

Internal Audit Annual Report 2012/13

“Providing assurance on the management of risks”

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This document summarises the results of internal audit work during 2012/2013 and as required by the Accounts and Audit (England) Regulations 2011 gives an overall opinion of the Authority’s control environment. This document should be read in conjunction with the terms of reference for the assurance service and the audit plan agreed by the Audit and Standards Committee in June 2012.

Opinion

Based upon the results of work undertaken during the year my opinion is that the Authority’s control environment provides moderate assurance that the significant risks facing the Authority are addressed.

Context

Management is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements i.e. the control environment. Internal audit plays a vital part in advising the organisation that these arrangements are in place and operating properly. On behalf of the Authority, Internal Audit review, appraise and report on the efficiency, effectiveness and economy of these arrangements.

Internal audit is required by professional standards to provide a written annual report to those charged with governance timed to support the Annual Governance Statement. The content of the report is prescribed by mandatory codes of practice which specifically require the report to:

- provide an opinion on the adequacy of the Authority’s control environment;
- present a summary of the audit work from which the opinion is derived,
- report on the nature and extent of significant control failings or weaknesses identified during the year; and
- provide information on the effectiveness of internal audit.

The role of audit is not to identify or investigate alleged irregularities it is to provide assurance to the organisation (managers, heads of services and the audit and standards committee) and ultimately the taxpayers that the authority maintains an effective control environment that enables it to manage its significant business risks. The service helps the Council achieve its objectives and provide assurance that effective and efficient operations are maintained. The assurance work culminates in an annual opinion on the adequacy of the Authority’s control environment which feeds into the Annual Governance Statement.

Internal audit work during 2012/2013

The underlying principle to the 2012/13 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.

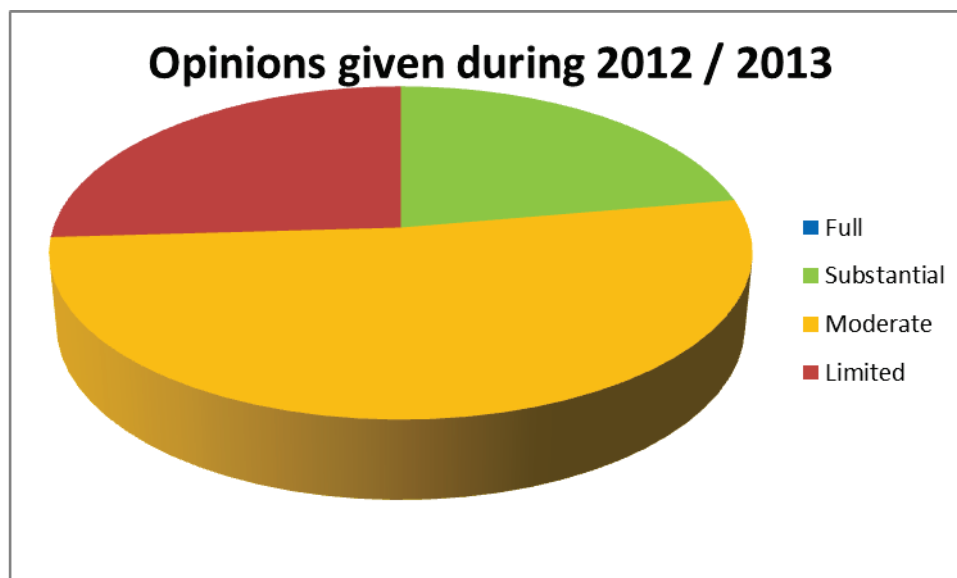
The methodology adopted in preparing the 2012/13 audit plan, and the plan itself, were approved by the Audit and Standards Committee on 26 June 2012.

Since the original plan was approved a number of additional audits have proved necessary and some planned audits were no longer required. Variations to the plan during the year are inevitable if the plan is to adequately reflect changing circumstances and the changing organisation. The net effect is that although the work undertaken during the year was different to that anticipated 12 months ago, I am pleased to report that in terms of total number of days the target of completing 90% of the plan was achieved.

