Internal Audit Annual Report 2016/17

"Providing assurance on the management of risks"

Warwickshire County Council

Working for Warwickshire

Internal Audit Annual Report 2016/17

"Providing assurance on the management of risks"

This document summarises the results of internal audit work during 2016/17 and as required by the Accounts and Audit Regulations 2015 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 moderate assurance that the significant risks facing the Authority are addressed.

Context

This report outlines the work undertaken by the internal audit between 1 April 2016 and 31 March 2017.

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 2016/17

The underlying principle to the 2016/17 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.
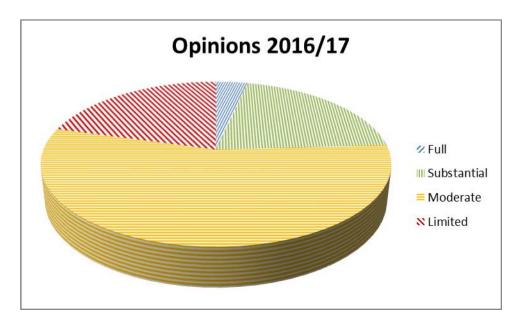
The methodology adopted in preparing the 2016/17 audit plan, and the plan itself, were approved by the Audit and Standards Committee on 23 June 2016.

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.
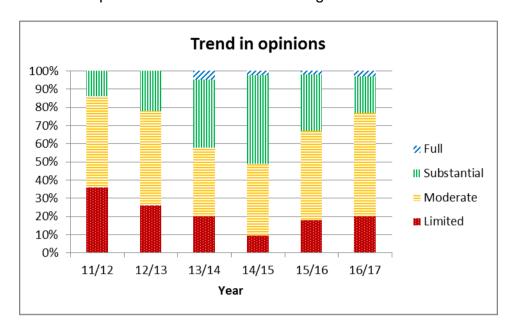
Summary of assurance work

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 6 audits where controls provided only Limited assurance that significant risks were being addressed. Most of these relate to specific areas rather than represent an across the board breakdown in controls but there are some topics which have a wider impact. 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.
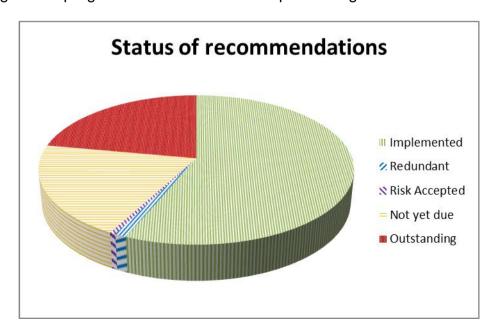
The outcome of this year's audits shows an increase in the proportion of audits given the lower levels of opinion as shown in the following chart.

Of course the audit plan includes different topics each year so caution is needed when interpreting this chart. A number of "limited" opinions are to be expected each year especially as the audit planning processes and our limited resources means that increasingly only those areas with a high degree of change or risk are included in the plan. The increasing pressures facing the Authority may also be a factor. This report will also be considered by Corporate Board.

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 nearly 180 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 these recommendations.

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. The main contributions were on the replacement for the Authority's social care client record system which included work on the functional specification and process maps for key elements of the system and the replacement HR system. Advice was also provided on a range of financial processes.

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 2014/15 which shows we fully comply with the standards. Processes have not changed significantly since that was done but the self-assessment is currently being refreshed to reflect the creation of the shared service with Worcestershire and the introduction of revised standards from April 2017. As required by the standards

compliance will need to be confirmed by an external assessment which we are aiming to complete in the second half of this year.

Internal audit processes are reviewed annually by external assessors as part of our ISO 9001 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 2016/17 being 4.6 out of a maximum of five, and a number of positive comments and compliments about the service provided have been received, including:

- provided constructive and thoughtful challenge, whilst still being flexible and taking service knowledge and context into account.
- really helpful as the recommendations provide for a more robust agreement.
- report gives me a clear base line for moving forward with the team to address the issues that need to be improved.
- thanks for the speedy response with the report and I appreciate the time taken to audit us and the findings gathered which will assist us in developing our department.
- Your supportive approach to improve and reduce risk is a winner.

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 moderate 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
	Communities	
1	Safeguarding in Schools	Limited Assurance
2	Pupil Premium	Moderate Assurance
3	Home to School Transport	Moderate Assurance
4	Section 38 agreements	Moderate Assurance
5	Forestry	Limited Assurance
6	Northlands Primary	Moderate Assurance
7	Weddington Primary	Limited Assurance
	People	
8	Personalisation	Moderate Assurance
9	Deprivation of Liberties Safeguards	Moderate Assurance
10	Financial Assessments	Substantial Assurance
11	Priority Families Initiative	Substantial Assurance
12	Missing Children's Process	Limited Assurance
13	MASH	Limited Assurance
	Fire	
14	Financial Support Arrangements	Full Assurance
15	Human Resources Management	Moderate Assurance
16	Transport	Substantial Assurance
	Resources	
17	Programme and Project Management	Moderate Assurance
18	Performance Management	Moderate Assurance
19	Customer Service Centre	Moderate Assurance
20	Absence management	Moderate Assurance
21	Pre-employment checks	Limited Assurance
22	Complaints	Moderate Assurance
23	ICT Disaster recovery	Moderate Assurance
24	Software Licencing	Moderate Assurance
25	Cyber Risk	Moderate Assurance
26	Database Management and SQL Server	Moderate Assurance
27	Pension Fund Administration	Substantial Assurance
28	HR Service Centre	Substantial Assurance
29	Zendesk	Substantial Assurance
30	Ransomware	Moderate Assurance

G Rollason
Chief Risk and Assurance Manager

---

[1] Note that some of these audits started in 2015/16