers for the 2021/22 plan and consideration will be given to all audits deferred from the 2020/21 plan for inclusion in the 2021/22 plan.

Largely the COVID-19 pandemic related work carried out was grant certification work and therefore we were able to give assurance opinions to support the annual opinion.

The following are considered key pieces of audit work that support the annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control:

- Key Financial Controls
- Medium Term Financial Strategy
- Commercial Investments
- Project Governance
- Contract/Commissioning

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, 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.

Generally, the follow up work confirms the responsive nature of management at Herefordshire Council in implementing agreed actions to mitigate exposure to areas of significant risk. There have however been some actions that have resulted in lengthy delays for implementation, mainly because of the complexity of implementing the action. This needs careful consideration when defining actions and targets dates for future work.

Although no areas of significant corporate risk have been identified there has been a number of findings around debt management and monitoring across various areas and as reported in my last annual opinion a number of findings relating to Record of Officer Decisions. Both these areas will need careful monitoring by management to ensure the actions are implemented to drive forward an improvement in both areas. Work has also been completed on the Hereford City Centre Transport Package (HCCTP) and a position statement was issued in September 2020. The position statement highlighted a number of issues, the main issue being the raising of

Plan Performance 2020/21

The Head of Internal Audit (SWAP Assistant Director) is required to provide an opinion to support the Annual Governance Statement.

compensation events. Further work has been requested by the Council and the findings of this work will be shared with the Committee.

Summary of Audit Work 2020/21

Definitions of Corporate Risk

High Risk

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



Significant Corporate Risks

For those audits which have reached report stage through the year, no risks were assessed as 'High' at corporate level.

Summary of Audit Work 2020/21

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

Assurance Definitions

No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.



Summary of Audit Opinion

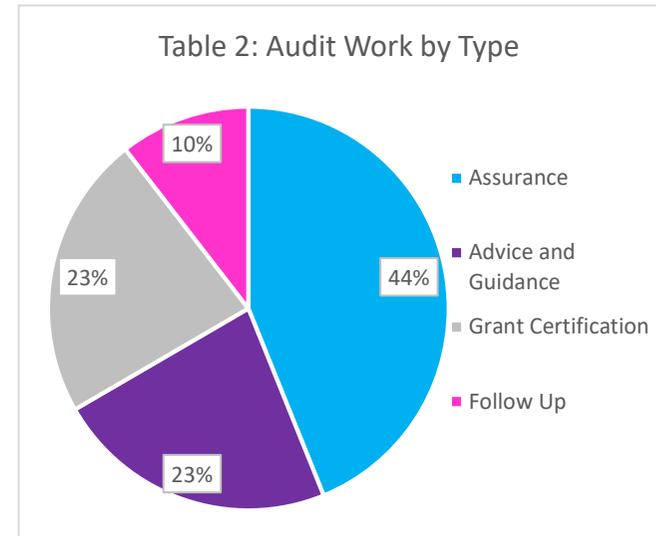
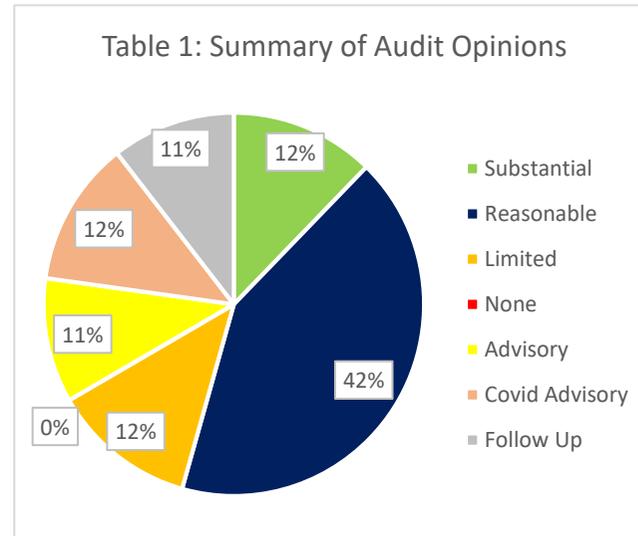


Table 1 above indicates the spread of assurance opinions across our work during the past year.

