

Internal Audit Annual Report 2018/19

“Providing assurance on the management of risks”



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This document summarises the results of internal audit work during 2018/19 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 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 2018 and 31 March 2019.

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 (chief executive, strategic directors 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 2018/19

The underlying principle to the 2018/19 plan was risk and accordingly audits were only completed in areas that represent an *'in year risk'*.

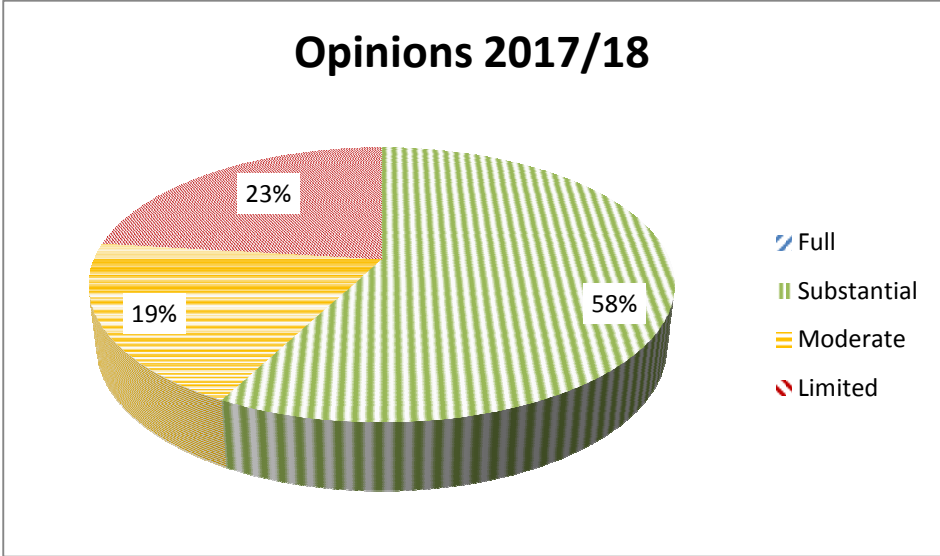
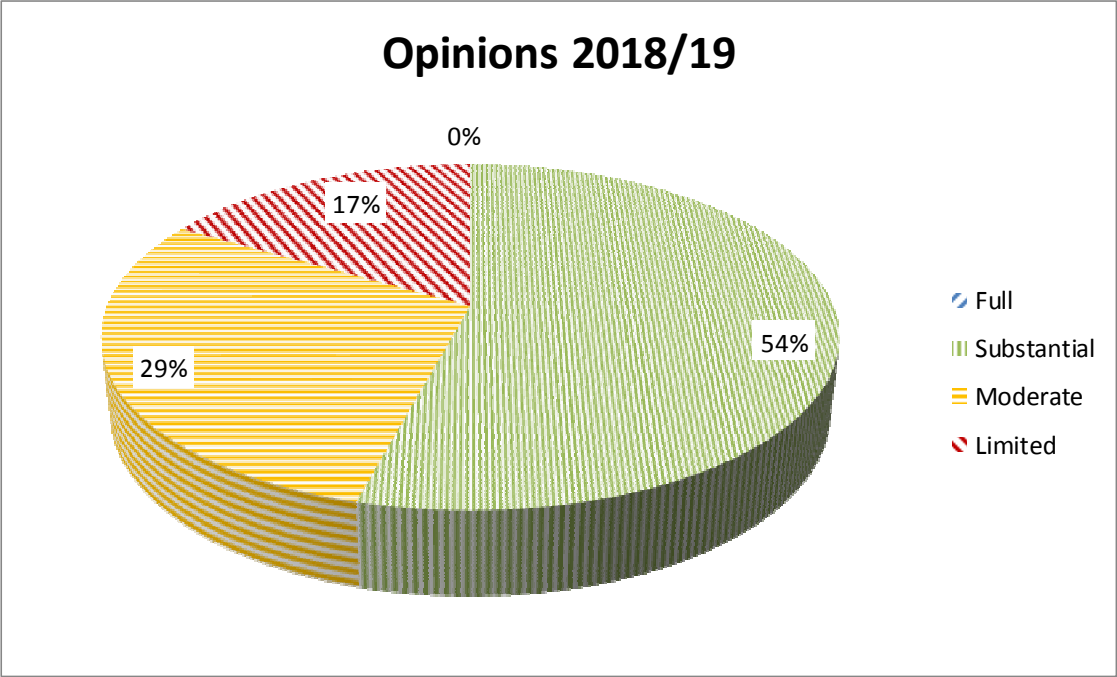
The methodology adopted in preparing the plan, and the plan itself, were approved by the Audit and Standards Committee on 24 May 2018.

