



Powys County Council

Internal Audit Annual Opinion Report 2020/21

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

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

Annual Opinion



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

(although breadth of audit work significantly reduced and limited in 2020/21 due to COVID)

The Headlines

	5 Significant areas of Risk identified in year.
	35 Assignments delivered as part of the 2020/21 Internal Audit Plan. Includes assurance, advisory, grant certifications, support and follow up reviews.
	Internal Audit Staff resources refocused into Council areas to assist with the COVID response. COVID 19 Business Grant Fraud detection support and grant funding checks. Supporting the Finance Function.
	Action tracking systems developed which has resulted in enhanced visibility to the Council. Significant improvements in the implementation of agreed actions.
	Range of innovations and enhancements made to our internal audit process throughout the year. One-page audit report, introduction of Agile auditing and planning.

Internal Audit Assurance Opinions 2020/21

Substantial	04
Reasonable	05
Limited	05
No Assurance	00
Internal Audit Agreed Actions 2020/21	
Priority 1	05
Priority 2	27
Priority 3	21
Total	53



SWAP
INTERNAL AUDIT SERVICES
Assuring – Improving – Protecting

SWAP 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.

I
nternal Audit provides an independent and objective opinion on the effectiveness of the Authority's risk management, control and governance processes.



Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- An opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
 - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities
 - whether the information technology governance of the organisation supports the organisation's strategies and objectives
 - the effectiveness of risk management processes; and
 - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- Disclose any qualifications to that opinion, together with the reasons for the qualification.
- Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies.
- Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the governance framework.
- Summarise the performance of the internal audit function against its performance measures and criteria.
- Comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.



Executive Summary



Background

Three Lines Model

To ensure the effectiveness of an organisation's risk management framework, the Audit and Governance Committee and senior management need to be able to rely on adequate line functions – including monitoring and assurance functions – within the organisation.

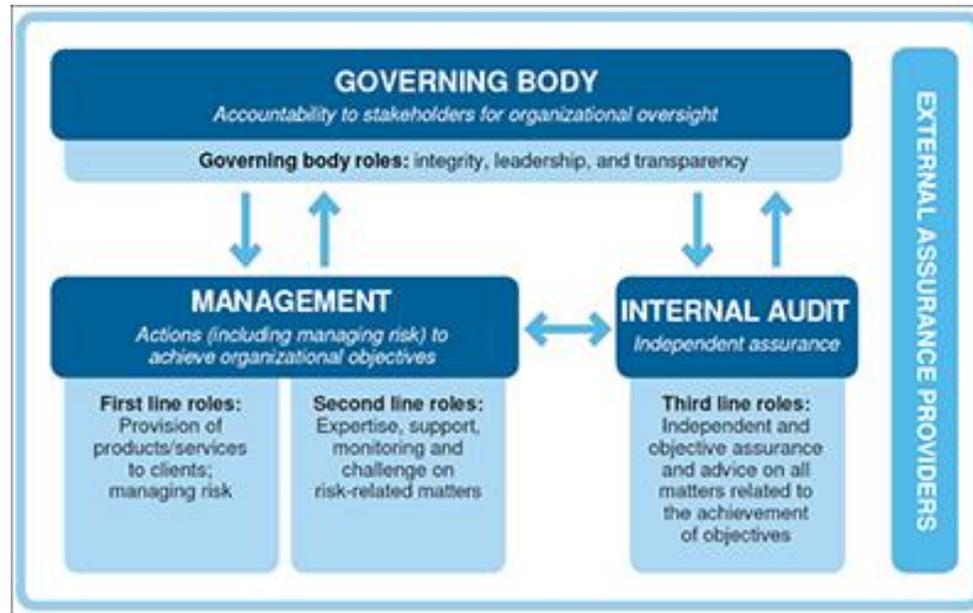
The 'Three Lines' model is a way of explaining the relationship between these functions and as a guide to how responsibilities should be divided:

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

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. This report summarises the activity of the Internal Audit team for the 2020/21 year.

