

Public Document Pack



Neuadd y Sir / County Hall, Llandrindod, Powys, LD1 5LG

Os yn galw gofynnwch am - If calling please ask for
Lisa Richards

Ffôn / Tel: 01597 826371

Ffôn Symudol / Mobile:

Llythyru Electronig / E-mail: lisa.richards@powys.gov.uk

AUDIT COMMITTEE
Thursday, 14th February, 2019

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
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To consider the SWAP Quarter 3 2018/19 Activity Report.

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Powys County Council

Report of Internal Audit Activity

Progress as at Q3 2018/19

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The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 385906

gerry.cox@swapaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917628774

ian.baker@swapaudit.co.uk

Ian Halstead

Assistant Director

Tel: 01597 826821

ian.halstead@swapaudit.co.uk



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Appendices:

Appendix A – Audit Framework Definitions

Appendix B – Summary of Work Plan

The Internal Audit planning process considers the objectives of the Council and the risks that it faces in not achieving those objectives.

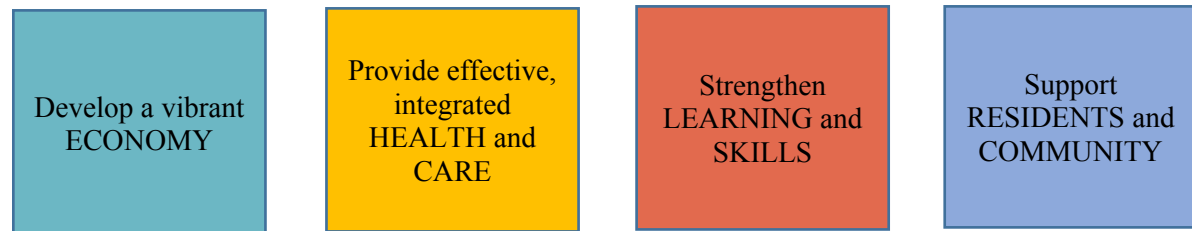
The coverage of the audit plan will enable the Head of Internal Audit to form an opinion on the overall control environment.



Role of Internal Audit

The Internal Audit service for Powys County Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and is also guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The work of the Partnership is also guided by the 'Internal Audit Charter' that was approved in April 2018.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work is driven by the Council's vision of the future as specified in Powys 2025:



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 School Themes
- Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- School and Early Years Reviews
- Follow-up Audits
- Other Special or Responsive Reviews

Audit Plan Progress 2018/19 @ Q3:

Assignment Status	No.
Completed	36
Draft	7
In Progress	15
Audit Initiation	6
Not Started	5
Deferred	1

Added Value

‘Extra feature(s) of an item of interest that go beyond the standard expectations and provide something more whilst adding little or nothing to its cost’



Internal Audit Activity

The schedule provided at Appendix B 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 at Appendix A 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 them receiving a ‘Partial Assurance Opinion’ is given as part of this report.

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.

During this year, SWAP has added value through the circulation of industry bulletins and fraud prevention alerts wherever possible. We also share the outcomes of any benchmarking undertaken across our partner base. SWAP also aims to share the results of emerging areas of risk, or findings from relevant audit reviews undertaken at our Partners

In addition, SWAP has delivered a Members Training Day and delivered a presentation to the Council on ‘Failing Transformation Projects – Learning the Lessons’.

The Audit Committee should be made aware of those issues that hinder the effective operation of the Internal Audit Service.



Audit Delivery Issues

The Council is going through significant change in the Senior Management Structure as part of its transformation activities. This has over recent months caused difficulties in agreeing audit timescales, prompt engagement, supplying evidence or data and agreeing draft reports. The most problematic Service Areas have been IT and HR and earlier in the year with Corporate Insight and Legal Services. The Assistant Director (SWAP) brings the issues of non-engagement to the attention of the Audit Committee. Wherever possible, the Audit Team has attempted to minimise disruption by rescheduling assignments to limit the effect of any lost resources. The Assistant Director will meet with relevant Senior Managers to discuss the individual failings and request improved engagement.

