



# Powys County Council

## Annual Report and Opinion 2018-19

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

# Contents

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

Ian Baker  
Director Executive  
Tel: 01935 84850  
ian.baker@swapaudit.co.uk

Ian Halstead  
Assistant Director  
Tel: 01597 826821  
ian.halstead@swapaudit.co.uk

➡	Summary:		
		Purpose	Page 1
		Scope	Page 2
		Annual Opinion	Page 3
➡	Summary of Audit Work:		
		High Corporate Risks	Page 5
		Partial Assurance Audit Summary	Page 5
		Summary of Control Assurance Opinions	Page 6
➡	Performance:		
		Value Added	Page 7
➡	Appendix A:	Summary of Work Activity	Page 8-15
	Appendix B:	Assignment Opinion Definitions	Page 16

**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
- Outline the work actually undertaken and any material variation from the agreed work programme
- 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 2018/19 year.

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



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

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

## Annual Opinion

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.

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.

The opinion is based on the following sources of information:

- Completed Audits in 2018/19
- Observation from any advisory/ investigative work
- Material risk where management has not accepted the need for mitigating action
- Follow up of previous audits
- Notable changes to the organisation's strategy, objectives or organisational structure

Over the year, the Internal Audit Team have found Senior Management of Powys County Council to be generally 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. However, during the course of 18/19 the Council transitioned to a new Senior Management structure that resulted in periods when the key leads for audit projects became unavailable for a significant period. Whilst the audit team tried to minimise any disruption, the managerial absence and lack of continuity impacted on the ability to deliver some of the audit assignments.

## Annual Opinion Continued

81% of completed audits received Substantial or Reasonable opinions in relation to the control environment. Of the assignments completed in 2018/19 (57 in total, there are 7 areas that have been awarded partial or No assurance in relation to their control environment (none of them Fundamental Systems). The findings within these audits with moderate and major risk exposure have, on the whole, been appropriately addressed by management. Any outstanding weaknesses in the governance, risk and control framework will continue to be followed up by Internal Audit as part of the 2019/20 Plan and by the Internal Audit Working group. Further details of audits with Partial Assurance opinions can be found in Appendix A on page 8.

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 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.

The summary of outcomes of audit work for 2018/19 were:

- mostly medium risk rated weaknesses identified
- isolated high rated risks identified
- no critical weakness identified
- broadly satisfied with Managements approach to resolving significant issues.

**Internal Audit cannot review all risks and assurances relating to Powys County Council and cannot provide absolute assurance on the internal control environment. However, based on the risk based work undertaken, I am able to offer 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.**

## 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.

## High Corporate Risk

For those audits which have reached report stage through the year, none have been assessed as 'High' i.e. No Assurance

Those risk that are significant (Partial Assurance) have been reported to the Audit Committee and have been tracked by the Internal Audit Working Group.

## Partial Assurance Summary

The following final audits received a Partial assurance opinion in respect of their control environments in 2018/19. These audits have been or will be reviewed by the Internal audit working group for follow-up.