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, the agreed audits have been completed, or are substantially complete and in the process of being finalised.

Summary of assurance work

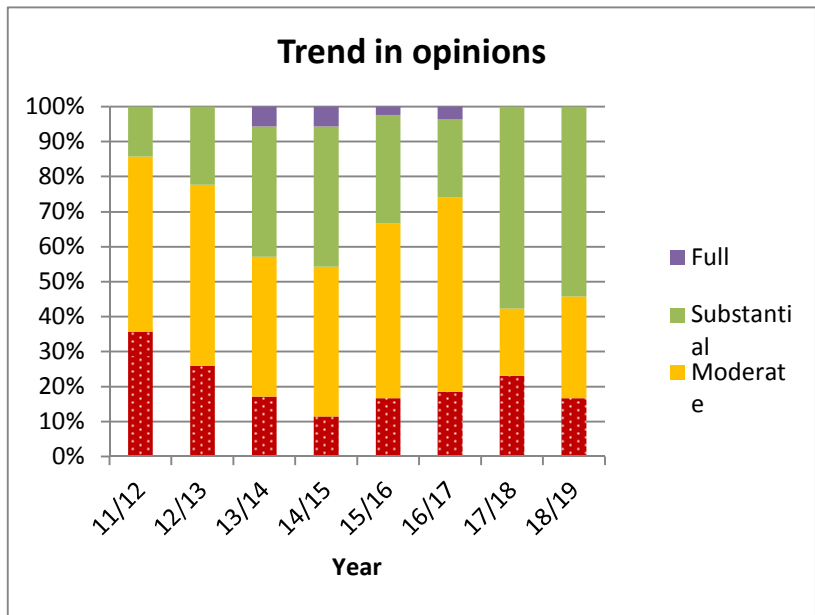
The key outcome of each audit is an overall opinion on the level of assurance provided by the controls within the area audited. Audits will be given one of four levels depending on the strength of controls and the operation of those controls. The four categories ranging from the lowest to highest are 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 outcome of the majority of this year's audits are positive 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. The key issues arising from limited opinion 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 proportion of audits in each category is broadly similar to those for 2017/18 and remains positive. The year on year trend is shown in the following chart.

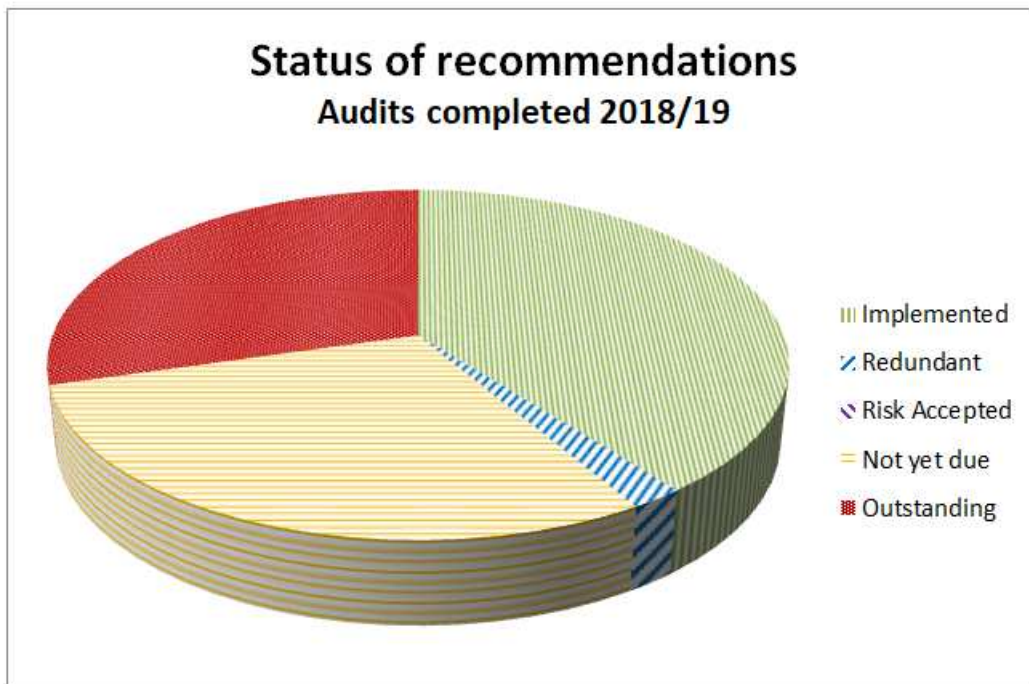


Of course the audit plan includes different topics each year so caution is needed when interpreting this chart. A number of “limited” opinions are to be expected each year especially as the audit planning processes and our limited resources means that increasingly only those areas with a high degree of change or risk are included in the plan. The increasing pressures and extent of change facing the Authority may also be a factor. In general terms the picture remains positive with the proportion of audits resulting in a limited opinion reducing slightly from last year.