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



Internal Audit Annual Opinion 2020/21

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

As highlighted in our Opinion, due to the COVID pandemic, our ability to provide reasonable coverage across a broader range of areas has been impacted. Our annual opinion should therefore be considered in this context.



Annual Opinion

On the balance of our 2020/21 audit work for Powys County Council, enhanced by the work of external agencies, I am able to offer a **Reasonable Assurance** opinion in respect of the areas reviewed during the year.

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

The additional audits performed to carry out assurance work on new risks associated with the Covid-19 emergency response were:

- *Work around business support grants*
- *Review of Partner Supplier Relief*
- *Fraud Support on covid grants*
- *Focussed analytical work*
- *Relevant advisory work*

Alongside direct internal audit work, the HIA can also place reliance on other second and third line assurance providers. These were:

- *Performance Management Information*
- *Risk Management and Mitigation*
- *Audit Wales Reports*

It has been agreed to defer some audit work to 2021/22 and this has been reported in previous activity reports to the Audit Committee. The main reason for the deferrals were:

- *Additional audit work on new risks associated with COVID-19 being delivered.*

- *Some areas of the Council facing significant resource challenges as leading the Council's response to the pandemic, meaning key staff/information/systems not accessible to internal auditors.*
- *Refocusing of audit resources to support the Council's response reducing the resource base for internal audit.*
- *Demands on internal audit for advisory and non-audit support work that may not directly support the HIA opinion.*

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

- *Effective Equality and Impact assessments*
- *Improvements in Risk management process*
- *Agreed Action implementation Tracking*
- *Resilience in Key financial audits*
- *Improvements in Budget Management*
- *Effective Information Governance and security*
- *Robust Covid 19 Response and Risk Plan*

Keys Risks and Audit Coverage

Internal audit coverage should be aligned to key corporate priorities and key corporate risks.

SWAP audit work is generally aligned to the key risks of the Council.



Audit Coverage by Corporate Risk

Corporate Risk	Coverage	Assurance assessment based on completed internal audit work
CS0081 - Children Services Budget		Reasonable
ED0022 - Schools Budget Management		Reasonable
ED0023 - PIAP Delivery		Reasonable
FIN0001 - Setting a balance Budget		Reasonable
HOU0018 - Statutory Compliance in Housing stock		
ICT0010 - GDPR Compliance		Reasonable
ICT0029 - Cyber Security Threat		*Reasonable
PCC0002 - Impact of Brexit		
PCC0003 - Negative Inspection Reports		
PCC0005 - Impact of Covid		Reasonable
PPPP007 – HOWPS Performance		
WO0021 -Workforce planning		*Reasonable

* Assurance provided by other Inspection Agencies

Coverage Key		Assurance Key	
Good	Reasonable internal audit coverage	Substantial	Sound systems of governance, risk management and control exist
Adequate	Adequate internal audit Coverage	Reasonable	Generally sound systems of governance, risk management and control in place
Some	Adequate internal audit Coverage	Limited	Significant gaps, weaknesses or non-compliance were identified
None	No recent internal audit coverage	No Assurance	Fundamental gaps, weaknesses or Non-compliance identified
None	Proposed internal audit coverage removed in Year	No Assessment	Assurance rating not given.

Summary of Audit Work 2020/21

Definitions of Corporate Risk

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

Medium Risk-
Issues which should be addressed by management in their areas of responsibility.

Low Risk-
Issues of a minor nature or best practice where some improvement can be made.

Significant Risks

For those audits which have reached report stage through the year, we have assessed the following risks as ‘High’.

Summary of Adverse Opinion Reports

Audit Title: Conflict of Interests – (Released 30/10/2020)

Audit Opinion		Recommendation Summary	
	Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Priority	Number
		Priority 1	0
		Priority 2	6
		Priority 3	2
Total			8

Summary:

The Council has a robust framework in the “Officers Code of conduct” that informed ethical behaviour. However, the audit found that there was a general lack of staff awareness, both in managerial positions and in operational positions of the requirement to formally declare conflicts. In addition, the review noted that guidance was not sufficiently clear to explain the processes and practical requirements of the code.

