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AUDIT COMMITTEE
Friday, 4th September, 2020

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

S U P P L E M E N T A R Y P A C K

1.	INTERNAL AUDIT - ANNUAL REPORT
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To consider the Annual Internal Audit Report.

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Powys County Council

Annual Report and Opinion 2019-20

Agenda Item 5

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

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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 Governance framework
- 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 standards; and
- 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 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:

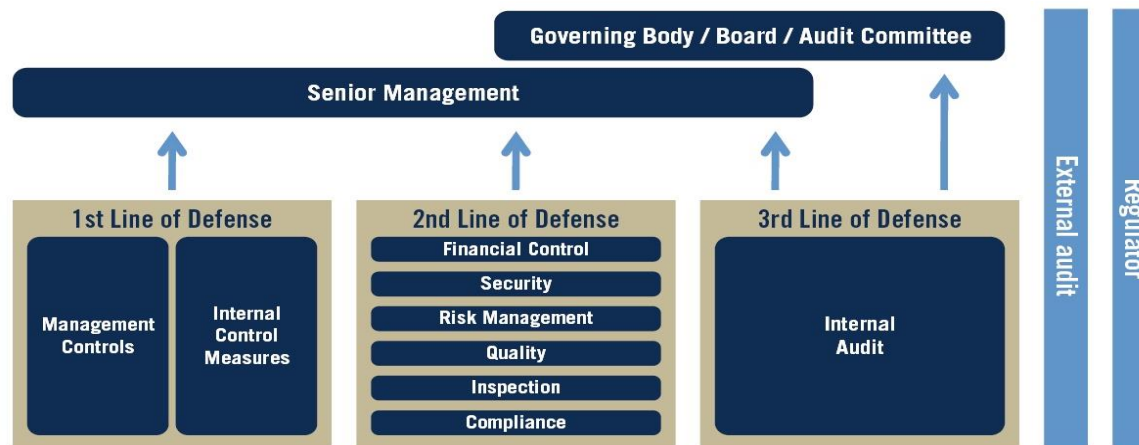
- *the first line of defence – functions that own and manage risk.*
- *the second line of defence – functions that oversee or specialise in risk management, compliance.*
- *the third line of defence – functions that provide independent assurance.*

Scope

The Internal Audit service for Powys County 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 2019/20 year and the annual opinion should inform the Review of Effectiveness within the AGS.

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

- ***Completed audits (during the year 2019/20) which evaluate risk exposures relating to the organisation's governance, 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.***
- ***Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.***
- ***Assurances from other providers, including third parties, regulator reports etc.***

Annual Opinion

The Head of Internal Audit is required, under the Public Sector Internal Audit Standards (PSIAS) and linked in with the Chartered Institute of Internal Audit IPPF Standard 2450, to provide an annual opinion on the overall adequacy and effectiveness of the of the organisations' framework of governance, risk management and internal control.

Our internal audit annual opinion is a balanced reflection rather than 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.

Senior Management and Members 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. Under control could expose the Council to unacceptable risk, whilst over control takes valuable resources and can lead to inefficiency. Therefore, the internal control environment needs to maintain the correct balance to help Powys County Council to deliver its Services with decreasing resources.

COVID-19

The Coronavirus (COVID-19) pandemic has inevitably impacted how the Council managed their operations towards the end of the 2019-20 financial year. The pandemic has resulted in changes to working practices for officers and staff, together with challenges in new areas such as supporting critical services, supporting the local economy and the mobilisation of the workforce to remote working.

The impact of the of the Coronavirus (covid-19) pandemic on the 2019-20 internal audit plan has been as follow:

- 3 Audits were at planning stage or work in progress stage and could not be progressed because of the availability of staff as the Council prioritised business critical services. These audits have been rolled into the 20-21 work programme and will be undertaken as Services have the capacity.
- 9 Audits were suspended at draft/ review stage. These reports are in draft, but the release to management was delayed whilst the Council focuses on business-critical activities. These reports

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.

Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud

will be issued in final when the Council have the capacity to respond. The indicative outcome of these reports has been considered in giving the overall opinion.

However given the difficult situation, a significant proportion of the 2019-20 Internal Audit Plan had been delivered by the time the pandemic became widespread therefore enabling the Auditors to form an annual opinion.

Work Programme

A number of audits originally scheduled in the internal audit plan have been removed over the course of the year and been replaced with alternative work. Details of these audits have been regularly reported to the Audit Committee. Appendix A to this report summarises audit work for 2019-20 and identifies the position of each individual audit.

