

Internal Audit Annual Report 2014/15

“Providing assurance on the management of risks”

Internal Audit Annual Report 2014/15

“Providing assurance on the management of risks”

This document summarises the results of internal audit work during 2014/15 and as required by the Accounts and Audit (England) Regulations 2011 gives an overall opinion of the Authority’s control environment.

Opinion

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

Context

This report outlines the work undertaken by the internal audit between 1 April 2014 and 31 March 2015.

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 deliver an annual internal audit opinion and report to those charged with governance timed to support the Annual Governance Statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards.

The primary role of audit 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 2014/15

The underlying principle to the 2014/15 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.

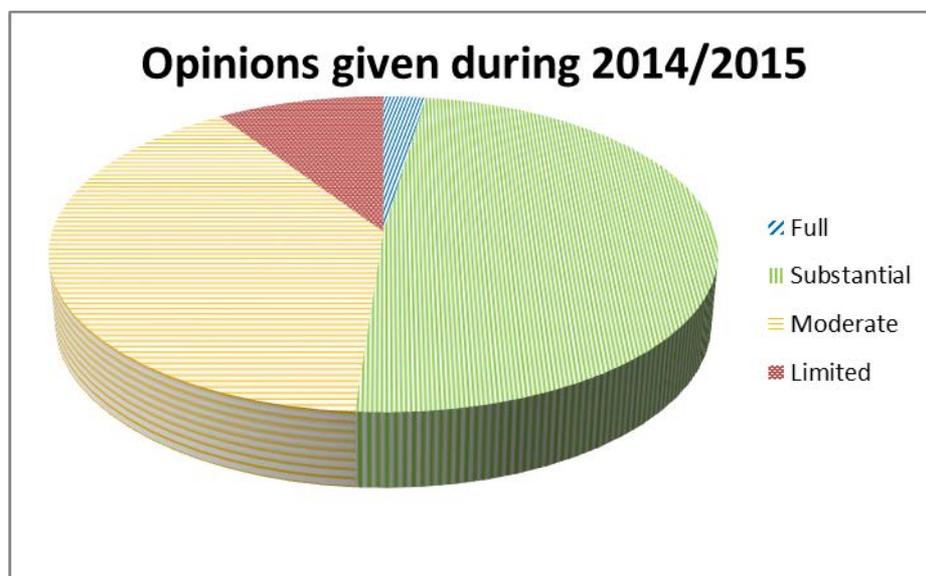
The methodology adopted in preparing the 2014/15 audit plan, and the plan itself, were approved by the Audit and Standards Committee on 12 June 2014.

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. After the plan was agreed the previous year's underspend was carried forward to fund extra work on investigations. 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

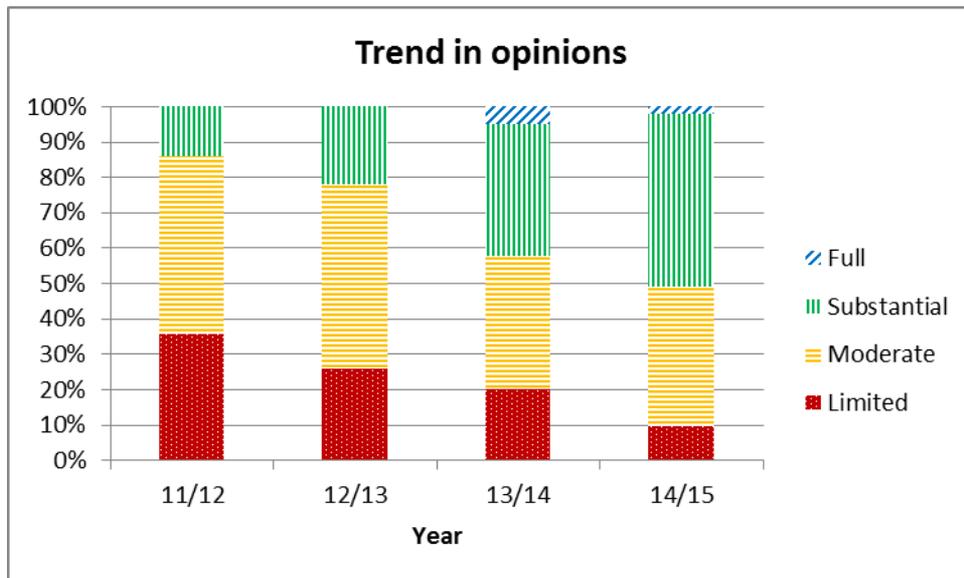
The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are 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 4 audits where controls provided only Limited assurance that significant risks were being addressed. These tend to relate to specific areas rather than represent an across the board breakdown in controls. 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.

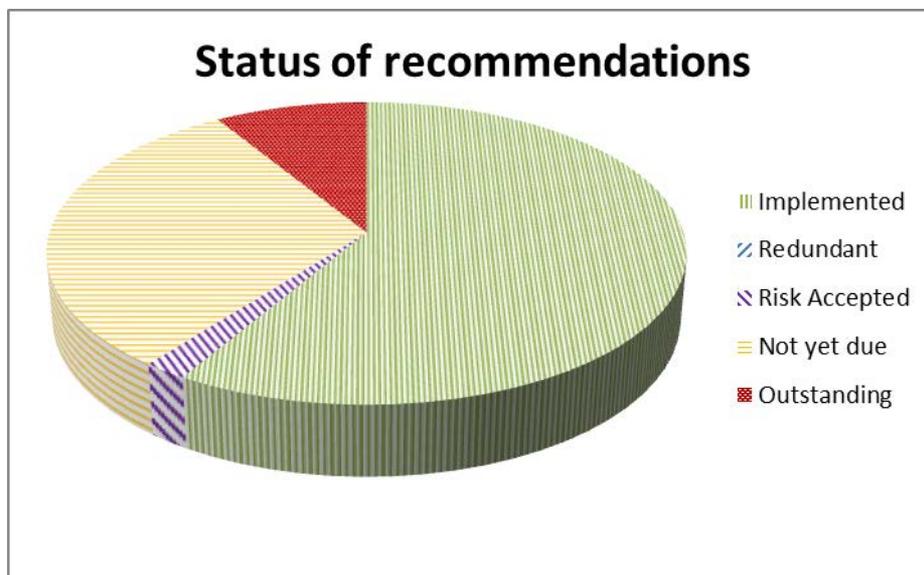
The outcome of this year's audits continues the trend of a reduction in the proportion of audits given the lower levels of opinion as shown in the following chart.