Staff do not receive specific training about the code of conduct requirements. This factor may be one of the telling factors in the general level of staff awareness.

Whilst the audit found that the Council did have some registers for specific professional functions, it also found that the more general Service registers were not maintained as per the code of conduct.

Incentivising timely self-reporting is an essential part of the framework that will bring more transparency to the process. The Council do not have effective embedded mechanisms in place to ensure that all officers with influence periodically declare any conflicts or potential conflicts of interests, especially those with advisory and delegated roles in decision making, recruitment and procurement.

Internal Audit Annual Opinion 2020/21

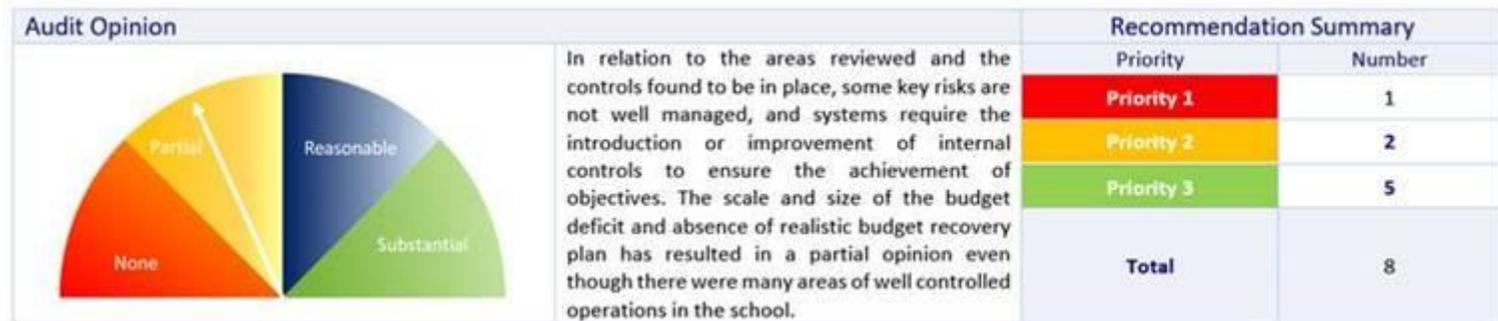
The Council are adequately mitigating the risks on Conflicts of Interest, but still have further progress to achieve a substantial assurance.

The Council is unaware of the level of compliance with its constitutional code of conduct because it does not have monitoring arrangements in place. However, it is acknowledged that certain professions have their own code of ethics (e.g. planners, auditors) that require the declaration of such conflicts, although these may not be corporately transparent to the Council.

Updated Position:

The Council have developed a robust action plan. To date the Service have indicated that 4 recommendations have been implemented, 1 is ongoing and 3 are outstanding. Improvements have been made to the code of conduct, recording processes and monitoring and oversight. A follow-up review is planned in 2021/22.

Audit Title: Welshpool High School - (Released date May 2020 and Follow up in March 2021)



Summary:

The main area for concern at the school is the management of the budget, the main areas of concern were;

- The school were operating under an unlicensed budget
- There was no realistic deficit recovery plan in place
- The annual deficit budget is projected to increase by 160% by the end of 2022/23 financial year to over £500k.
- By the end of 2022/23 there is a projected accumulative deficit of over £2.25 million.

The school had submitted a 4-year plan with 3 options;

- continue to operate as they are with a large deficit
- operate with a balanced budget
- operate with a balanced budget and deficit recovery plan

Internal Audit Annual Opinion 2020/21

Welshpool School have implemented the required improvements and have mitigated the key risks.

It was stated by the Headteacher that the last two options are not realistic as they would mean the class sizes would exceed the health and safety rules and be unmanageable.