There were periods throughout the year when Internal Audit were operating using plans that had not been formally approved by Committee. These plans were based on a continuation of the risk-based principles used in previous planning years. However, a more structured approach was agreed with the Council which resulted in a much more effective planning process from September onwards.

Fraud, IT and Risk Management

The Council have a risk management framework. The Internal Auditor assessment is that:

- Organisational objectives support and align with the organisation's mission.
- Significant risks are identified and assessed.
- Appropriate risk responses are selected although it is unclear about the Council's risk appetite.
- Relevant risk information is captured and communicated. However, improvements can be made in some areas on the quality of risk information and the transparency of the effects of the mitigating actions.
- Risks are regularly reported to Executive Management, Cabinet and the Audit Committee

Having reviewed the Council's arrangements over information technology governance from a range of sources, there are areas that have been identified for improvement, but nothing to indicate any significant concerns in this area.

There are no specific concerns in relation to fraud risk at this time and there have been no significant fraud investigations during the year.

Internal Audit cannot review all risks and assurances relating to Powys County Council and cannot provide absolute assurance on the internal control environment.

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Includes indicative opinions due to delayed reports caused by the pandemic

Opinion on Internal Control

The Annual Report gives the opinion of the Head of Internal Audit on the adequacy and effectiveness of internal control. Opinions are a balanced reflection, not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources. The results of these engagements, when viewed together, provide an understanding of the Council’s risk management processes and their effectiveness.

Over the year, the Internal Audit Team have found Senior Management of Powys County 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 Head of Audit openly in areas where they perceive potential problems.

66% of completed audits that have an opinion received Substantial or Reasonable opinions in relation to the control environment. Of the assignments completed in 2019/20 (49 in total), there are 10 areas (# See note) that have been awarded partial or No assurance in relation to their control environment. The findings within these audits with moderate and major risk exposure have been accepted by Management and agreed actions identified. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit as part of the 2020/21 Plan and by the Internal Audit Working group. Further details of audits with Partial Assurance opinions can be found in Appendix A on page 10.

Generally, the follow-up work confirms the responsive nature of management 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.

The Council exists in a complex and ever-changing environment. As a result, the Internal Audit work programme has remained flexible to ensure that new and emerging areas are undertaken such as special investigations and consultancy as directed by the Council.

There were no material concerns in relation to fraud risk and there have been no significant losses identified in internal audit investigations in the year.

Whilst the majority of the assurance opinions resulting from Internal Audit work completed in 2019/20 were Reasonable, there were also a significant number that were also “Partial Assurance”. The number of Partial assurance opinions provided across the individual Internal Audit engagements during 2019/20 has

resulted from the inclusion of some targeted reviews to provide assurance on or inform internal strategic reviews of known areas of potential control weakness. This was informed by our opinion that the Council have a sound understanding of their respective risk profiles and potential areas of weakness in their respective control environments. There are currently no significant issues that Internal Audit is aware of which would require inclusion within the Annual Governance Statement. Therefore, giving consideration to the adequacy and effectiveness of the wider governance and risk management arrangements at Powys County Council, overall I am able to offer an Annual Opinion of:

REASONABLE ASSURANCE: 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.

Those risk that are significant (Partial Assurance) have been reported to the Audit Committee and have been tracked by the Internal Audit Working Group. The following audits received a Partial assurance opinion in respect of their control environments in 2019/20. These audits have been or will be reviewed by the Internal audit working group for follow-up.