Of course the audit plan includes different topics each year.

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 over 200 recommendations were made to address weaknesses in control which would otherwise not have been identified. 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 4 in total outstanding at year end.



Summary of non-assurance work

Special investigations

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 consultancy input into a number of topics including:

- Financial processes
- Priority families
- Replacement of Social Care Client System
- Payroll Bureau
- Processing home care invoices through a new system

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.

Effectiveness

This section of the report sets out information on the effectiveness of the service and focuses on compliance with the Public Sector Internal Auditing Standards (PSIAS) and customer feedback.

When the standards were first introduced a number of actions were identified to improve compliance. These actions have all been completed and a self-assessment against the standards, which has been shared with officers, was completed during the year which shows we fully comply with the standards. However, as required by the standards this will need to be confirmed by an external assessment in due course.

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 is based on PSIAS) are being followed. The last accreditation visit proved to be very successful with no non-conformances identified. Internal audit therefore continues to be registered under this exacting standard.

In accordance with best practice there is a rigorous internal review of all work undertaken by senior staff and the results feed into the staff appraisal process.

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.

The post audit questionnaire responses returned continue to be good with the average score from all surveys returned during 2014/15 being 4.5 out of a maximum of five, and a number of positive comments and compliments about the service provided have been received, including:

- Conducted well – good paperwork beforehand
- Auditor was very professional, thorough and fair. Her judgements were informed by the evidence and she arrived at an accurate conclusion.
- The time taken in preparing the audit to ensure there was understanding of business requirements or where to access information
- Supports our own work to improve the effectiveness of community grants.
- Auditor was very thorough and clear and added value to the process.
- Good engagement with us prior to and after the audit.
- The turnaround was very quick which would have enabled remedial action if required.
- Overall Auditor work very well with the staff, allowing full discussion on draft outcome and observations of the audit. Allowing further evidence to be provided to address some initial concerns
- Thorough, efficient and committed
- This has been a thorough and sensitive investigation where I was kept informed and involved at all levels.

It is clearly important for any audit service to keep abreast of best professional practice. The internal audit service is fortunate in having strong links with colleagues both within the midlands and nationally. The Service has a group membership to the Institute of Internal Auditors providing its staff with technical and professional support. 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. As well as good opportunities for continuing professional development and sharing best practice these activities provide advance information on new developments which can be reflected in the audit plan.

The Authority can be confident that a best practice quality internal audit service continues to be provided.

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 PSIAS to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (i.e. the control environment) and a summary of the audit work from which the opinion is derived.

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;
- anticipated outcome from audits currently in draft;
- 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 substantial assurance that the significant risks facing the Authority are addressed.

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

Audit		Opinion on level of assurance provided by controls
	Resources	
1	Procure to Pay	Moderate
2	HR Service Centre	Moderate
3	Social Fund	Substantial
4	Information Governance	Moderate
5	Document management system – social care records	Moderate
6	IT Data centres - Physical and Environmental Controls	Limited
7	Payment card industry standards	Substantial
8	Provision of email service	Substantial
9	Procurement Cards	Moderate
10	Honoraria Payments	Limited
11	Catering	Moderate
12	Infrastructure Security and Resilience	Moderate
13	Property Contractor site visits	Substantial
14	Business rate pooling	Substantial
15	Payroll Bureau	Substantial
16	Property Maintenance – Mechanical and Electrical Contract	Substantial
17	Capital expenditure	Substantial
	Communities	
18	Civil Parking Enforcement	Moderate
19	Shared Professional Services	Substantial
20	Flood Risk Management	Moderate
21	Business Continuity	Moderate
22	North Leamington School	Substantial
23	Exhall Grange School and Science College	Moderate
24	St Joseph's Primary School	Substantial
25	Waste Management	Limited
26	Wellesborne School	Substantial
27	School income	Moderate
28	Woodloes Primary School	Substantial
29	St Marie's Catholic Primary School & Nursery	Moderate
30	School Admissions	Full
31	County Fleet Maintenance	Limited
32	School Improvement	Moderate
33	Stratford Upon Avon Primary School	Substantial
34	Kenilworth School and Sports College	Substantial
35	Grants to voluntary organisations	Substantial

¹ Note that some of these audits started in 2013/14

Audit		Opinion on level of assurance provided by controls
	People	
36	Transition from children to adult services	Moderate
37	HR Management – People Group	Moderate
38	Direct Payments	Moderate
39	Continuing Healthcare	Substantial
40	Occupational Therapy	Substantial
41	People Group Change Management	Substantial
	Fire & Rescue	
42	Premises Risk Information	Substantial
43	Strategic Alliance Project Management	Substantial

G Rollason
Chief Risk and Assurance Manager