Updated Position:

The school have developed an action plan that was agreed by the Governing Body. The School have indicated that all actions have been implemented. This was confirmed by a subsequent independent follow-up review where all had been implemented apart from one that was in progress. The School is now on a much improved financial footing.

Audit Title: Brecon High School (Released: Sept 2020 & Follow-up May 2021)

Audit Opinion		Recommendation Summary	
	Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Priority	Number
		Priority 1	3
		Priority 2	4
		Priority 3	2
		Total	9

Summary:

The school has an historical debt that has been increasing for several years resulting in the deficit of £1.25M brought forward from 2018-19.

Following a succession of headteachers a new Headteacher has recently been appointed to the school having been in an interim post for a short while. He was well versed in the situation at the school and was working with the Governing Body to rectify the budget situation at the school along with the recommended curriculum improvements required following an Estyn Inspection.

The school budget was unlicensed, a notice of concern was issued to the school in June 2019 and followed by a warning notice on 12th July 2019. A deficit budget of £284k was set for 2019/20, in month 6 this deficit had been increased to £339k. There has been an uplift in the school's budget for 2020-21, however indications were that the original budget figures would not be achieved and the overall deficit to be carried forward in to 2020/21 will increase. The recovery plan has also failed as the savings identified will not achieve the planned budget recovery.

Internal Audit Annual Opinion 2020/21

Brecon High School have implemented most of the agreed actions and have therefore mitigated most of the key risks.

Updated Position:

The School developed an action plan after the release on the final audit report. The school have indicated that have implemented all designated actions. A follow-up review is currently on-going with indications that the school is on a much better financial footing.

Audit Title: Employee Development (Released: Sept 2020)

Audit Opinion		Recommendation Summary	
	<p>Limited - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</p>	Priority	Number
		Priority 1	1
		Priority 2	4
		Priority 3	2
		Total	7

Summary:

The Auditor's recognised that the Council was planning to take steps to ensure that training is delivered to those that need it. Therefore, this audit report should be considered as a driver to help deliver change.

Policy- The Council do not have a Learning & Development Policy in place, though this has been recognised and one is being currently developed. Without a policy in place, there is no direction to the training provision to ensure the Council's workforce are properly skilled to deliver services to the public.

Training Programme- Employee Development and Training has functioned effectively within the Council as a training provision service with a course programme organised annually using the same format each year. However, the training programme was not clearly linked to the needs of the Council. In addition, there is no formal monitoring of all the mandatory courses to ensure all staff receive or complete the training.

Training Needs Assessment- Skills audits are not carried out widely across the organisation. The lack of periodic audits prevents the identification of staff skills gaps in the service areas and the identification of staff across the organisation that could be utilised in other areas from those that they currently work.

The Council have improved the Employee development process and therefore have mitigated most of the key risks.

Staff Reviews- Staff reviews are a mandatory requirement, to be carried out on an annual basis with 6 monthly re-views. Staff reviews were not being carried out for a significant proportion of the workforce.

Central Training Records and Course Feedback- The Council do not effectively record wider staff training and do not evaluate the success of the training they do deliver.

Updated Position:

The Council have indicated that 6 of the agreed actions have been delivered with the remain 1 ongoing. A follow up review is programmed for 2021/22. Recent management information has indicated that significant improvements have been made, in particular with a high proportion of staff reviews being regularly undertaken.

Audit Title: Housing Voids (Released: September 2020)

Assurance Opinion		Recommendation Summary	
	Limited	Priority	Number
	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Priority 1	0
		Priority 2	2
		Priority 3	1
		Total	3

Key Findings

- 

Target times for the completion of works are set by the Housing Surveyors in agreement with the contractor. Currently all contractors are only achieving between 25% & 33% of the void works completion against the targets set. These delays result in lost income revenue for the Housing Section as the properties cannot be let.
- 

Housing Surveyors are not achieving their target time for the initial inspection of a void properties for 29% of the time. This creates delays from the start of the void process resulting in increased costs in the form of lost rental revenue to the Council.

