

# Internal Audit Annual Report 2017/18

“Providing assurance on the management of risks”



*Working for  
Warwickshire*

# Internal Audit Annual Report 2017/18

## “Providing assurance on the management of risks”

This document summarises the results of internal audit work during 2017/18 and as required by the Accounts and Audit Regulations 2015 gives an overall opinion of the Authority’s control environment.

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### 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.

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### Context

This report outlines the work undertaken by the internal audit between 1 April 2017 and 31 March 2018.

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.

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## Internal audit work during 2017/18

The underlying principle to the 2017/18 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.

The methodology adopted in preparing the plan, and the plan itself, were approved by the Audit and Standards Committee on 1 June 2017.

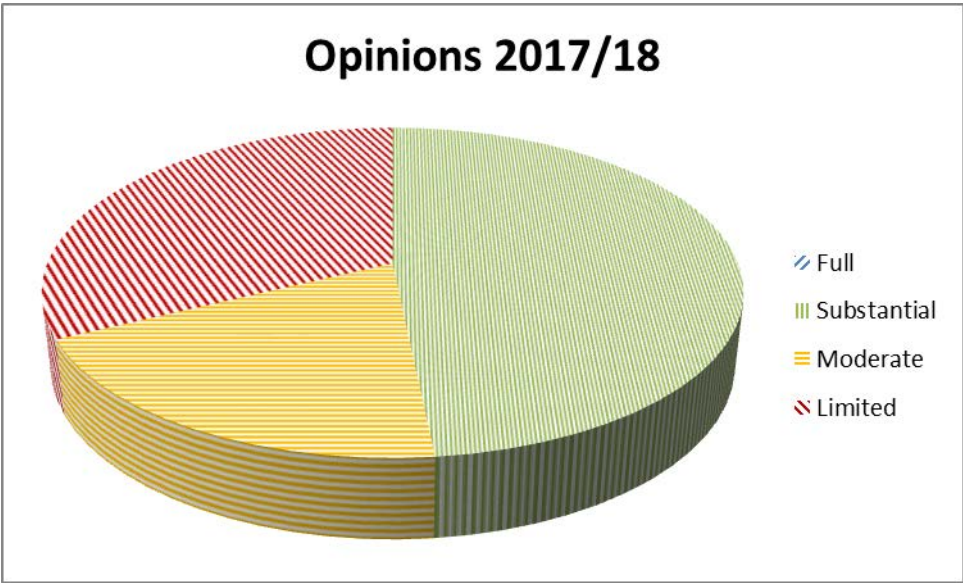
Since the original plan was approved a number of additional audits have proved necessary, some planned audits were no longer required and a significant amount of time was required on advisory and investigative work. Variations to the plan during the year are inevitable if the plan is to adequately reflect 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, although delivery has been impacted by long term sickness and maternity leave, in terms of total number of days 90% of the plan was achieved.

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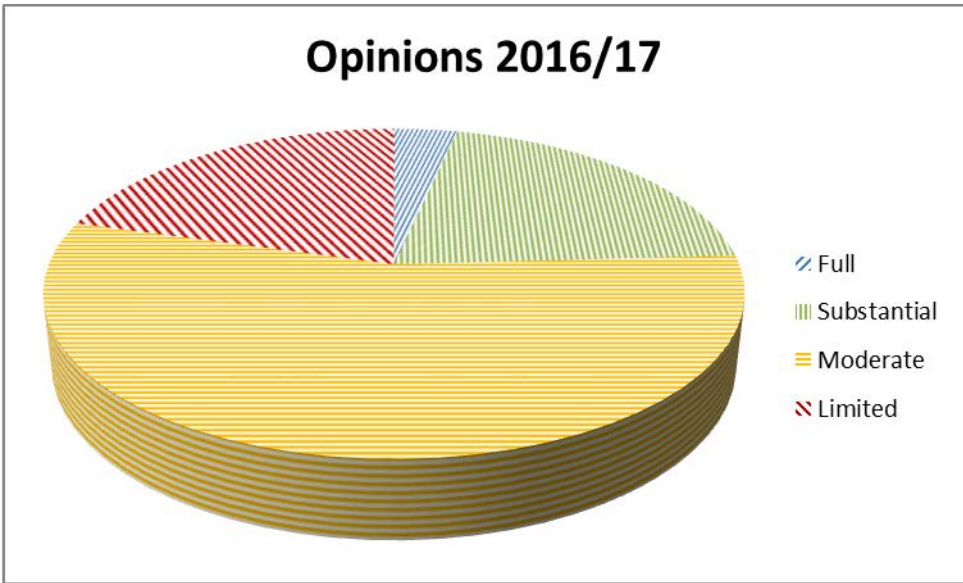
## Summary of assurance work