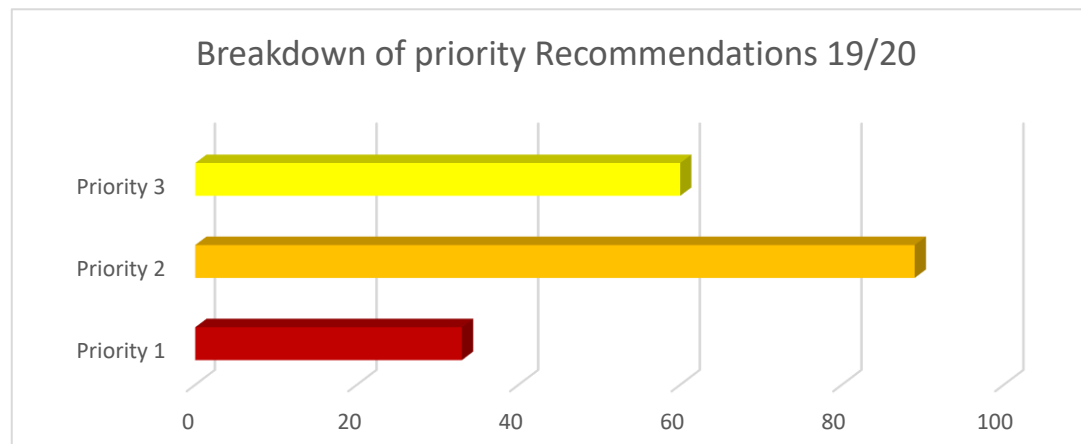
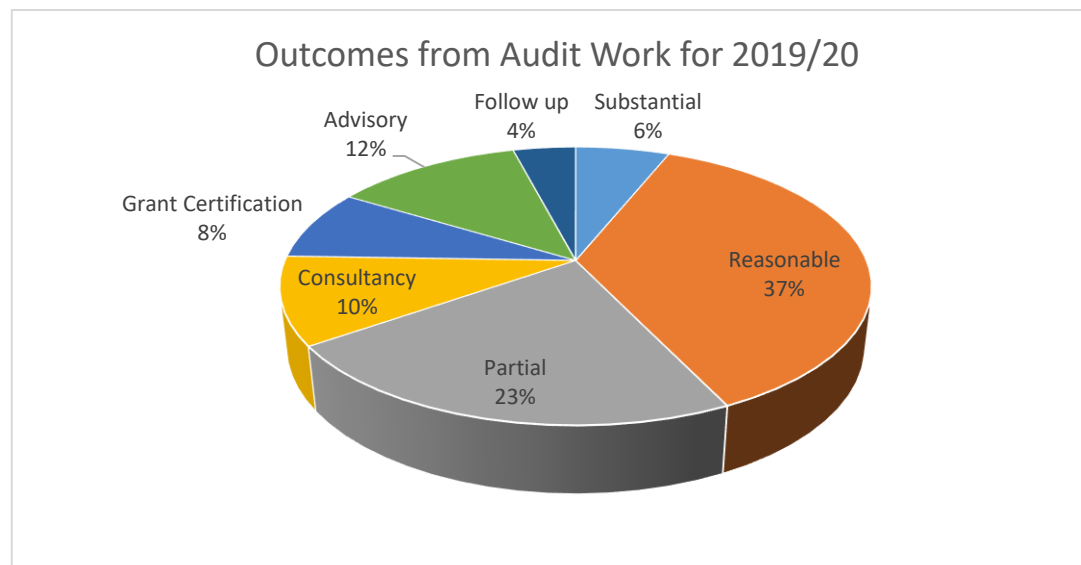
Areas of Significant Risk Identified

For those audits which have reached report stage through the year, none have been assessed as 'High' i.e. No Assurance. The following are rated as partial assurance:

Audit Name	Key Issues
Capital Accounting	Absence of business cases and documentary evidence to support the decisions made on the capital programme. However, a new process had been piloted and rolled out that shows significant improvement.
Benefit Realisation	Absence of business cases and documentary evidence to support the decisions made on Transformation Budget. It was difficult to determine the derived benefit of the activities and whether the activity was truly transformational. A new process has been developed and implemented for all new transformational projects.
Patch Management	Whilst assurances were received that software was kept up to date, there was no documented evidence to support this position. Greater visibility has been put in place.
Deprivation of Liberty safeguarding	The Council were significantly failing to meet the statutory timescales to undertake assessments. Additional plans have been developed and resources have been identified to improve performance. This also needs to be considered in the contexts of a potential legislative change that may make the burden less on the Council.
HOWPS	The performance monitoring process (KPI's) may not be reflecting genuine performance and the governance arrangements needed clarification. In addition, there was no continuity plan in place in the event of contractor failure.
Welshpool High School	Concerns around effective budget planning and management. Revised Budget arrangements are in place and the Council is continuing to monitor the budgetary position.
Brecon High School, Risk Management, Employee Development, Conflict of Interest	Work that has completed in draft with an indicative opinion is likely to be partial, but the Council's response delayed by Covid-19, but where the. These reports will be finalised as the Council when the Council has capacity and they will be reported to the Audit Committee. Whilst important that the key issues are addressed, there is nothing in these audits that would materially affect the overall annual opinion.