The Housing Service have implemented all of the agreed actions and therefore have mitigated all of the key risks.



There are no documented procedures business continuity in the event of sudden failure of a contractor. Consideration has been given to this eventuality, but no formal documented policy has been drawn up yet.



The revenue lost due to Housing Voids (due to excess time taken over the set targets for completion) is approximately £313,445 for the four-month period December 2019 to March 2020. This is using the average rental income of £95 per week, as calculated by the Housing Section in September 2019,

Updated position:

The Council have indicated that all 3 agreed actions have been implemented. A follow-up audit is planned for 21/22 after a restructuring exercise by the Housing Service.

Summary of Audit Work 2020/21

SWAP Performance - Summary of Audit Opinions



Summary of Audit Opinion

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

- Substantial – A sound system of governance, risk management and control exists
- Reasonable – There is a generally sound system of governance, risk management and control in place
- Partial – Significant gaps, weaknesses or non-compliance were identified
- No – Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified

Table 1: Audit Opinions

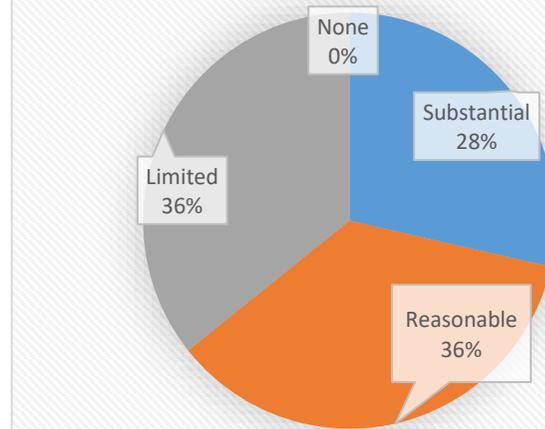


Table 2: Audit Work by Type

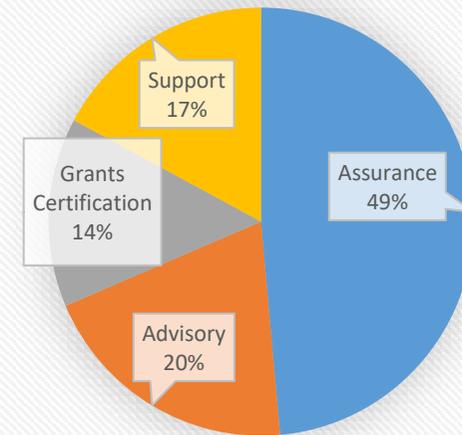


Table 1 above indicates the spread of assurance opinions across our work during the past year. The Council’s willingness and openness to identify areas for review has naturally resulted in an increased number of Limited Assurance opinions.

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

Summary of Audit Work 2020/21

SWAP Performance – Action Tracking

Note: the action tracker reports over a rolling two-year period.

The tracker is based mostly on self-assessment rather than independent verification. Therefore, a role remains for the Internal Audit working Group and follow-up audits on the areas of highest risk.



Priority Actions

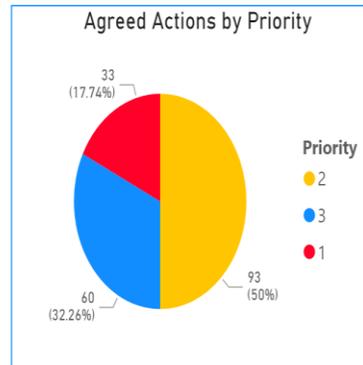
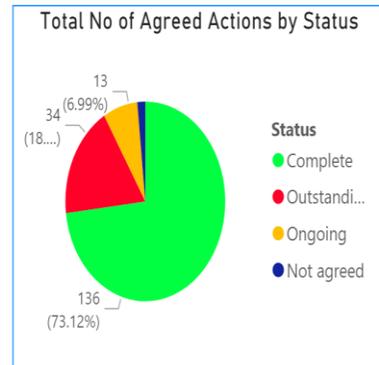
[← to Detailed Summary](#)