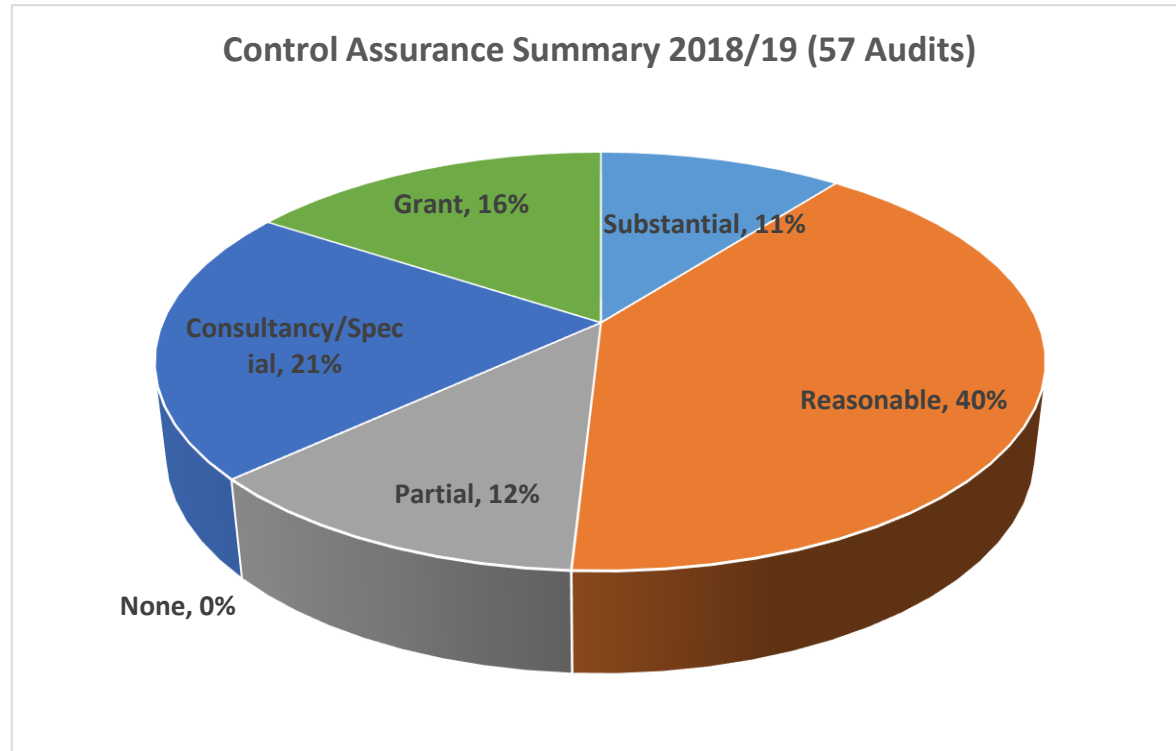
Audit Name	Key Issues
Crickhowell High School	Ineffective budget management and health and safety issues.
Llanfyllin Primary School	Governance records, financial delegation, school funds, payments, banking and health and safety.
Members Travel Expenses	Training and awareness of the system and policies. VAT receipts.
Officers Travel Expenses	Failure to delivery corporate objective of reducing mileage. VAT receipts.
Risk Management Follow-up	Failure to deliver key aspects of the revised risk management strategy.
Section 33	Failure to have agreements in place to support past and current joint service. Partnership board not ensuring agreements are in place.
Software Licensing	The Council do not reconcile the software it has on its hardware for non-Microsoft products. Unapproved installations occur that may be in breach of the legislation.

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

Assurance Definitions

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

Summary of Control Assurance Opinions



When you consider only those audits that offer an opinion, 81% of audit work received a favourable opinion in 2018/9. The proportion of favourable reports for 2017/18 was 75%.



## Value Added

**'Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more, while adding little or nothing to its cost.'**



## Value Added

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

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

- *Attended Management Teams and forums to advise on control issues e.g. Powys School forum*
- *Circulated Fraud alerts that we become aware of through professional networks e.g. Bank mandate fraud*
- *Participation in knowledge sharing and benchmarking requests across partnership e.g. election, waste, sickness*
- *Sharing of significant risk across the partnership*
- *Attendance at working groups. e.g. IA working group*
- *Representing Powys at the Welsh Chief Auditor Network*
- *Facilitated Members Training Day in Crickhowell*
- *Presented to Council on "Lesson Learned from Northamptonshire Council"*

AREA	SUB AREA	TYPE	ASSIGNMENT NAME	PLANNED START	STATUS	OPINION	RECOMMENDATIONS		
							Priority 1	Priority 2	Priority 3
<b>SERVICES DELIVERED FOR LESS</b>									
*Management	Project management	Governance, Fraud & Corruption	Projects Benefits Realisation	Apr-19	Draft	Partial	3	2	1
*Finance	Financial transactions management	Governance, Fraud & Corruption	National Anti-Fraud Initiative	April 2018	Final	Advisory- No Opinion	N/A	N/A	N/A
<b>SUPPORTING PEOPLE IN THE COMMUNITY</b>									
*Adult care services	Supporting adults	Operational	Payment Process - Social Care	April 2018	Final	Reasonable	0	4	3
*Children and families services	Supporting children	Consultancy	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

*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	Carried Forward	Due to staff illness			
*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
<b>DEVELOPING THE ECONOMY</b>									
*Management	Preparing business	Follow up	Partnership and Collaboration - Follow up	October 2018	Final	Reasonable	0	1	0
<b>IMPROVING LEARNER OUTCOMES</b>									
*Education and skills	Management of schools	School	Llanfyllin High School 18/19	October 2018	Final	Reasonable	0	3	4
*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	Final	Substantial	0	0	3
*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	Hay on Wye CP	Oct-18	Final	Reasonable	0	1	1
*Education and skills	Management of schools	School	School Theme - Property and Health and Safety PCC	January 2019	Final	Substantial	0	0	1
*Education and skills	Management of schools	School	School Theme - Financial Administration PCC	July 2018	Final	Reasonable	0	2	0
*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
*Children and families services	Supporting children	Grant Certification	Welsh Gov - Schools - EIG & PDG Q4	Jan-19	Final	Certified	N/A	N/A	N/A

