



Internal Audit Annual Report 2016/17

"Providing assurance on the management of risks"

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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 that operated during 2016/17.

Summary 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 service for 2016/17.

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 Council, 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 of conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The primary role of audit is to provide assurance to the organisation (Directors, Heads of Service, managers and the Audit and Governance Committee) and ultimately the taxpayers that the Council 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 Council’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 Governance Committee on 21 July 2016.

Since the original plan was approved a number of variations to the plan have proved necessary additional work has been undertaken 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 the number of jobs completed, 93% of the plan was achieved subject to management responses being finalised and agreed for outstanding draft reports.

Each final report includes a detailed action plan that has been agreed with the relevant manager. These plans specify the manager responsible for implementing each action and a target implementation date.

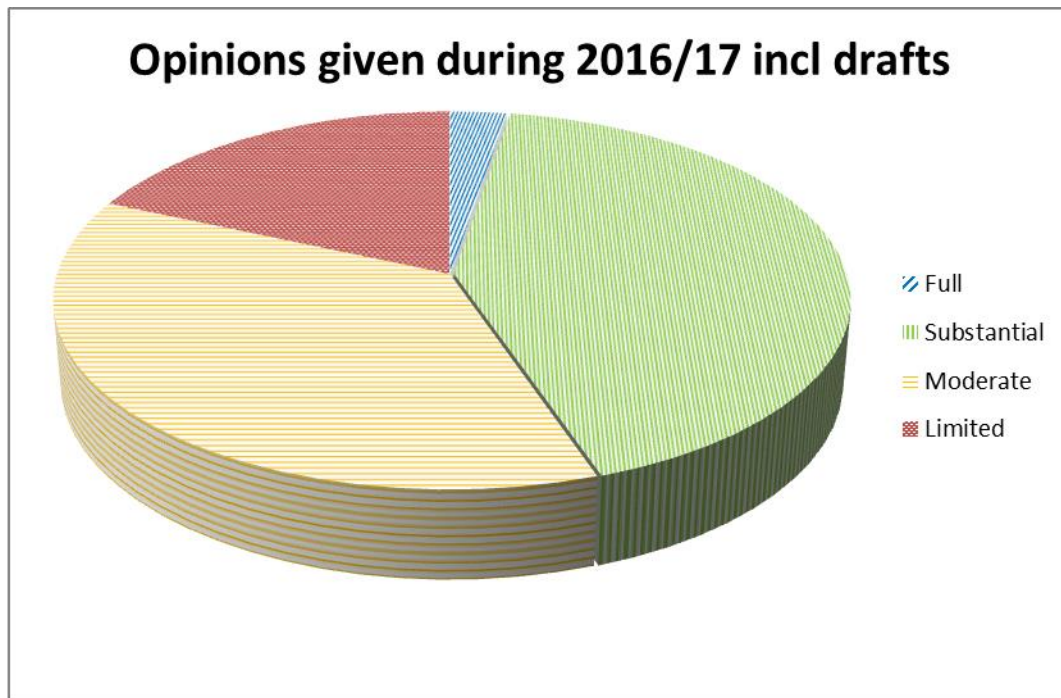
Summary of assurance work

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 that controls provide Limited, Moderate, Substantial or Full assurance that significant risks are being managed. The opinion reflects both the design of the control environment and the operation of controls. The lowest category, Limited, is a negative view whilst the others are all positive. A small number of "limited" opinions are to be expected each year especially as the audit planning processes and resources means that increasingly only those areas with a high degree of change or risk are included in the plan. The individual opinions given during the year form the basis of the overall annual opinion. The Audit and Governance Committee has received regular reports during the year summarising audits undertaken.

As shown in the following chart the results of a majority of this year's audits are positive. However, in total seven audits have resulted in a limited opinion. Three of these audits (IT – Infrastructure, IT – Access Controls and Fort Royal School) have previously been reported to the Committee. One audit, Adults Case Files Reviewing Process has been finalised since the previous meeting of the Committee and a summary of the key issues arising is given in Appendix B. There are currently 3 draft reports with a limited opinion, Malvern Link and Foregate Street, Bromsgrove Rail and Visits to Adult Social Care Establishments. These may be subject to change and will be reported to the Committee when they have been finalised.

All of the final audits with a limited opinion have been considered by the Strategic Leadership Team and those in draft will be reported once finalised.

Since the last report to Committee one additional audit, Children's Case File Recording, has been agreed with the Chief Financial Officer for deferral from the 2016/17 plan because of the Ofsted inspection.