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 although there is a significant proportion of 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. It will be noted that the majority of school audits have resulted in a limited opinion. This should not be taken as indicative of the picture at all maintained schools since the majority of these audits were undertaken at the request of the Council because of known or suspected issues at the schools concerned. The key issues arising from limited opinion audits have been reported to the Audit & Standards Committee.

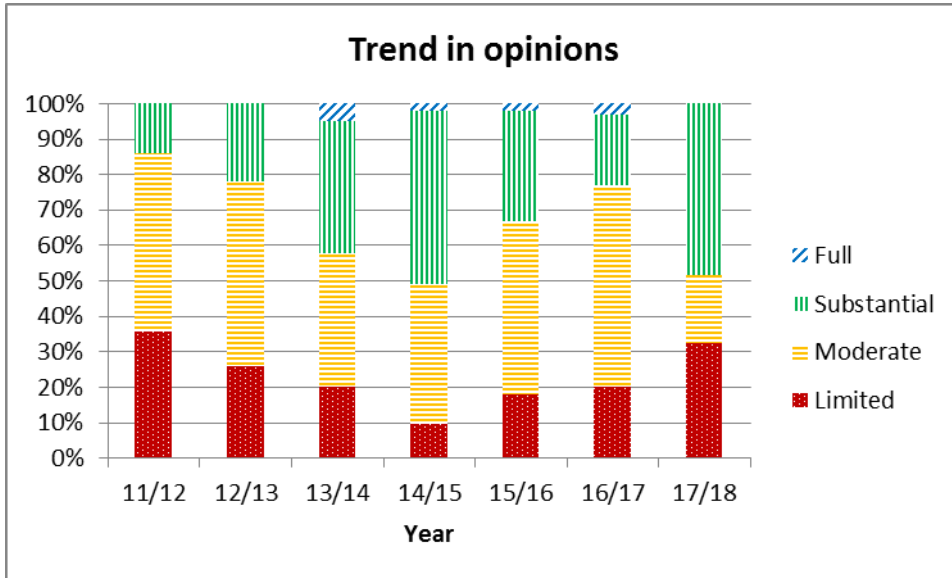


This compares favourably with the outcome for 2016/17:



A full list of the assurance work completed during the year is given in Appendix A.

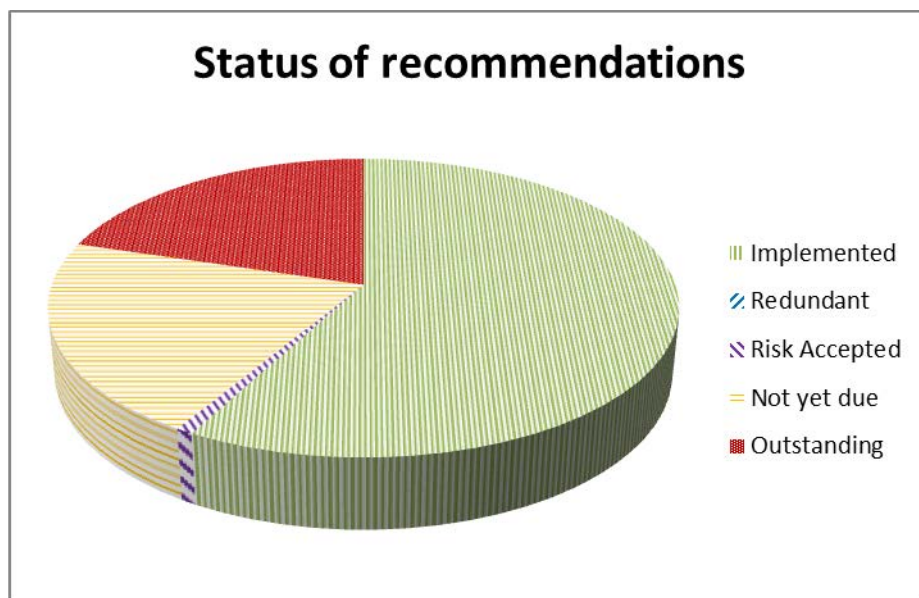
The outcome of this year's audits shows an increase in the proportion of audits given the lower levels of opinion as shown in the following chart.



