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AUDIT COMMITTEE
Friday, 6th July, 2018

The use of Welsh by participants is welcomed. If you wish to use Welsh please inform us by noon, two working days before the meeting

SUPPLEMENTARY PACK

1.	INTERNAL AUDIT ANNUAL OPINION REPORT 2017/18
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To consider the report of the Assistant Director, SWAP.
(Pages 1 - 18)

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Powys County Council

Internal Audit Annual Opinion Report 2017/18

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Agenda Item 8

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Summary

The SWAP Director is required to provide an opinion to support the Council's assessment of Internal Control.



Purpose

The Accounts and Audit Regulations (Wales) 2014 requires public authorities to publish a statement on internal control. The Welsh Government accepts that this can be in the form of an Annual Governance Statement (AGS) that reviews of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS.

This report includes the following:

- An opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment
- 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
- 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.

Summary

The SWAP Director is required to provide an opinion to support the Annual Governance Statement.

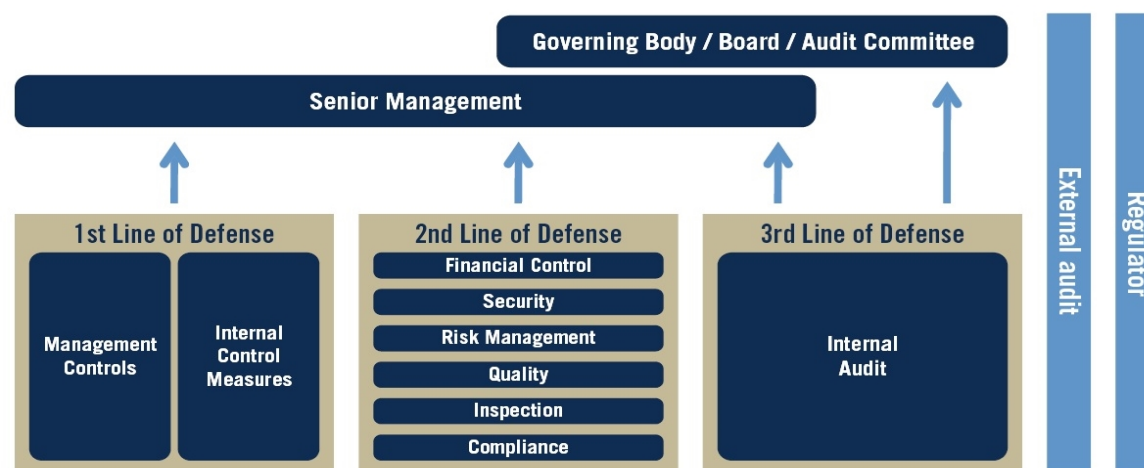


Background

The Internal Audit service for Powys Council is provided by the SWAP Internal Audit Services. SWAP is a Local Authority controlled Company with Powys being a significant stakeholder. 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). The Partnership is also 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 through the work based on the Annual Plan agreed by Senior Management and this Committee.

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

The Three Lines of Defence Model



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

Summary of Work 2017/18

The SWAP Assistant Director is required to provide an opinion to support the Statement on Internal Control

Identified 'High' corporate risks will be brought to the attention of the Audit Committee or the Sub Committee

SWAP Ltd, as the Council's Internal Auditors, have given an overall audit opinion of 'REASONABLE ASSURANCE' on the adequacy and effective operation of the control environment for 2017/18. This means that 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



Annual Opinion

This Annual Report gives the opinion of the Director (Head of Internal Audit) on the adequacy and effectiveness of internal control, governance and risk management within Powys County Council. Internal Audit has not reviewed all risks and therefore cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix B**, and as such it is one source of assurance on the adequacy of the internal control environment.

Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success to knowingly take risk rather than be unwittingly exposed to it. Under control could expose the organisation to unacceptable risk and destroy value as over control takes valuable resources and can create inefficiency. Therefore, the Internal Control Environment needs the right balance to help Powys County Council deliver its services with ever decreasing resources.