The Council, and local government generally, continues to face significant challenges and during the year the Council continued with its transformation programme to meet these challenges. A target operating model was developed, strategic reviews of key service areas were started and significant changes to structure were made with significant changes in personnel at senior levels in the organisation. Periods of significant change in processes and personnel can impact the standards of governance, risk management and control but to date this has not been reflected in the outcome of audits or an increase in investigations. The on-going transformation programme will continue during 2019/20 and will require robust management to ensure there is not an adverse impact on standards of governance and control.

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 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 these recommendations.



Recommendations are followed up to ensure that they are implemented and where there is delay this is reported to the Internal Audit Board and the Audit and Standards Committee. Those recommendations showing as “Outstanding” are therefore subject to scrutiny and the Audit and Standards Committee call in managers to explain delayed progress where appropriate.

Arising from previous comments by the Audit & Standards Committee a fresh look is being taken at the process for monitoring implementation of recommendations and arrangements will be further strengthened during 2019/20.

Schools

In addition to the work outlined above significant weaknesses in governance, risk management and control were identified at various schools. However, 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 / Head because of known or suspected issues at the schools concerned which does illustrate that the Council has mechanisms in place to identify issues at schools. The outcome of this work has been considered in detail by the Audit and Standards Committee.

The work undertaken at schools has highlighted the importance of an effective second “line of defence” within the Council providing oversight of financial, governance and performance issues in schools, on which our Internal Audit work can place reliance and give an opinion. Future work is planned which will review the effectiveness of this oversight as a means of managing the risks relating to schools.

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. Two investigations which ended in court during this year resulted in the perpetrators receiving suspended custodial sentences. The Audit and Standards Committee has considered reports on the circumstances of each case and remedial action has been taken to address the control weaknesses identified. The control weaknesses identified by these issues are isolated to the teams 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

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 Adult Social Care pathways and authorisations, prepaid cards for direct payments and facilitation of a risk workshop for the IT service which was conducted by IT audit specialists. Advice was also provided on a range of minor changes to financial processes.

Certification

Audit is required to certify a number of grant claims the main ones relating to the Troubled Families Programme. The service also undertakes a small amount of work in relation to the certification of accounts for miscellaneous County Council related funds. 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.

A full externally conducted quality assessment of the service was conducted during 2018. 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.”



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 2018/19 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:

- The auditor’s approach was very helpful and this included offering constructive challenge.
- Felt collaborative and the auditor took time to understand our business
- Auditor was approachable and willing to gain an understanding of our work to enable an informed approach to the audit.
- Happy with the way this audit was completed and suggest any future audits are completed with the same approach.

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.

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 outcome of an independent health-check of the Council's risk management arrangements;
- 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.¹

Audit		Level of Assurance
	Communities	
1	Waste Management	Moderate Assurance
2	Contract Management - Public Health	Substantial Assurance
3	Economic growth, development and regeneration	Moderate Assurance
4	Heritage and Environment	Limited Assurance
5	County Highways	Substantial Assurance
6	Emergency Planning	Substantial Assurance
7	Business Centres	Substantial Assurance
8	School themed audit - Safeguarding	Limited Assurance
	People	
9	Links with Health	Moderate Assurance
10	Quality Assurance- Commissioning	Substantial Assurance
11	Benefits Assessment & Income Control - Including Direct Payments	Moderate Assurance
12	Transitions and Care Leavers	Substantial Assurance
13	Multi Agency Safeguarding Hub	Substantial Assurance
14	Physical Disability Services	Substantial Assurance
15	Case File Recording (Children and Adult)	Substantial Assurance
16	Unaccompanied Asylum Seeking Children	Moderate Assurance
	Resources	
17	Pensions - Investment management	Substantial Assurance
18	Property Contracts	Substantial Assurance
19	Payroll	Substantial Assurance
20	Information Governance	Limited Assurance
21	Treasury Management	Moderate Assurance
22	Benefits, Assessment and Income Control Team (re Residential and Domiciliary Care)	Substantial Assurance
23	Capital Programme	Moderate Assurance
24	IT Disaster Recovery	Limited Assurance

G Rollason
Internal Audit and Insurance Manager

¹ Note that some of these audits started in 2017/18