Powys County Council Insight Dashboard

[Drill down to Agreed Actions](#)



Agreed Actions made by Internal Audit

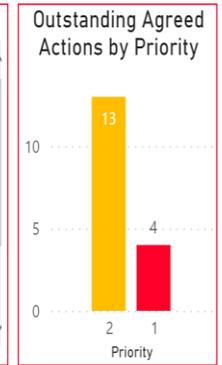


Priority 1&2 requiring immediate attention

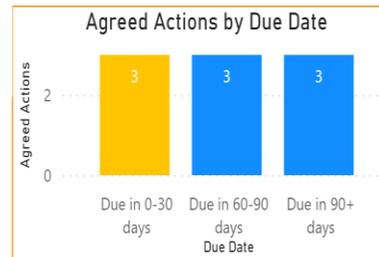


Outstanding Agreed Actions by Directorate

Directorate/ Service	Due in 0-30 days	Overdue 60+ Days	Overdue to 30
Adult Care Services	1		
Democracy			
Education		4	
Finance		1	
Health and Safety		1	
Total	1	7	



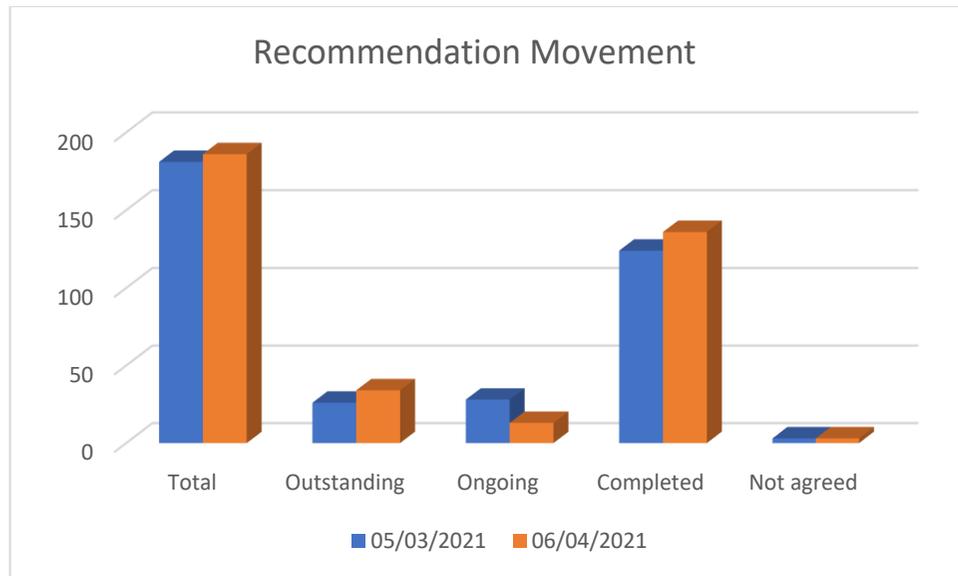
Priority 1&2 Agreed Actions on the Horizon (due in 30 days or less)



Priority 3 Agreed Actions that would add value (if implemented)



Recommendation tracking is having a positive effect on promptly mitigating risks in the Council.



Commentary:

The recommendation tracker has been in place for a month. The main patterns are:

- The outstanding recommendations have increased over the month mainly due to an abundance of recommendations delivery dates set at the financial year end.
- On-going recommendations have decreased because they have been either completed or moved to outstanding.

Added Value

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



Added Value

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

Benchmarking

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

- Processes around the operation of Business Grants
- Value for Money
- Corporate Criminal Offence

Summary of Audit Work 2020/21

- Unregistered Placements
- Protection of Property
- Contract Management

We also undertook a number of surveys across the Council to inform our audit Work.

Innovations and Enhancements to our Audit Process

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

Introducing the concept of 'Agile Auditing' to our audit process. With increased collaboration and a joint commitment with the service under review, it is possible to complete audits faster and more efficiently. We have used this concept to complete a number of audits this year and have had positive feedback from the senior managers working with us on these reviews.