Summary of assurance work

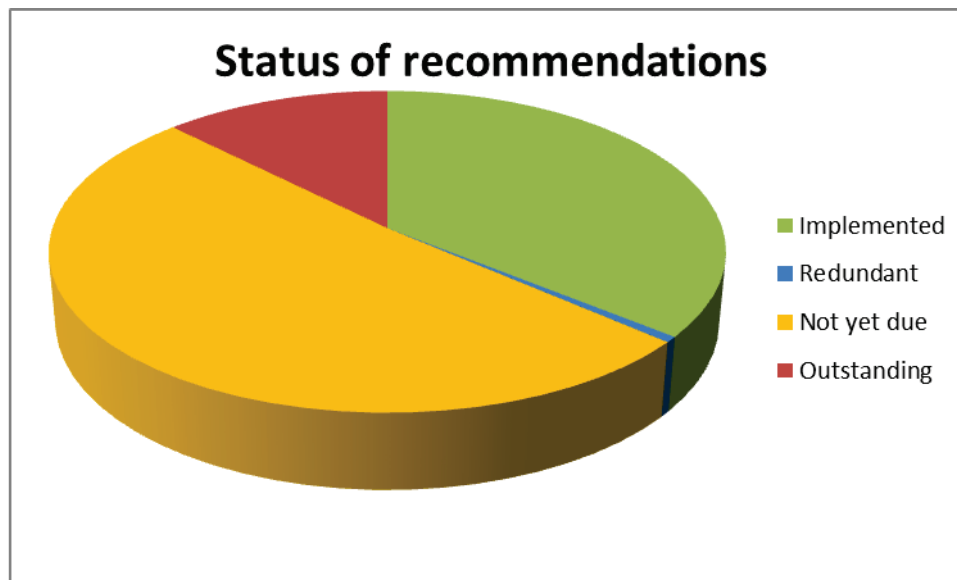
The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are Limited, Moderate, Substantial and Full. The opinion reflects both the design of the control environment and the operation of controls. The Audit and Standards Committee has received regular reports during the year summarising audits undertaken.

As shown in the following chart the results of this year's audits are positive with the majority having a moderate or substantial opinion. However, there were seven audits where controls provided only Limited assurance that significant risks were being addressed. The key issues arising from these audits have been reported to the Audit & Standards Committee. A full list of the assurance work completed during the year is given in Appendix A.



Recommendations are categorised according to the risks they are intended to mitigate. Categorising recommendations also assists managers in prioritising improvement actions. The current categories used, in increasing order of importance are: Merits Attention, Significant and Fundamental.

During the year 176 recommendations were made to improve controls. As shown in the following chart significant progress has been made in implementing the recommendations made during the year. Progress on fundamental recommendations is particularly encouraging with only two outstanding at year end.



Summary of non-assurance work

Special investigations

The Audit Commission in a national report has stated that fraud is likely to increase because of the recession as economic distress can increase the incentive to commit fraud and controls to prevent and detect fraud can come under pressure as councils reduce their costs. The Council is fortunate in not having a large number of irregularities.

The size and complexity of the County Council means that some irregularities are inevitable and therefore, in addition to planned assurance work, a small number of special investigations were needed during the year and the significant issues arising were reported to the Audit and Standards Committee during the year.

Suspected frauds can be reported to our dedicated fraud hotline 01926 412052 or by email to tellusaboutfraud@warwickshire.gov.uk

Advice

Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. This work reduces the issues that will be raised in future audits and contributes to a stronger control environment. During the year therefore the service continued to provide an input to key corporate projects including public health transition, growing places, Agresso Financial system etc. This work is consistently welcomed by managers.

Certification

Audit has traditionally carried out a small amount of work in relation to the certification of accounts for miscellaneous County Council related funds and is required to certify a small number of grants. These were all cleared satisfactorily.

Counter fraud

A significant amount of pro-active work has been undertaken during the year to raise aware of fraud issues. A dedicated email address and telephone number is publicised to facilitate the easy reporting of suspected irregularities. A Fraud & Corruption E-awareness package is available to managers, staff and schools.

A revised Anti-Fraud and Bribery Policy and Strategy was also considered and approved by the Committee in November 2012.

Effectiveness

This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Cipfa Code and customer feedback. The Code includes a detailed checklist against which effectiveness can be measured. The outcome of the self assessment has always been positive.

Internal audit processes are reviewed annually by external assessors as part of our ISO 9000 accreditation. This inspection provides independent assurance that processes outlined in the audit manual, which are based on the Cipfa model, are being followed. The last accreditation visit proved to be successful with no non-conformances identified. Internal audit therefore continues to be registered under this exacting standard.