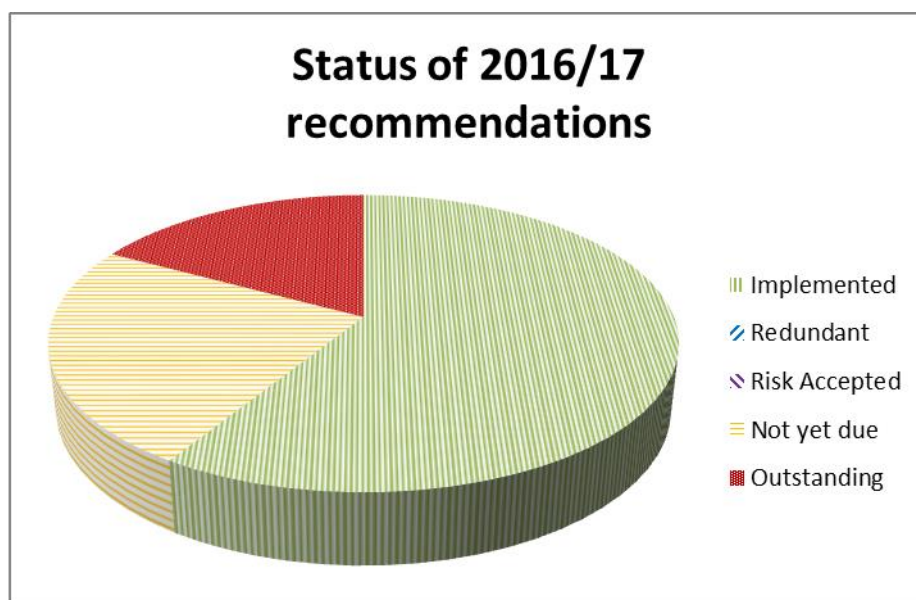


A full list of the assurance work completed during the year is given in Appendix A, together with a list of those final audits completed since the last report to Committee and which the Council will consider for publication.

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 180 recommendations were made, 34 of which are still draft, to address weaknesses in control which would otherwise not have been identified. As shown in the following chart and in Appendix C progress has been made in implementing the recommendations made during 2016/17 but unsurprisingly many recommendations made during the year have not yet reached their agreed implementation date. Of the 9 fundamental recommendations made during the year, all but 2 have been implemented.

Some responses are still awaited to requests for confirmation that recommendations have been implemented so the final picture may change.



In addition to recommendations made during 2016/17 there are 110 recommendations made in 2015/16 that were due to be implemented 14 of which are overdue as shown in Appendix D. 2 of these outstanding recommendations are fundamental but these audits are due to be followed up in 2017/18.

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 number of special investigations were needed during the year. A summary of the significant issues arising from completed investigations, all of which have previously been reported to the Committee, are summarised below:

- Internal Audit was asked to investigate an officer who had failed to declare relevant interests at the appropriate time. The investigation concluded that there was a case to answer but the officer resigned prior to the Disciplinary Hearing taking place.
- Investigations to support HR into allegations of a Children and Family Support Worker claiming for hours not worked has now resulted in the employee leaving the Council's employment.
- The Council referred an allegation of a Company fraudulently claiming grant funding from the Council to the Police earlier in the year. This case has been deemed by the Crown Prosecution Service as having insufficient evidence to prosecute and this decision is currently being appealed.

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 following advisory work has been provided since the last report to the Committee:

- Use of Consultants – Internal Audit has provided advice on the controls regarding the monitoring of consultant's expenditure.
- Internal Audit continues to attend regular meetings of the Corporate Risk Management Group and provides advice and guidance as required.
- Information Governance - Internal Audit continues to attend regular meetings of the Corporate Information Governance Group and provides advice and guidance as required.
- E-Market Place (Your Life Your Choice) - advice has been focused around the development of the system to include Children's Services including attendance at Board meetings.
- Libraries – advice regarding production and implementation of cash handling procedures.

A wide range of advisory work was provided earlier in the year and has previously been reported to the Committee, including:

- Economy and Infrastructure – advisory input into development of project operating model.
- Procurement – Internal Audit attended meetings of the Procurement Board and provided advice and guidance as required.
- Transport contracts – advice regarding the changes to procurement process.
- Pre-paid cards – Advice regarding extending the use of pre – paid cards.
- Hive Imprest account.
- Councillors' Divisional Fund advice regarding accounting arrangements.