A total of 64 assignments were delivered during 2017/18 of which 28 have returned an assurance opinion. There have been five reviews (18%) that have received 'Substantial assurance which is commendable. Sixteen reviews (57%) received 'Reasonable' assurance, with the remaining seven reviews (25%) receiving 'Partial' assurance. It is pleasing to note that there were no reviews with an assurance level of 'None'.

SWAP have delivered 36 'Non-Opinion' audits during 2017-18. These were a mixture of advice, consultancy, grant certifications and follow up reviews. Given the level of change within the authority, Internal Audit has a role to play in being the 'Trusted Advisor', and as such we have been involved in a number of areas of change. Although no opinion is offered with this work, details of the work and findings are shared with the Committee and an action plan to address areas for improvement is agreed where necessary.

The internal audit plan targets high risk which provides an explanation why there is a significant proportion of audit outcomes with significant failures in the internal control process. In line with this risk-based approach, scrutiny of partial opinions reports and effective follow-up arrangements are needed. SWAP will continue to follow-up adverse opinions in either the same or following audit year and assurance can be taken by the continued challenge and support from the Audit Committee, particularly by the "call in" of Officers by the Sub-Committee where they are questioned on the delivery of their action plans.

Whilst some recommendations have been made for improvement, I do not consider there to be any areas of significant corporate concern, provided they are kept under periodic review. This is particularly important owing to transformational and personnel changes within the Council. To this end, SWAP will continue to attend Leadership and Management meetings and Senior Leadership Team meetings to maintain the necessary communication channels with management.

Therefore, I have considered the balance of 2017/18 audit work and outcomes against this environment and am able to offer **reasonable** assurance in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are well managed, but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

Summary of Work 2017/18

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- Follow-up



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits completed in 2017-18. 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.

Of the 68 reviews in the 2017/18 work programme, they are broken down as follows:

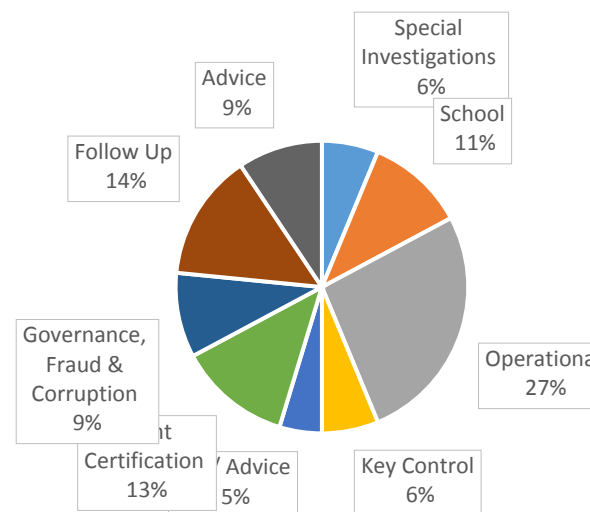
Type of audit	No. Completed
Operational / Service Audits	24
Key Control	4
Grant Certification	8
Governance, Fraud & Corruption	6
ICT	3
Follow-up	9
Requested/ Special Investigations	4
Advisory/ Consultancy	6
TOTAL	64

Summary of Work 2017/18

Audit Work Programme - Ctd

The breakdown to the work types for the year. Note that this indicator is by volume and does not deflect the complexity or time spent.

Audit Type by Number 2017/18



Summary of Audit Work 2017/18

Significant Corporate Risks

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



Significant Corporate Risks

The following areas were given partial assurance:

- Risk Management
- Voluntary Severance
- Control of JVC Legal Cost
- Income Generation
- Partnership and collaborations
- Housing Service Charges
- Mount Street Infant CP School

Financial pressures continue to be a very serious concern. The audit plan has included work that focuses directly on this areas: a review of a commissioning process and the Council's response to medium term financial strategies (MTFS), partnerships, procurement and Income Generation. Concerns also exist in the Council's ability to manage external and partnership contracts and so this is an area of focus for the 2018/19 internal audit programme.