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

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

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

Introduced a new agile audit planning and risk assessment process.



Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

SWAP Performance

SWAP's performance is subject to regular monitoring and review by both the SWAP Board of Directors and the Owners Board.

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

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

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

Summary of Internal Audit Work 2020/21

Completed Audits (Opinion)							
Assignment	Service Area	Status	Opinion	No of Recs	Priority 1	Priority 2	Priority 3
Impact Assessments	Trans & Comms	Complete	Reasonable	2	0	1	1
Creditors	Finance	Complete	Substantial	0	0	0	0
Payroll	Finance	Complete	Substantial	2	0	0	2
Housing Void rental properties	Housing & Community	Complete	Limited	3	0	2	1
GDPR	Digital	Complete	Reasonable	3	0	2	1
Supplier Relief	Finance	Complete	Substantial	0	0	0	0
Welshpool High	Schools	Complete	Limited	8	1	2	5
Welshpool High- Follow up	Schools	Complete	Substantial	0	0	0	0
ICT Strategy	ICT	Complete	Reasonable	2	0	1	1
Conflict of Interest	Legal	Complete	Limited	8	0	6	2
Employee Development	HR	Complete	Limited	7	1	4	2
Brecon High School	Schools	Complete	Limited	9	3	4	2
Software Licensing - Follow up	ICT	Complete	Reasonable	3	0	2	1
School Theme -Procurement	Schools	Complete	Reasonable	6	0	3	3

Summary of Audit Work 2020/21

Draft Reports (opinion) - With the Client							
Assignment	Service Area	Status	Opinion	No of Recs	Priority 1	Priority 2	Priority 3
Y Gaer	Housing & Community	Draft - with Client	TBC	In development			
Mental capacity Act or Safeguarding	Children and Adult	Draft – with Client	TBC	3	0	1	2
Children Services- Budget Management	Social Care	Draft – with client	TBC	In Development			
Advisory Work (Non-Opinion)							
Assignment	Service Area	Status	Opinion	No of Recs	Priority 1	Priority 2	Priority 3
Those Charged with Governance	Finance	Complete	Advisory				
Procurement Cards - Data analysis of System	Finance	Complete	Advisory				
National Fraud Initiative Co-ordinator	Finance	Complete	Advisory				
Baseline Assessment of Fraud Maturity - Cross Partner	Corporate	Complete	Advisory				
Baseline Assessment of Fraud Maturity - Powys	Corporate	Complete	Advisory				
Risk Management Appetite Support	Finance	Complete	Advisory				
Transport Grants	HTR	Complete	Advisory				
Grant Certification							
Assignment	Service Area	Status	Opinion	No of Recs	Priority 1	Priority 2	Priority 3
Grant Certification – EIG/PDG	Schools	Complete	Certified				
Grant Certification – Supporting People	Housing & Community	Complete	Certified				

Summary of Audit Work 2020/21

Grant Certification – Trading Standards	Prop, Plan & PP	Complete	Certified				
Grant Certification - PAGES	Schools	Complete	Certified				
Enable Grant	Finance	Complete	Certified				
Work In Progress (Carried Forward)							
Assignment	Service Area	Status	Opinion	No of Recs	Priority 1	Priority 2	Priority 3
Ysgol Calon Cymru (Budget Setting and management)	Schools	In Progress					
Support Work							
Assignment	Service Area	Status	Opinion	No of Recs	Priority 1	Priority 2	Priority 3
Business Grant Administration (Fraud Controls)	Finance	Complete	Support				
LA Covid Support Grant (Monthly)	Finance	Complete	Support				
Covid Business Grants (Spotlight and Cifas)	Finance	Complete	Support				
Supporting the Finance Function -Covid 19	Finance	Complete	Support				
ParentPay Refunds – Covid 19 Support	Finance	Complete	Support				
Recommendation Tracking	Corporate	Complete	Support				