Table 2 indicates the audit work by type. Whilst assurance work is the main focus of internal audit, in a time of crisis such as the pandemic, internal audit has the knowledge and skills to be able to provide advisory work that supports the organisation through such turbulence. In addition, it was possible to progress COVID related advisory work whilst our normal assurance work was temporarily paused.



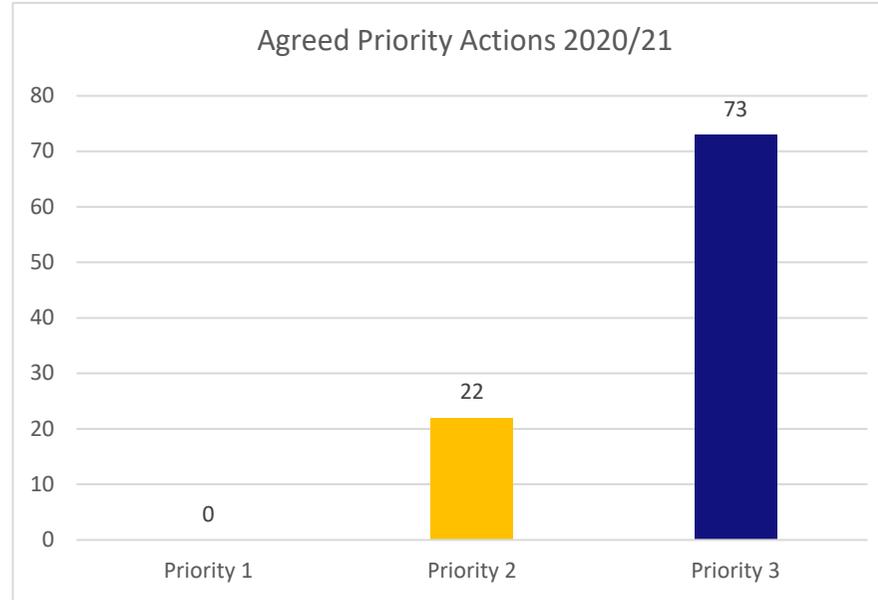
Summary of Audit Work 2020/21

SWAP Performance - Summary of Audit Actions by Priority



Priority Actions

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



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

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

Benchmarking

During the year we have provided benchmarking data across either the SWAP partnership or the wider reach of the Local Authority Chief Auditors Network (LACAN) for:

- Schools Exclusions
- CIPFA Financial Resilience Indicator
- Whistleblowing Policy
- Workforce Development
- Significant Partnerships
- Commercial Properties
- Risk Management Survey
- Effectiveness of Audit Committee's
- Approved Mental Health Professionals – Terms and Conditions
- Schools Forum Governance
- Direct Debits – Adult Social Care
- Baseline assessment of maturity in relation to fraud

Innovations and Enhancements to our Audit Process

During this exceptional year, we have taken the opportunity to implement and introduce a number of innovations and enhancements to our audit process. This has included:

Introducing the concept of 'Agile Auditing' to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits more efficiently. Agile also enables us to keep the client updated throughout the review and agree actions to findings as they are identified.

Summary of Internal Audit Work 2020/21

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.

SWAP Internal Audit Services has seen the introduction of continuous audit reviews in relation to the key fundamental areas across some of the Partners. This is a method whereby audit testing of key controls of an area or activity, is performed on a more frequent basis. It changes the audit approach from periodic reviews incorporating a small sample of transactions, to ongoing testing of a larger overall sample, with audit results produced shortly after testing. The benefits are a more reactive and timely approach to auditing which gives a continuous assurance on systems and processes throughout the year. This will be considered for Herefordshire Council going forward.