SWAP identified significant shortcomings in the framework, awareness and delivery of an integrated and embedded risk management approach. However, a refreshed approach and detailed plans give cause for optimism that this can help inform the decision-making process in the future so long as there is effective "buy-in" at all levels of the Council.

The Council responded proactively to the introduction of the General Data Protection Regulation (GDPR) which came into effect in May 2018. Further work will be undertaken to assess compliance.

Summary of Audit Work 2017/18

SWAP Performance - Summary of Audit Opinions

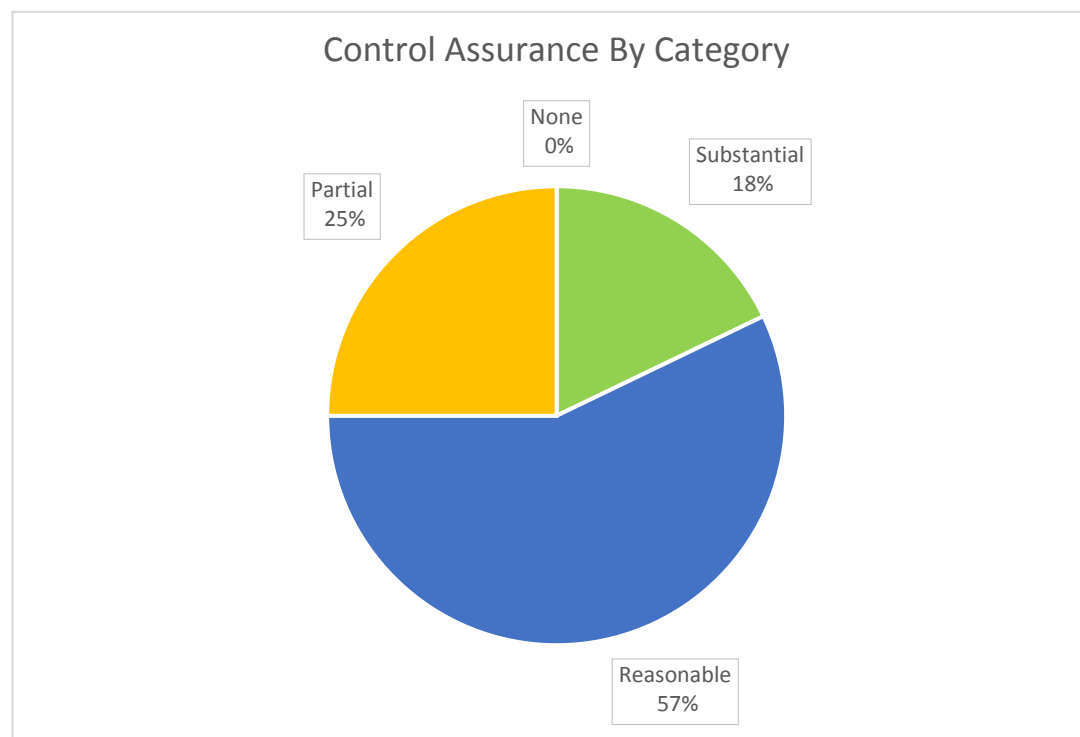
At the conclusion of audit assignment each review is awarded a “Control Assurance Definition”:

- Substantial
- Reasonable
- Partial
- None



Summary of Audit Opinions

The breakdown of audit opinions by category is summarised below. Definitions for each assurance category can be found in [Appendix A](#).



Summary of Audit Work 2017/18

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 following are

- Fraud Bulletins – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Partners Newsletters – We also produce quarterly partner newsletters that provides information on topical areas of interest for public sector bodies.
- Audit Committee member training offered to all SWAP Partners.
- Access to expertise via specialist groups for Social care, IT and Corporate areas.