In accordance with the Code there is a rigorous internal review of all work undertaken by senior staff and the results feed into the staff appraisal process. In addition, there are periodic internal quality audits of compliance with our audit manual, as required by our ISO 9000 accreditation.

Following most audits a "post audit questionnaire" is issued to the relevant managers asking for their views on the conduct of the audit. The questionnaire includes a range of questions covering the audit approach, reporting format, etc. A key feature of the audit role is the need to sometimes be critical of existing or proposed arrangements. There is therefore an inherent tension that can make it difficult to

interpret surveys. However, the results continue to be very good with the average score from all surveys returned during 2012/13 being 4.5 (out of a maximum of 5). In addition to the PAQ scores a number of positive comments and compliments about the service provided have been received during the year including:

- Understanding of wider context and sensitivities. Particular needs of the service were well understood. Factual report with good internal briefings
- Challenging but constructive nature with focus on improvement.
- The reviewer was helpful and engaging and worked to our availability. The right level of details seemed to be applied and the appropriate questions raised and rationale behind the answers understood
- The auditor took time to understand the existing external audit and management arrangements for the project and stuck to the high level review that was commissioned
- The auditor was very good at communicating and flexible in meeting to discuss any issues with the data I had provided
- Very constructive, good appreciation of our issues etc.
- Very professionally handled.
- Speed and professionalism – very good.

It is clearly important for any audit service to keep abreast of best professional practice. The internal audit service is very fortunate in having strong links with colleagues both within the midlands and nationally. The secretary of the Cipfa audit panel regularly briefs heads of audit on new developments in the profession. At a regional level there are networking opportunities for auditors specialising in adult social care, fraud and police. The head of audit is a member of the editorial board of the Cipfa Internal Audit Technical Information Service. As well as good opportunities for sharing best practice these activities provide advance information on new developments which can be reflected in the audit plan.

Opinion

It is the responsibility of the County Council to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Cipfa Code to form an opinion on the Authority's overall control system. This opinion forms a key input to the Authority's Annual Governance Statement.

The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the County Council's internal control systems. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. The work of internal audit is intended only to provide reasonable assurance on controls. In assessing the level of assurance to be given, I have taken into account:

- all audits completed during the year;
- any follow-up action taken in respect of audits from previous periods;
- any fundamental recommendations not accepted by management and the consequent risks;
- the effect of non-assurance work undertaken during the year;
- the effect of any significant changes in the Authority's systems; and
- matters arising from previous reports to members.

Some significant issues have arisen during the year but action plans have been agreed with the relevant managers to address the weaknesses identified. Where weaknesses have been identified they have tended to relate to specific parts of the organisation rather than an across the board breakdown in controls. Those audits involving major control weaknesses are in the minority and in general terms, controls are sufficient to prevent or detect serious breakdowns in systems and procedures. However, it is clearly important that issues identified during the year are addressed.

Based upon the results of work undertaken during the year my opinion is that the Authority's control environment provides moderate assurance that the significant risks facing the Authority are addressed.

Appendix A: Summary of audits completed during the year.¹

Audit		
	Resources	
1	Performance Management	Moderate
2	Budget Management – delivery of savings	Moderate
3	Procure to Pay	Moderate
4	Bank reconciliation	Substantial
5	Agresso (IT)	Moderate
6	Cash collection and banking - Income Manager	Moderate
7	HR Administrative processes	Moderate
8	Absence Management	Moderate
9	HRMS	Moderate
10	Property Management	Moderate
11	Library & Information Service	Moderate
12	Malicious software	Substantial
13	IT - Devices Strategy	Substantial
14	EDRMS	Substantial
15	Information Governance	Limited
	Communities	
16	Business Continuity	Limited
	People	
17	Reviewing Team	Moderate
18	Reablement service	Moderate
19	Bursary Fund	Limited
20	Procurement in Schools	Moderate
21	Cash Collection & Banking at Schools	Limited
22	Contract Monitoring	Limited
23	Emergency Duty team	Substantial
24	Safeguarding	Limited
	Fire & Rescue	
25	Programme & Project Management	Moderate
26	Duty Management system	Substantial
27	Cash security	Limited

¹ Note that some of these audits started in 2011/2012

G Rollason
Chief Risk and Assurance Manager
31 May 2013