With the help of SWAP's two newly appointed Data Analysts, we are looking to include analysis of data as part of our auditing wherever possible. This allows us not only the opportunity to test whole populations of data, but where this is not possible or appropriate, to be able to use data analytics to target our testing in a more effective manner.

SWAP's Counter Fraud Team has also facilitated access to counter fraud intelligence resources and issued alerts and newsletters to key officers in the Council.

Introduced a new one-page audit report, that summarises all the key messages of the audit on one page for ease of consumption as well as increasing impact. Feedback on the report style has again been extremely positive.

Introduced quarterly audit planning.

Summary of Internal Audit Work 2020/21

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).



SWAP Performance

SWAP’s performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board. The respective outturn performance results for Herefordshire Council for the 2020/21 year are as follows:

Performance Target	Average Performance
<u>Audit Plan – Percentage Progress</u>	
Final, Draft and Discussion 90%	92%
In progress/Review	8%
Not Started	0%
<u>Customer Satisfaction Questionnaire</u>	
Feedback 95%	100%

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) 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.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance to PSIAS.

Attribute Standard 1300 of the IPPF requires Heads of Internal Audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP’s Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

Summary of Internal Audit Work 2020/21

Audit Type	Corporate Risk Reference	Audit Area	Status	Opinion	No of Actions	1 = Major ↔ 3 = Medium		
						Action		
						1	2	3
Assurance	CRR10, CRR23	Accounts Payable	Complete	Reasonable	2	0	0	2
Follow Up	CRR10, CRR23	Main Accounting Follow Up	Complete	Follow Up	-	-	-	-
Assurance	CRR10, CRR23	Payroll	In Progress					
Assurance	CRR10, CRR23	Accounts Receivable	Complete	Reasonable	3	0	1	2
Assurance	CRR10, CRR23	Council Tax	Complete	Reasonable	3	0	0	3
Assurance	CRR10, CRR23	National non-domestic rates (NNDR)	Complete	Reasonable	2	0	0	2
Follow Up	CRR10, CRR23	Treasury Management Follow Up	Complete	Follow Up	-	-	-	-
Assurance	CRR10, CRR23	Housing and Council Tax Benefits	Complete	Substantial	2	0	0	2
Advice and Guidance	Accountable Body Requirement	NMITE Project (University)	Complete	Advisory Report	-	-	-	-
Assurance	CRR.24	Medium Term Financial Strategy (MTFS)	Complete	Reasonable	0	0	0	0
Assurance	CRR.21	Commercial/Strategic Investments	Complete	Reasonable	2	0	2	0
Assurance	CRR.23	Balfour Beatty Contract 1 year (minor to major repairs)	In Progress					
Assurance	CRR.10, CRR.23	Staff Car Parking – Business passes	Complete	Limited	6	0	1	5
Assurance	CRR.26	Strategic/Significant Partnerships	Complete	Limited	5	0	3	2
Assurance	CRR.09	Brexit Preparedness	Complete	Reasonable	4	0	1	3