The Audit Team was required to move offices from County Hall to the Gwalia as part of a corporate reorganisation of office space. The time taken, whilst minimal will have a small impact of the plan deliver

SWAP Performance - Summary of

Partial Opinions

- These are areas 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 Opinions

The significant findings from the audits that have been awarded partial assurance are summarised below:

Section 33 Agreements

Utilising Section 33 of the NHS (Wales) Act (2006), PCC and PTHB have entered into formal partnership to deliver specific joint services/schemes. The Joint Partnership Board, which brings together nominated strategic leaders from PCC and PTHB has delegated decision making powers and along with the individual scheme boards, have responsibility for governance and oversight of the Section 33 agreements.

A failure to sign Section 33 agreements was identified as a risk on the PCC People Risk Register (31.07.17). To help address this issue, a new overarching agreement, dated February 2018, was signed and a standard format for the individual Section 33 agreements was developed for 2017/18, which according to the PCC Risk Register would make the signing of future Section 33 agreements much easier.

The Authority is currently operating shared services with the Powys Teaching Health Board (PTHB) without signed Section 33 agreements in place. The failure to formally sign Section 33 agreements between Powys County Council (PCC) and PTHB has been a long-standing issue and continues to be so as of 31st March 2018, only one of the seven 2017/18 agreements had been signed off and two agreements remain unsigned. Assurance was given that progress has been with the creation of the 2018/19 agreements, but to date the only agreement that has been signed off is for Care Home Accommodation Functions.

The updating of the overarching agreement in February 2018 and the creation of a new standard format for the individual agreements represents progress in the addressing of this issue and should help create a more robust process in future. However, the introduction of a new format seems to have contributed to the delay with the 2018/19 agreements.

SWAP Performance - Summary of

Partial Opinions (Cont'd)

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

Governance and oversight is provided by the Joint Partnership Board (JPB) and the individual scheme boards. Although the minutes of the JPB indicate that the signing of agreements is an issue that is regularly reported to the JPB, the JPB has been unable to ensure that agreements, signed on a timely basis, are in place during the term of the delivery of joint services/schemes.

The audit opinion was **Partial-** (in relation to the areas reviewed and the controls found to be in place, some key risks were not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives). The Auditors assessment of risk was high and concluded that there was inadequate corporate governance arrangements for partnerships and shared services and a risk of financial uncertainty which may hinder the delivery of the partnership.

A follow-up audit of this area is planned in Quarter 1 of 2019/20.

Member Expenses

As part of the 2018/19 audit plan, a review was undertaken to assess the adequacy of the controls and procedures in place for Members Expenses.

County Councillors are able to claim various expenses to help them carry out their duties. Travelling and Subsistence Allowance is paid to Councillors for approved duties in addition to their Basic Allowance/Special Responsibility Allowance. This can cover travel expenses (including use of a private car) and subsistence whilst on Council business. Claims are made via the "Trent" system monthly.

The review noted that there are appropriate controls in place for: -

- **Policy Framework** -There are up to date documented policies and procedures in place for Members. The schedules of allowance are approved by the Council at its Annual General Meeting and set out the Council's decisions about payments to be made during each financial year to all members and co-opted members of the Council.
- **Trent** -Payments were promptly made through the Council's payroll system.

SWAP Performance - Summary of Partial Opinions (Cont'd)

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

However, whilst there appears to be an effective policy framework in place, there are significant weaknesses in the way Members submit full and accurate claims i.e. the Council does not carry out the checks required in the approved driver handbook on drivers licenses and insurance.

In addition, there is a lack of governance and rigour in the checking of these claims that fails to protect both Members and the Council from financial and reputational risks. Further transparency risks occur as the Council had failed to promptly publish a list of the expenses paid to members.

It was recognised that some Members needed further training and support as there were difficulties submitting claims on the on-line system. The need for training was further emphasised as some claims were missing essential information and valid vat receipts. The Auditors recommended that the Council should move to the electronic storage of VAT receipts.

The audit opinion was Partial Assurance (Some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives).

A follow-up review is Planned for Quarter 2 2019/20.

Crickhowell High School

It is recognised that some of the areas tested showed that there was a reasonable level of control within the School, however due to the priority level and subjects of some of the risks identified the assurance given was lowered to **Partial** -some key risks are not well managed, and systems require the introduction or improvement.