CORPORATE GOVERNANCE									
* Healthy Organisation	Governance Framework	Governance, Fraud & Corruption	Healthy Organisation Review 18/19 PCC	April 2019	In Progress	19/20			
*Information and communication technology	Information Security Management	Follow Up	General Data Protection Regulations Follow Up - PCC	April 2018	Final	Reasonable	0	0	0
*Finance	Accounts and audit	Governance, Fraud & Corruption	Serious and Organised Crime Audit	Jun-18	Final	Reasonable	0	2	0
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	Draft	Partial	0	3	0
*Finance	Payroll and pensions	Governance, Fraud & Corruption	Payroll	October 2018	Final	Substantial	0	1	2
*Finance	General Ledger / Main Accounting	Governance, Fraud & Corruption	Main Accounting - PCC (See Note 1)	July 2018	Deferred	19/20			
*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	Draft	Reasonable	0	4	1

*Education and skills	Management of schools	Follow up	Schools - Cashless Systems - Follow up	July 2018	Final	Reasonable	0	0	1
*Finance	Financial transactions management	Operational	Income Generation	July 2018	Deferred	19/20			
*Management	Project management	Operational	Members Expenses	April 2018	Final	Partial	4	2	1
*Finance	Payroll and pensions	Key Control	Travel Expenses (Officers)	October 2018	Final	Partial	1	4	0
*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.									
<b>RISK and PERFORMANCE MANAGEMENT</b>									
*Risk management and insurance	Risk Management	Governance, Fraud & Corruption	Risk Management 18/19 - Follow Up PCC	January 2019	Final	Partial	0	3	3
*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		
							Priority 1	Priority 2	Priority 3
<b>COMMISSIONING and PROCUREMENT</b>									

*Procurement	Tendering	Operational	Commissioning - Options Appraisal / Decommissioning	Jan-19	Not started	19/20			
*Procurement	Contracting	Follow up	Commercial Services - Follow up	July 2018	Final	Reasonable	0	1	0
*Partnerships	Contract Management	Operational	Section 33	Apr-18	Final	Partial	1	0	0
*Procurement	Contracting	Operational	HOWPS Contract Management	October 2018	WIP	Carried forward 19/20			
*Procurement	Contracting	Operational	Freedom Leisure Contract Management	October 2018	Final	Reasonable	0	1	2
<b>INFORMATION MANAGEMENT</b>									
*Information and communication technology	Information Security Management	ICT	Software Licensing - 18/19 PCC	July 2018	Final	Partial	2	2	2
*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	Deferred	WIP 19/20			
*Information and communication technology	Asset and Configuration Management	ICT	ICT Procurement	July 2018	Final	Reasonable	0	1	0
*Information and communication technology	Strategy and Governance	ICT	Crisis Management	April 2018	Final	Substantial	0	0	2
<b>PROGRAMME and PROJECT MANAGEMENT</b>									

*Management	Project Management	Governance, Fraud & Corruption	Project Governance Arrangements	October 2018	deferred	19/20			
<b>PEOPLE and ASSET MANAGEMENT</b>									
*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	Deferred	19/20			
*Human resources	Training	Operational	Role of the Powys Manager	April 2018	Final	Substantial	0	0	1
*Health and safety	Monitoring	Operational	Corporate Health and Safety	July 2018	Deferred	WIP 19/20			
<b>ADDITIONAL UNPLANNED WORK</b>									
Governance	Democracy	Special Investigation	Monitoring Officer Investigation	Jun-18	Final	Advisory - No Opinion			
*Housing	Managing tenancies	Grant Certification	Enable Grant 17/18	Jan-19	Final	Certified			
*Education and skills	Management of schools	School	Crickhowell High- Financial Administration	Mar-19	Deferred	Audit initiated 19/20			
*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	Client Request	Void Clearances	Dec-19	Final	Complete			
Corporate	Property	Client Request	Office Move	Oct-18	Final	Complete			
Governance	Democracy	Special Investigation	Travel Review	Feb-19	Final	Complete			
Governance	Democracy	Special Investigation	Anon Complaint Review – F system	Feb-19	Final	Closed			
*Adult care services	Supporting disabilities	Operational	Standby Payments	Jan-19	WIP				
Housing	Private Sector	Special Investigation	ECCO2 T	Jan -19	Final	Complete			

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

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

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

Categorisation of Recommendations	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.