Summary of Control Activity

See Assurance Definitions in Appendix B



See Priority Definitions in Appendix B

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.'

The Target for Performance is:

Plan Delivery >90%
Client Satisfaction >90%
Percentage of Recommendation Accepted > 97.5%



Value Added and Performance

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. During the year, the section has:

- *Attended Management Teams and forums to advise on control issues e.g. Powys School forum*
- Applied data analytics in our audit work, to provide insights on entire populations of data as opposed to completing testing on a sample basis
- *Circulated Fraud alerts that we become aware of through professional networks e.g covid related fraud*
- *Participation in knowledge sharing and benchmarking requests across partnership*
- *Sharing of significant risk across the partnership including the top twenty risks*
- *Attendance at working groups. e.g. IA working group*
- *Representing Powys at the Welsh Chief Auditor Network*
- Utilised risk areas and audits undertaken with other Partners to inform our 2020/21 audit plan
- Issues newsletters to partners about relevant control and risk matters

The respective outturn performance results for the 2019/20 year are as follows:

Performance Measure	Performance
<p><u>Audit Plan – Percentage Progress (Days)</u></p> <p>Final, Draft and Discussion</p> <p>Substantially completed - release delayed by Covid</p> <p>Yet to start</p>	<p>77%</p> <p>17%</p> <p>6%</p>
<p><u>Quality of Audit Work</u></p> <p>Overall Client Satisfaction from questionnaire feedback</p> <p>Percentage of SWAP staff qualified or working towards a qualification</p>	<p>93%</p> <p>83%</p>
<p><u>Outcomes from Audit Work</u></p> <p>Percentage of Recommendations accepted</p>	<p>98%</p>

External Quality Assessment

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's 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 conformance to the required standards. SWAP was recently externally assessed in February 2020 and confirmed that we 'Generally Conform' to the standards.

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 that the programme must include both internal and external assessments for improvement. Following our external assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to achieve, 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 agreed actions.

Summary of Work Activity 2019/20

Appendix A

Directorate/Service	Audit Type	Audit Name	Release Month	Status	Opinion	No. of recs	Recommendations		
							1	2	3
*Finance	Operational	Capital Accounting	Apr-19	Final	Partial	3	1	2	0
*Housing	Requested	ECO2t	Apr-19	Final	Advisory	9	8	1	0
*Finance	Operational	Benefit Realisation (transformation)	Apr-19	Final	Partial	6	3	2	1
Finance	Grant	Welsh Gov Education Grant EIG/ PDG 17/18	May-19	Final	Certified	0	0	0	0
*Public Health	Special Investigation	Missing Cash for Taxi Licence	May-19	Final	Advisory	0	0	0	0
*Democracy	Operational	Members Expenses 19/20	May-19	Final	Advisory	0	0	0	0
*Education and skills	Cross Cutting	School Theme - Financial Review Presentations to Schools	Jul-19	Final	Advisory	0	0	0	0
*Education and skills	Non-Opinion	Information for Estyn Inspection	Jul-19	Final	Advisory	0	0	0	0
*Community safety and emergencies	Operational	Crisis Management 19/20	Aug-19	Final	Substantial	2	0	0	2
Finance	Grant	Welsh Gov Education Grant EIG /PDG 18/19	Sep-19	Final	Certified	0	0	0	0

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*Finance	Grant	NTSB Grant Certification 19/20	Sep-19	Final	Certified	0	0	0	0
*Children and families services	Requested	Standby Payments	Oct-19	Final	Consultancy	0	0	0	0
Directorate/Service	Audit Type	Audit Name	Month	Status	Opinion	No. of recs	Recommendations		
							1	2	3
*Finance	Operational	Budgeting 19/20	Oct-19	Final	Reasonable	6	0	5	1
*Housing	Consulting work	Smoke Alarm Compliance (External)	Nov-19	Final	Consultancy	8	1	3	4
*Leisure and Recreation	Requested	Theatr Brychieniog – Capital Payment	Nov-19	Final	Consultancy	0	0	0	0
*Leisure and Recreation	Requested	Theatre Brycheiniog Report- AC Accuracy	Nov-19	Final	Consultancy	0	0	0	0
*Information and communication technology	Operational	Patch Management 19/20	Nov-19	Final	Partial	6	0	4	2
*Education and skills	Operational	Ysgol Bro Tawe 19/20	Nov-19	Final	Substantial	3	0	1	2
*Education and skills	Operational	Ysgol Golwg y Cwm 19/20	Nov-19	Final	Reasonable	9	3	3	3
*Education and skills	Operational	Ysgol Gymraeg Dyffryn 19/20	Nov-19	Final	Partial	5	1	3	1
*Adult care services	Operational	D.O.L. S	Dec-19	Final	Partial	6	2	3	1
*Health and safety	Operational	Health and Safety 19/20	Dec-19	Final	Reasonable	4	0	4	0