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. In total 8 accounts were cleared satisfactorily during the year.

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 by senior staff of all work undertaken 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 4.63 out of a maximum of five, and a number of positive comments and compliments about the service provided have been received, including:

- The Auditor was extremely helpful, explained the purpose of the review and the process. It was very thorough. He had obviously read in detail the relevant statutory requirements and queried issues when appropriate. This gave the audit credence and standing and it felt as though it was a worthwhile task rather than a paper exercise.
- The auditor was very helpful and professional
- The auditor was prepared to consider the context of the school and offer valuable advice.
- It was a positive experience.
- The length of time between the initial contact and the audit was a realistic time but not too long and the length of time between the audit and the report were very short so we received the report quickly.
- Having an auditor that is familiar with the WCC systems and procedures speeds the audit process up. If we had been allocated someone less familiar with the WCC processes it would have been less efficient.
- The pragmatic and constructive approach of the auditor.
- The Auditor was clear and gave us good advice that we have never had from our own organisation.
- Very calm and supportive atmosphere.
- Professional, supportive and clear approach.
- We were accurately advised about the theme of the audit, how many auditors would be visiting the site and the likely duration of the visit and so were able to free up a room and make staff available on the day to answer any questions and provide documentation required.
- Professionalism and good technical understanding.

- The Auditor was very approachable and I felt that my views were listened to and taken into consideration.

These comments are consistent with the comments received across all clients which include:

- Very professional and the Auditor took on board our comments and revised the recommendations accordingly.
- The audit was conducted very professionally. Enables clear discussion through the whole process.
- The face to face contact with the audit staff adds value and we benefit from having auditors who understand and have an interest in our business.
- The work was undertaken efficiently and was appropriate to the task. Audit team I have dealt with have always been professional and friendly.
- It was very clearly laid out what was expected from us from the outset which made it easy for us to comply with the review. We also had plenty of notice to ensure we had all the information to hand.
- I found that the report and meeting with the lead auditor was focussed upon suggestions around service improvement. This meant that the focus was a positive rather than a negative.
- The audit was conducted in an open and transparent way, with regular communication, and a real sense that our information was taken on board and understood.

It is clearly important for any audit service to keep abreast of best professional practice. The 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. 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.

During the year the Council's services for children in need of help and protection, children looked after and children leaving care underwent an Ofsted inspection. Ofsted judged that in overall terms services were inadequate. The Council has prepared an improvement plan to address the issues highlighted and a Service Improvement Board has been established to oversee its implementation.

In assessing the level of assurance to be given, I have taken into account:

- all audits undertaken 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 Council's systems; and
- matters arising from previous reports to the Audit and Governance Committee.

Internal Audit place assurance on Liberata's internal audit service (Audit West) for the review of the design and operation of key controls on the HR, Payroll and Finance transactional processes. The Head of Audit West has stated that "Based on the work carried out it is my opinion that at the time of the audit work the internal control framework and systems to manage risk were reasonable."

Some significant issues have arisen during the year from internal audit work on non-financial systems some of which relate to important parts of the organisation but no limited opinions have been given on finance related topics.

Action plans have been agreed with the relevant managers to address the weaknesses identified and it is clearly important that the issues identified during the year are addressed. On this basis with the exception of the matters relating to Children's Services outlined above my opinion is that the Authority's control environment provides moderate assurance that the significant risks facing the Authority are addressed:

	Strength of control framework & operation of controls
Full	Strong
Substantial	Good
Moderate	Adequate
Limited	Weak

G Rollason
Head of Internal Audit
12 July 2017

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

Audit		Opinion on level of assurance provided by controls
	Adult Services	
1)	Adults - Care Plan Review	Substantial
2)	Adults Case Files	Limited
3)	Adults Commissioning and Placement Process	Substantial
4)	Adults Financial Assessments	Substantial
5)	CQC Home Closures	Moderate
6)	Adults Safeguarding	Substantial
7)	Visits to ASC Establishments #	Limited
8)	Section 117 #	Moderate
	Economy and Infrastructure	
9)	Permits/ Access to Highway	Substantial
10)	Section 106 Agreements	Moderate
11)	Economic Development	Substantial
12)	Transport Infrastructure Funding	Moderate
13)	Malvern Link and Foregate #	Limited
14)	Bromsgrove Rail #	Limited
	Children, Families and Communities	
15)	Placements in Residential Care	Moderate
16)	Connecting Families	Moderate
17)	Learning & Achievement	Substantial
18)	Schools Themed Audit – Carry Forward Balances	Substantial
19)	Children's Recovery Plan	Full
20)	Children's Edge of Care Programme	Moderate
21)	School Visits - St James	Moderate
22)	School Visits - Fort Royal	Limited
23)	School Visits - Belbroughton	Substantial
24)	School Visits - The Forge PRU	Moderate
25)	School Visits - St Catherine's CE Primary School	Substantial
	Commercial & Change	
26)	Use of Consultants	Substantial
27)	ICT Infrastructure	Limited
28)	Access Controls	Limited
29)	IT Commissioning	Moderate
30)	Information Management #	Moderate