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 and extent of change facing the Authority may also be a factor. This report will also be presented to Corporate Board who will consider the implications of the trend.

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 around 130 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.



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## 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. One of these resulted in the perpetrator being sentenced to a custodial sentence. The Audit and Standards Committee has considered a detailed report on the circumstances and remedial action has been taken to address the control weaknesses identified. The control issues are isolated to the team concerned and hence do not impact the Council's overall control environment.

Suspected frauds can be reported to our dedicated fraud hotline 01926 412052 or by email to [tellusaboutfraud@warwickshire.gov.uk](mailto: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 and a replacement HR/payroll system. Advice was also provided on a range of minor changes to 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 grant claims the main ones relating to the Troubled Families Programme. These were all cleared satisfactorily.

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## 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 and periodic self-assessments completed to identify any further areas for improvement. The latest self-assessment was completed in 2017 and was validated by an external expert prior to reporting to the Audit & Standards Committee. This was a precursor to a full externally conducted quality assessment of the service conducted during 2017/8. The report of that assessment states that the audit service “complies with the expectations of the Public Sector Internal Audit Standards and compares favourably to other provision within the sector.”



The report makes a number of recommendations to further improve the service provided and a detailed report on the outcome of the assessment will be presented to the Audit & Standards Committee with an action plan in due course.

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 2017/18 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:

- Thank you for your support during the audit process I look forward to working with your team on other audits.
- The Auditor is easy to approach, has a good understanding of the subject matter and is open to suggestions and helpful in his replies. Always good humoured too.
- I like the collaborative style – it felt like I was part of the process and wasn't being 'done to'
- The interaction and helpfulness from the Auditor - she took her time to understand the business
- Keeping us updated as timings slipped for a number of reasons

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 good quality internal audit service continues to be provided.

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## 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 / loss or eliminate risk, 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;
- audits which are in draft and where a management response is awaited;
- 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 content of the Annual Governance Statement which states that there have been no governance failures 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.

I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's governance, control and risk processes.

Based upon the results of work undertaken during the year my opinion is that the Authority's governance, control and risk management provides substantial assurance that the significant risks facing the Authority are addressed.



Summary of audits completed during the year.<sup>1</sup>

Audit		Level of Assurance
	<b>Corporate</b>	
1	Corporate Consultation	Substantial
2	Contract Management	Limited
3	Management of Consultants	Limited
4	Pre-employment checks	Limited
	<b>Communities</b>	
5	s106 Agreements	Substantial
	<b>People</b>	
6	Child Protection - Dual Status	Substantial
7	Permanence Arrangements	Substantial
8	SEND (Previously Integrated Disability Services)	Moderate
9	Adult Social Care Plan Reviewing	Limited
10	Section 17 Payments	Moderate
11	Missing Children	Substantial
12	Asylum Seekers / care leavers	Limited
	<b>Resources</b>	
13	Capital Accounting-Programme	Substantial
14	Mobile Devices and Endpoint Security	Moderate
15	Service Desk Operation and Management	Substantial
16	Unix Security	Substantial
17	Information Security Management	Moderate
	<b>Pension Fund</b>	
18	Governance and Strategy	Substantial
19	Pensions administration	Substantial
20	Investment management	Substantial
	<b>Schools</b>	
21	Southam Primary School	Moderate
22	Trinity Catholic School - A Specialist Arts and Technology College	Limited
23	The Willows	Limited
24	Round Oak	Limited

<sup>1</sup> Note that some of these audits started in 2016/17

**Summary of audits awaiting management comments at year end.**

<b>Audit</b>		<b>Level of Assurance</b>
	<b>Communities</b>	
1	Fleet Management / Transport	Moderate
	<b>People</b>	
2	Fostering	Substantial
3	Domiciliary Care	Substantial
	<b>Resources</b>	
4	Fire and Rescue IT Management	Limited
5	Cyber risks	Substantial
6	Web site security	Substantial
	<b>Schools</b>	
7	Dunchurch Boughton	Limited

**G Rollason**  
**Internal Audit and Insurance Manager**