Summary of Internal Audit Work 2020/21

Assurance	CRR.13, CRR.25	Cyber Security Framework	Complete	Advisory	-	-	-	-
Grant Certification	Financial Governance	Local Transport Block Funding	Complete	Reasonable – Grant Certification	-	-	-	-
Grant Certification	Financial Governance	Bus Subsidy Grant	Complete	Reasonable – Grant Certification	-	-	-	-
Assurance	-	Property Flood Resilience Support Scheme (Bellwin /Resilience Management)	Complete	Substantial	1	0	0	1
Assurance	-	Commercial Properties/Rents	Complete	Reasonable	6	0	1	5
Assurance	CRR.10, CRR. 18, CRR.20	S106 Agreements	Complete	Limited	9	0	2	7
Advice and Guidance	-	Baseline Assessment for Maturity of Fraud	Complete	Advisory	-	-	-	-
Assurance	CRR.18	Capital Programme/Capital Projects	Draft Report	Reasonable	Actions in progress of being agreed.			
Assurance	CRR.10, CRR.23	Adult Social Care Provider Payments and Client Contributions (was Client Finances)	Draft Report	Limited	8	0	0	8
Assurance	-	West Midlands Peer Review	Complete	Substantial	0	0	0	0
Assurance	CRR.17, CRR.23	Workforce Development	Complete	Substantial	0	0	0	0
Assurance	CRR.17, CRR.23	The Quality Development Framework	Draft Report	Substantial	1	0	0	1
Assurance	CRR.17, CRR.23	Supervision Practices	Complete	Substantial	1	0	0	1
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 1	Complete	Reasonable – Grant Certification	-	-	-	-
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 2	Complete	Reasonable – Grant Certification	1	0	0	1
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 3	Complete	Reasonable – Grant Certification	1	0	1	0
Grant Certification	Financial Governance	Troubled Families – monthly review – quarterly report quarter 4	Complete	Reasonable – Grant Certification	-	-	-	-

Summary of Internal Audit Work 2020/21

Assurance	-	EHCP (Education, Health and Care Plans) Annual Reviews	Complete	Limited	3	0	1	2
Assurance	-	Support for young people not in education, employment, or training (NEET)	Complete	Reasonable	3	0	0	3
Assurance	-	EHCP (Education, Health and Care Plans) – Preparation for Adulthood	In Progress					
Follow Up	-	Members Expenses Follow Up	Completed	Follow Up	-	-	-	-
Follow Up	-	South Wye Transport Package Phase 1 – Follow Up	Completed	Follow Up	-	-	-	-
Follow Up	-	South Wye Transport Package Phase 2 – Follow Up	Completed	Follow Up	-	-	-	-
Follow Up	-	Homepoint – Follow Up	Completed	Follow Up	-	-	-	-
Advice and Guidance	CRR.23, CRR.39	Grant Funding Schemes – Small Business Grant Fund / Retail, Hospitality and Leisure Grant Fund	Completed	COVI 19 - Advisory	-	-	-	-
Grant Certification	CRR.23, CRR.39	Transport Contracts	Completed	Reasonable – Grant Certification	2	0	0	2
Assurance	CRR.23, CRR.39	Procurement cards	Completed	Limited	6	0	1	5
Advice and Guidance	CRR.23, CRR.39	HALO Leisure Centre – Financial review	Completed	COVID 19 Advisory	-	-	-	-
Assurance	CRR.39	Emergency Decisions	Completed	Reasonable	4	0	1	3
Grant Certification	CRR.23, CRR.39	Local Transport Authority Covid-19 Bus Service Support Restart (Revenue) Grant (CBSSG) – Tranche 1	Final Report	Reasonable – Grant Certification	0	0	0	0
Grant Certification	CRR.23, CRR.39	Local Transport Authority Covid-19 Bus Service Support Restart (Revenue) Grant (CBSSG) – Tranche 2-5	Final Report	Reasonable – Grant Certification	0	0	0	0
Assurance	CRR.23, CRR.39	Emergency Active Travel Measures Tranche 1	Completed	Substantial	1	0	0	1
Advice and Guidance	CRR.23, CRR.39	Emergency Active Travel Measures Tranche 2	Complete	COVID 19 Advisory	-	-	-	-