A good example of this is when we collaborated with our partners to obtain information around Risk Management Strategies and Risk registers that could be considered by the Council when reviewing their own approach.

The SWAP Director reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 18 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring by both the Board and the Member Meetings.

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 has been independently assessed and found to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the external assessment, a Quality Assessment Improvement Plan (QAIP) was produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

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

- Substantial
- Reasonable
- Partial
- None



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as 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	▲ ★ ★ ★	I am able to offer reasonable assurance as 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	▲ ★ ★ ★	I am able to offer Partial assurance 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	▲ ★ ★ ★	I am not able to offer any assurance. 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.

Non-Opinion/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.

Recommendation are prioritised from 1 to 5 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

Categorisation of Recommendations

When making recommendations to Management it is important that they 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. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

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

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.

Directorate/ Service	Audit Type	Audit Area	Qtr.	Status	Opinion	No of Recs	5 = Major 3 = Merits attention		
							Recommendation		
							5	4	3
Education and Skills	Special Investigation	School Transport Rule 5.2	2	Completed	Reasonable	4	0	1	3
Housing	Special Investigation	Contractor (SWG) Procurement	4	Completed	No Opinion	-	-	-	-
Housing	Special Investigation	Contractor (SWG) - Health and Safety	4	Completed	No Opinion	-	-	-	-
Housing	Special Investigation	Contractor (Arbed) -Contract Management	4	Completed	No Opinion	-	-	-	-
Education and Skills	School	Castle Caereinion	1	Completed	Reasonable	3	0	0	3
Education and Skills	School	Llanbister C.P	1	Completed	Substantial	1	0	0	1
Education and Skills	School	Mount Street Infant C.P	1	Completed	Partial	5	1	2	2
Education and Skills	School	Mount Street Junior C.P	1	Completed	Reasonable	6	0	1	5
Education and Skills	School	Llangedwyn C in W	2	Completed	Reasonable	3	0	1	2
Education and Skills	School	Caersws Primary	3	Completed	Reasonable	2	0	1	1
Education and Skills	School	Guilsfield C.P	3	Completed	Reasonable	4	0	1	3
Transport and Infrastructure	Operational	Leasing Commercial Vehicles	2	Deferred by Client	N/A	-	-	-	-
Housing	Operational	Housing Service Charges	2	Completed	Partial	3	0	2	1
Children and Family Services	Operational	Looked after children	3	Deferred by Client	N/A	-	-	-	-
Housing	Operational	WHQS	3	Completed	Substantial	0	0	0	0
Planning and Building Control	Operational	Planning - Building Control	1	Completed	Reasonable	3	0	1	2
Consumer Affairs	Operational	Partnership and Collaborations	1	Completed	Partial	2	0	1	1
Leisure and Culture	Operational	School Cashless System	1	Completed	Reasonable	8	0	1	7
Finance	Operational	Pensions	1	Completed	Reasonable	2	0	0	2

Finance	Operational	Income Generation	2	Completed	Partial	4	0	4	0
Finance	Operational	Purchase Cards	2	Completed	Reasonable	5	0	0	5
Finance	Operational	Income Collection - Building Control	2	Completed	Reasonable	1	0	0	1
Adult Care Services	Operational	Commissioning Review - Equipment Store	1	Completed	Substantial	0	0	0	0
Consumer Affairs	Operational	Commercial Services	1	Completed	Reasonable	3	0	3	0
Council Property	Operational	JVC Legal Costs	3	Completed	Partial	2	0	2	0
Transport and Infrastructure	Operational	HTR - Wholly Owned Company	4	Cancelled by Client	N/A	-	-	-	-
Human Resources	Operational	Voluntary Severance	1	Completed	Partial	7	0	2	5
Human Resources	Operational	Workforce Planning	3	Completed	Reasonable	1	0	1	0
Finance	Key Control	NNDR	1	Completed	Substantial	0	0	0	0
Finance	Key Control	Accounts Payable	1	Completed	Reasonable	6	0	4	2
Finance	Key Control	Debtors	3	Completed	Reasonable	8	0	2	6
Finance	Key Control	Bank Reconciliation	1	Completed	Substantial	0	0	0	0
Information and Communication Technology	ICT / Advice	Cloud/Internet Filtering	1	Completed	No Opinion	-	-	-	-
Information and Communication Technology	ICT / Advice	Interface files	1	Completed	No Opinion	-	-	-	-
Information and Communication Technology	ICT / Advice	Cyber Security Assessment	1	Completed	No Opinion	-	-	-	-
Adult Care Services	Grant Certification	Supporting People	2	Completed	Certified	-	-	-	-
Children and Family Services	Grant Certification	Youth Services	2	Completed	Certified	-	-	-	-