The budget for Crickhowell High School has been poorly managed. This statement can be supported by the following:

- The school has failed to notify the Authority of it's spending on a monthly basis, as specified within the Scheme for Financing Schools.
- The deficit budget has increased by 146% within the 2017/18 financial year.
- This escalation was not reported to the Authority, with the earliest forecast being received in December 2017, at which point the deficit was forecasted at £455K.
- This overspend was not licensed by the Council.

SWAP Performance - Summary of

Partial Opinions (Cont'd)

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

- A review of the annual budget created by Crickhowell High School illustrated that there were inconsistencies with the costings detailed within the budget provided to the audit team. The budgets were not reflective of the school spending; there were large variances between the budgeted and actual costs. The forecasted budgets created at the start of the year were not reflective of previous historic costs.
- The school has taken over the management of the Sports Centre and is responsible for the financial administration. The actual income collected was generally lower than the budgeted income amounts for 2017/18. However, the expected income targets for 2018/19 has been increased from those created for the previous year. Whilst a shortfall will not impact on the school's delegated budget as the debt will be carried forward, the failure to effectively budget for income may affect the decisions around the longer-term sustainability of the Sport Centre.

Other risks identified during the audit were that the school did not satisfy some areas of Health and Safety Legislation and some of the assets were poorly controlled.

A Follow-up review is scheduled shortly.

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



Changes to the Plan

The plan needs to be flexible to be able to respond to such requests, to ensure that areas of high priority and risk can be accommodated. This means that some unplanned high risk reactive work has replaced some audit jobs. These assignments will either be deferred or will be considered as a priority in the risk based plans for 2019/20.



Conclusion

Whilst there have been some client engagement issues, the delivery of the audit plan is on track.



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.

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.

AREA	SUB AREA	TYPE	ASSIGNMENT NAME	PLANNED START	STATUS	OPINION	RECOMMENDATIONS		
							Priority 1	Priority 2	Priority 3
SERVICES DELIVERED FOR LESS									
*Management	Project management	Governance, Fraud & Corruption	Projects Benefits Realisation	Apr-19	Audit Initiation				
*Adult care services	Supporting adults	Operational	Social Care Financial Recovery Plan	July 2018	Replaced				
*Finance	Financial transactions management	Governance, Fraud & Corruption	National Anti-Fraud Initiative	April 2018	in Progress	Advisory- No Opinion	N/A	N/A	N/A
SUPPORTING PEOPLE IN THE COMMUNITY									
*Adult care services	Supporting adults	Operational	Payment Process - Social Care	April 2018	Final	Reasonable	0	4	3
Children and families services	Supporting children	Operational	Children Services- Agency Payments	Jul-18	Final	Advisory- No Opinion	N/A	N/A	N/A
*Adult care services	Supporting adults	Grant Certification	Supporting People Grant 18/19 PCC	January 2019	Final	Certified	N/A	N/A	N/A
*Finance	Accounts and audit	Grant Certification	Grant Certification - Travellers Grant	April 2018	Final	Certified	N/A	N/A	N/A
*Housing	Managing tenancies	Operational	Housing Rent System - PCC	October 2018	Final	Reasonable	0	1	1

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*Housing	Housing stock	Operational	Housing Repairs and Maintenance	October 2018	Final	Reasonable	0	1	2
*Children and families services	Supporting children	Grant Certification	Grant Certification - NTSB Grant 2017/8	April 2018	Final	Certified	N/A	N/A	N/A
*Adult care services	Supporting adults	Operational	Brokerage	July 2018	Final	Reasonable	0	1	1
*Adult care services	Carers	Operational	Safer Recruitment	Jan-19	In Progress				
*Housing	Managing tenancies	Grant Certification	Enable Grant 16/17	Oct-18	Final	Certified	N/A	N/A	N/A
* Replaces Looked after Children Audit									
AREA	SUB AREA	TYPE	ASSIGNMENT NAME	PLANNED START	STATUS	OPINION	RECOMMENDATIONS		
							Priority 1	Priority 2	Priority 3
DEVELOPING THE ECONOMY									
*Management	Preparing business	Follow up	Partnership and Collaboration - Follow up	October 2018	in Progress				
IMPROVING LEARNER OUTCOMES									
*Education and skills	Management of schools	School	Llanfyllin High School 18/19	October 2018	Final	Reasonable	0	3	4