*Finance	Operational	Debt Management	Dec-19	Final	Reasonable	5	0	1	4
Directorate/Service	Audit Type	Audit Name	Month	Status	Opinion	No. of recs	Recommendations		
							1	2	3
*Legal services	Follow Up	Section 33 Follow Up	Jan-20	Final	Follow up	0	0	0	0
*Finance	Operational	Council Tax / NNDR Refunds	Jan-20	Final	Reasonable	0	0	0	0
*Education and skills	School	Ysgol Bro Cynllaith	Feb-20	Final	Reasonable	8	0	5	3
*Finance	Operational	NNDR	Feb-20	Final	Reasonable	7	0	2	5
*Adult care services	Operational	Safer Recruitment 19/20	Feb-20	Final	Substantial	0	0	0	0
*Finance	Operational	Insurance	Feb-20	Final	Reasonable	4	0	2	2
*Children and families services	Operational	Childrens Budget Management	Mar-20	Deferred to 20-21 due to Covid-19		0	0	0	0
*Finance	Strategic	Supplier Resilience/ decommissioning	Mar-20	Deferred to 20-21 due to Covid-19		0	0	0	0
*Education and skills	School	Hafren Primary School	Mar-20	Final	Reasonable	7	0	2	5
*Finance	Operational	Treasury Management	Mar-20	Final	Reasonable	4	0	2	2
*ICT	Operational	ICT Risk Assessment	Mar-20	Deferred to 20-21 due to Covid-19		0	0	0	0
*Finance	System	Main Accounting	Mar-20	Final	Reasonable	2	0	2	0
*Finance	Financial	Staylitle Tender Evaluation	Mar-20	Final	Consultancy	0	0	0	0

*Finance	System	Pensions Administration	Mar-20	Final	Reasonable	5	0	3	2
Directorate/Service	Audit Type	Audit Name	Month	Status	Opinion	No. of recs	Recommendations		
							1	2	3
*Housing	Operational	HOWPS 19/20	Mar-20	Final	Partial	5	2	3	0
*Education and skills	Follow-up	Crickhowell High School 19/20-	Mar-20	Final	Reasonable	4	2	2	0
*Finance	Fraud	National Fraud Initiative 19/20	Mar-20	Final	Advisory	0	0	0	0
*ICT	Follow Up	Software Licensing Follow Up	Apr-20	Draft Covid-19 Delayed	Follow up	0	0	0	0
Education and Skills	Operational	Welshpool High School	May-20	Final	Partial	11	3	4	4
*Risk Management and Insurance	Operational	Risk Management	Jun-20	Draft Covid-19 Delayed	*Partial	8	2	3	3
*Education and Skills	Cross Cutting	School Procurement	Jul-20	Draft Covid-19 Delayed	*Reasonable	6	0	3	3
*Information and Communication Technology	Strategic	ICT Strategy	Jul-20	Draft Covid-19 Delayed	*Reasonable	2	0	1	1
*Education and Skills	Operational	Brecon High Schools	Jul-20	Draft Covid-19 Delayed	*Partial	10	3	5	2
*Finance	Operational	Cash Handling	Jul-20	Final	Reasonable	6	0	4	2
*Information and Communication Technology	Strategic	GDPR – Information Asset Registers	Aug-20	Draft Covid-19 Delayed	*Reasonable	3	0	2	1

Directorate/Service	Audit Type	Audit Name	Month	Status	Opinion	No. of recs	Recommendations		
							1	2	3
*Human Resources	Strategic	Employee Development	Aug-20	Draft Covid-19 Delayed	*Partial	7	1	4	2
*Finance	Project	Travel Expenses Data Analytics	Aug-20	Draft Covid-19 Delayed	*Reasonable	3	1	2	0
*Democracy	Cross Cutting	Conflict of Interest	Aug-20	Draft Covid-19 Delayed	*Partial	8	0	6	2

*Indicative position based on a draft report that has not been formerly signed off as a result of the Covid-19 pandemic.

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	
None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

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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:	
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.