Consumer Affairs	Grant Certification	BIS - Trading Standards	1	Completed	Certified	-	-	-	-
Children and Family Services	Grant Certification	Welsh Gov - School - EIG & PDG Final Claim	1	Completed	Certified	-	-	-	-
Children and Family Services	Grant Certification	Welsh Gov - School - EIG & PDG (Q1)	2	Completed	Certified	-	-	-	-
Children and Family Services	Grant Certification	Welsh Gov - School - EIG & PDG (Q2)	3	Completed	Certified	-	-	-	-
Children and Family Services	Grant Certification	Welsh Gov - School - EIG & PDG (Q3)	4	Completed	Certified	-	-	-	-
Children and Family Services	Grant Certification	Welsh Gov - School - EIG & PDG (Q4)	4	Completed	Certified	-	-	-	-
Finance	Governance, Fraud & Corruption	National Fraud Initiative	1	Completed	No Opinion	-	-	-	-
Democracy	Governance, Fraud & Corruption	Healthy Organisation Review	4	Deferred by Client	N/A	-	-	-	-
Democracy	Governance, Fraud & Corruption	GDPR Preparation	3	Completed	Reasonable	4	0	0	4
Risk Management and Insurance	Governance, Fraud & Corruption	Risk Management	4	Completed	Partial	8	0	4	4
Democracy	Governance, Fraud & Corruption	Service Improvement	4	Deferred by Client	N/A	-	-	-	-
Democracy	Governance, Fraud & Corruption	Section 33	4	Deferred by Client	N/A	-	-	-	-

Finance	Follow Up	Medium Term Financial Strategy	3	Completed	No Opinion	-	-	-	-
Housing	Follow Up	Gas Safety	1	Completed	No Opinion	-	-	-	-
Education and Skills	Follow up	Llandrindod High School	1	Completed	No Opinion	-	-	-	-
Education and Skills	Follow Up	Ysgol Bannau	1	Completed	No Opinion	-	-	-	-
Education and Skills	Follow Up	Abermule C.P	1	Completed	No Opinion	-	-	-	-
Education and Skills	Follow Up	Llanfaes C.P	2	Completed	No Opinion	-	-	-	-
Education and Skills	Follow Up	Builth Wells C.P	2	Completed	No Opinion	-	-	-	-
Leisure and Culture	Follow Up	County Hall Restaurant	1	Completed	No Opinion	-	-	-	-
Transport and Infrastructure	Follow Up	Depot Stocks	1	Completed	No Opinion	-	-	-	-
Transport and Infrastructure	Advice	Winter Maintenance	2	Completed	No Opinion	-	-	-	-
Education and Skills	Advice	Supporting Travellers Project	1	Completed	No Opinion	-	-	-	-
Finance	Advice	Supporting Cashless Project	1	Completed	No Opinion	-	-	-	-
Finance	Advice	New Accounting System	1	Completed	No Opinion	-	-	-	-
Finance	Advice	New revenue System - Project Support	1	Completed	No Opinion	-	-	-	-
Finance	Advice	Supporting Social Care Systems	1	Completed	No Opinion	-	-	-	-