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*Education and skills	Management of schools	School	Crickhowell High School	January 2019	Final	Partial	3	3	0
*Education and skills	Management of schools	School	LLandrindod High School Budget Management	July 2018	Final	Advisory - Non Opinion	N/A	N/A	N/A
*Education and skills	Management of schools	School	Ysgol Llanerfyl 18/19	July 2018	Draft				
*Education and skills	Management of schools	School	Ysgol Pontrobert 18/19	July 2018	Final	Reasonable	0	1	4
*Education and skills	Management of schools	Special Investigation	Llanfyllin Primary School 18/19	November 2018	Final	Partial	2	5	7
*Education and skills	Management of schools	School	Leighton C.P 18/19	Jul-18	Final	Reasonable	0	0	1
*Education and skills	Management of schools	School	Ysgol Cedewain	October 2018	Final	Reasonable	0	3	2
*Education and skills	Management of schools	School	Guilsfield CP	Apr-18	Final	Reasonable	0	1	3
*Education and skills	Management of schools	School	Mount Street CP	Apr-18	Final	Reasonable	0	1	5
*Education and skills	Management of schools	School	Llanfaes CP	Apr-18	Final	Reasonable	0	2	0
*Education and skills	Management of schools	School	School Theme - Property and Health and Safety PCC	January 2019	Draft				
*Education and skills	Management of schools	School	School Theme - Financial Administration PCC	July 2018	In Progress				
*Children and families services	Supporting children	Grant Certification	Welsh Gov -18/19 - EIG & PDG Q1	April 2018	Final	Certified	N/A	N/A	N/A
*Children and families services	Supporting children	Grant Certification	Welsh Gov - 18/19 - EIG & PDG Q2	July 2018	Final	Certified	N/A	N/A	N/A
*Children and families services	Supporting children	Grant Certification	Welsh Gov - Schools - EIG & PDG Q3	Oct-18	Final	Certified	N/A	N/A	N/A

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*Children and families services	Supporting children	Grant Certification	Welsh Gov - Schools - EIG & PDG Q4	Jan-19	In Progress				
CORPORATE GOVERNANCE									
* Healthy Organisation	Governance Framework	Governance, Fraud & Corruption	Healthy Organisation Review 18/19 PCC	April 2018	In Progress				
*Information and communication technology	Information Security Management	Follow Up	General Data Protection Regulations Follow Up - PCC	April 2018	Final	Compliant	N/A	N/A	N/A
*Finance	Accounts and audit	Governance, Fraud & Corruption	Serious and Organised Crime Audit	Jun-18	Draft				
AREA	SUB AREA	TYPE	ASSIGNMENT NAME	PLANNED START	STATUS	OPINION	RECOMMENDATIONS		
							Priority 1	Priority 2	Priority 3
FINANCIAL MANAGEMENT									
*Finance	Capital Accounting / Asset Management	Governance, Fraud & Corruption	Capital Accounting	October 2018	In Progress				
*Finance	Payroll and pensions	Governance, Fraud & Corruption	Payroll	October 2018	Draft				
*Finance	General Ledger / Main Accounting	Governance, Fraud & Corruption	Main Accounting - PCC (See Note 1)	July 2018	Deferred				

Internal Audit Plan Progress 2017/18

*Finance	Accounts Receivable	Key Control	Debtors- Credit Notes 18/19- PCC	April 2018	Final	Substantial	0	0	1
*Finance	Financial provisions management	Governance, Fraud & Corruption	PCC - Budgeting 18/19	October 2018	In Progress				
*Education and skills	Management of schools	Follow up	Schools - Cashless Systems - Follow up	July 2018	In progress				
*Finance	Financial transactions management	Operational	Income Generation	July 2018	Audit Initiation				
*Management	Project management	Operational	Members Expenses	April 2018	Final	Partial	4	2	1
*Finance	Payroll and pensions	Key Control	Travel Expenses	October 2018	Draft				
*Finance	Accounts Receivable	Operational	Debtors System	May 2018	Final	Reasonable	0	2	6
Note 1- A new main accounting system is being implemented on the 01/04/2019. The audit has been deferred until after the new system is operational.									
RISK and PERFORMANCE MANAGEMENT									
*Risk management and insurance	Risk Management	Governance, Fraud & Corruption	Risk Management 18/19 - Follow Up PCC	January 2019	Draft				
*Management	Quality and performance	Governance, Fraud & Corruption	Performance Management 18/19 - PCC	January 2019	Final	Advisory - No Opinion	N/A	N/A	N/A
AREA	SUB AREA	TYPE	ASSIGNMENT NAME	PLANNED START	STATUS	OPINION	RECOMMENDATIONS		