Summary of Internal Audit Work 2020/21

Grant Certification	CRR.23, CRR.39	Additional Dedicated Home to School and College Transport Grant	Completed	Reasonable – Grant Certification	1	0	0	1
Advice and Guidance	CRR.23, CRR.39	Test and Trace Support Payments	Complete	COVID 19 Advisory	-	-	-	-
Advice and Guidance	CRR.23, CRR.39	Test and Trace Discretionary Payments	Complete	COVID 19 Advisory	-	-	-	-
Advice and Guidance	CRR.23, CRR.39	Local Restrictions Support Grant	Complete	COVID 19 Advisory	-	-	-	-
Grant Certification	CRR.23, CRR.39	Revenue grant determination (Ringfenced) Local Authority COVID-19 Test and Trace Service Support Grant Determination 2020/21: No 31/5075	In Progress					
Advice and Guidance	CRR.23, CRR.39	HALO Leisure Centre Financial Review 2	Complete	COVID 19 Advisory	-	-	-	-
Grant Certification	CRR.23, CRR.39	Additional Dedicated Home to School and College Transport – Autumn Term	Complete	Reasonable – Grant Certification.	-	-	-	-
Grant Certification	CRR.23, CRR.39	Additional Dedicated Home to School and College Transport – Spring Term	Complete	Reasonable – Grant Certification.	-	-	-	-
Grant Certification	CRR.23, CRR.39	Revenue Grant Determination (Ring-Fenced) COVID-19 Local Authority Compliance and Enforcement Grant For Lower Tier And Unitary Authorities Determination 2020: No 31/5216.	Complete	Reasonable – Grant Certification.	-	-	-	-
Advice and Guidance	CRR.10	Gypsy and Traveller Sites – Special Investigation	Completed	Advisory Report	7	0	2	5
Advice and Guidance	CRR.10	Hereford City centre Transport Package – Governance Review	Final Report	Advisory Report	-	-	-	-
Assurance	CRR.38	Contract Management – Balfour Beatty Living Places (BBLP)	In Progress					
Advice and Guidance	CRR.23	Loss of Monies – Children’s - Special Investigation	Final Report	Special Investigation	2	-	2	-
Assurance	-	Commissioning and Value for Money (BBLP)	Completed	Limited	5	0	2	3

Summary of Internal Audit Work 2020/21

SWAP Performance - Summary of Limited 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 and Governance Committee.



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

Since our previous internal audit progress report eight audits have been completed or issued as a draft report. One audit is a limited assurance with no priority 2 actions, and one audit had a reasonable assurance with one priority 2 action. Once the actions have been agreed with management as both reports are currently at draft I will provide the detail of the findings in my next update report.



Summary of Internal Audit Work 2020/21

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



Follow Up Audits

Follow Up audits are completed where the auditor could only provide limited (previously 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 2019/20 priority 1 and 2 recommendations. For the priority 3 recommendations progress reported is based on self-assessment by relevant officers. Where a key control audit received Reasonable or substantial assurance, the key control is included in the plan to follow up on all recommendations to provide assurance that action has been taken to address the recommendations. For key control follow up audit evidence is obtained to demonstrate implementation and progress for all recommendations.

Since the previous update, the follow up audits have been completed this quarter as identified below:

- Main Accounting
- South Wye Transport Package – Phase 1
- South Wye Transport Package – Phase 2

Summary of findings for actions not started/in progress as follows:

Main Accounting

Agreed Action: The Senior Team Leader (Transactional Team) agreed to train another officer within the Transactional Team to be able to complete the Council Tax/National Non-Domestic Rates/Housing Benefits control accounts reconciliation.

Follow Up Assessment: The Senior Team Leader (Transactional Team) stated that there were formerly two people within the Finance: Transactional Team that were able to carry out the reconciliation, these being herself and one of the Transactional Officers. However, that team member moved into another section of Finance, so there was a requirement for another member of the team to be trained. At the time of last year's Main Accounting audit, training of another officer had commenced however, she has since also moved teams, and a further two officers are now being trained. The Senior Team Leader (Transactional Team) stated that this is a work in progress and has been delayed by having to work from home / other priorities during the pandemic, but this will be progressed.

Priority 3 **Original Agreed Target Date:** 30th April 2020 **Revised Target Date:** 31st December 2021