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							Priority 1	Priority 2	Priority 3
COMMISSIONING and PROCUREMENT									
*Procurement	Tendering	Operational	Commissioning - Options Appraisal / Decommissioning	Jan-19	Not started				
*Procurement	Contracting	Follow up	Commercial Services - Follow up	July 2018	In progress				
*Partnerships	Contract Management	Operational	Section 33	Apr-18	Final	Partial	1	0	0
*Procurement	Contracting	Operational	HOWPS Contract Management	October 2018	In Progress				
*Procurement	Contracting	Operational	Freedom Leisure Contract Management	October 2018	Final	reasonable	0	1	2
INFORMATION MANAGEMENT									
*Information and communication technology	Information Security Management	ICT	Software Licensing - 18/19 PCC	July 2018	In Progress				
*Information and communication technology	Information Security Management		End Point Security - 18/19 PCC	Oct-18	Final	Reasonable	0	2	2
*Information and communication technology	System support	ICT	Change Control	April 2018	Not started				
*Information and communication technology	Asset and Configuration Management	ICT	ICT Procurement	July 2018	In Progress				

Internal Audit Plan Progress 2017/18

*Information and communication technology	Strategy and Governance	ICT	Crisis Management	April 2018	In Progress				
PROGRAMME and PROJECT MANAGEMENT									
*Management	Project Management	Governance, Fraud & Corruption	Project Governance Arrangements	October 2018	Not started				
PEOPLE and ASSET MANAGEMENT									
*Human resources	Administering employees	Operational	Sickness Management 2018	April 2018	Final	Reasonable	0	1	5
*Human resources	Workforce planning	Follow up	Workforce Planning 18/19 PCC	Jan-19	Not Started				
*Human resources	Training	Operational	Role of the Powys Manager	April 2018	Final	Substantial	0	0	1
*Human resources	Administering employees	Follow up	Voluntary Severance Follow up	Jan-19	Not Started				
*Health and safety	Monitoring	Operational	Corporate Health and Safety	July 2018	Replaced				
ADDITIONAL UNPLANNED WORK									
Governance	Democracy	Special Investigation	Monitoring Officer Investigation	Jun-18	Final	Advisory - No Opinion			

Internal Audit Plan Progress 2017/18

*Housing	Managing tenancies	Grant Certification	Enable Grant 17/18	Jan-19	In Progress	In Progress			
*Education and skills	Management of schools	School	Crickhowell High- Financial Administration	Mar-19	Audit initiation	Audit initiation			
*Finance	Payroll and pensions	Special Investigation	Travel Expenses Follow Up Work	September 2018	Final	Advisory- No Opinion	N/A	N/A	N/A
*Finance	Financial transactions management	Special Investigation	Highways Transaction Investigation	May 2018	Final	Advisory- No opinion	N/A	N/A	N/A
*Housing	Contracting	Special Investigation	SWG Contractor Complaint	Apr-18	Final	Advisory- No opinion	N/A	N/A	N/A
*Recreation & leisure	Catering and Cleaning		Void Clearances	Dec-19	Draft	Draft			
Corporate	Property	Client Request	Office Move	Oct-18	Complete	Complete	N/A	N/A	N/A
Governance	Democracy	Special Investigation	Travel Review	Feb-19	Audit Initiation	Audit Initiation			
Governance	Democracy	Special Investigation	Anon Complaint Review	Feb-19	Audit Initiation	Audit Initiation			
*Adult care services	Supporting disabilities	Operational	Standby Payments	Jan-19	Audit Initiation	Audit Initiation			

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