Audit		Opinion on level of assurance provided by controls
31)	Business Continuity #	Substantial
	Finance	
32)	Treasury Management	Substantial
33)	Financial and Commercial Management skills	Substantial
34)	Capital Expenditure	Moderate
35)	Creditors	Moderate
36)	Main Financials #	Moderate
	IEWM	
37)	Improvement and Efficiency West Midlands	Substantial
	Pension Fund	
38)	Pensions Investment Management	Substantial

Denotes those audits where the draft report has been issued

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

The following final reports completed since the last meeting will be published following consideration of whether they would require redaction prior to publishing. It should be noted that to date only Internal Audit reports where an opinion has been given have been published.

- Adults Case Files
- CQC Home Closures
- Permits/ Access to Highway
- School Visits – St Catherine's
- Use of Consultants
- Capital Expenditure
- Economic Development
- Children's Edge of Care Programme
- IT Commissioning
- Creditors

Published reports can be accessed by the following link:

http://www.worcestershire.gov.uk/info/20003/council_democracy_and_councillor_information/1076/internal_audit

The following audits are still in progress and are prioritised for completion in 2017/18:

- IT – Projects and Programmes
- IT – Recovery Arrangements
- IT – Software Licencing
- Payroll
- Trading Standards

Appendix B: Summary of Limited Assurance Audits Not Previously Reported to the Committee

Adults Case Files

The audit reviewed the case file audit process within Adult Services, the point of focus being:

- The quality of data recording and the standard of case notes.
- Current procedures ensure compliance with recording standards/processes.

Key concerns identified at the time of the audit were:

- There was no requirement for case notes to be reviewed as part of the case file audit process.
- The performance indicator relating to the number of case file audits completed was below target.
- There was a lack of consistency in the way case file audits are completed and rated.
- Information held on a service user's case file is not always sufficiently detailed to enable an up to date picture of their current situation to be established.

A positive responses has been received to the report with an action plan for implementation of the recommendations made, agreed action dates and responsible officers.

Appendix C: Status of Recommendations Made in the Period 1 April 2016 to 31 March 2017

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Adult Services							
	Adults - Care Plan Review	1	0	0	1	0	0
	Adults Case Files	6	0	0	3	0	3
	Adults Commissioning and Placement Process	1	0	0	0	0	1
	Adults Financial Assessments	1	0	0	1	0	0
	CQC Home Closures	4	0	0	4	0	0
	Adults Safeguarding	1	0	0	1	0	0
Economy and Infrastructure							
	Permits/ Access to Highway	4	0	0	2	2	0

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	Economic Development	3	0	0	3	0	0
	Transport Infrastructure Funding	6	0	0	5	0	1
	Section 106 Agreements	6	0	0	0	6	0
Children, Families and Communities							
	Placements in Residential Care	8	0	0	7	0	1
	Connecting Families	5	0	0	0	1	4
	Learning & Achievement	1	0	0	1	0	0
	Children's Edge of Care Programme	3	0	0	3	0	0
	School Visits – St James	8	0	0	8	0	0

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	School Visits - Fort Royal	13	0	0	12	0	1
	School Visits - Belbroughton	5	0	0	5	0	0
	School Visits - The Forge PRU	6	0	0	1	0	5
	School Visits - St Catherine's Primary	8	0	0	7	0	1
	School Themed Audit – Carry Forward Balances	2	0	0	2	0	0
Commercial & Change							
	Use of Consultants	3	0	0	0	3	0
	ICT Infrastructure	16	0	0	7	7	2
	Access Controls	8	0	0	5	1	2

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	IT Commissioning	2	0	0	2	0	0
Finance							
	Financial and Commercial Management skills	3	0	0	0	2	1
	Capital Expenditure	8	0	0	0	8	0
	Treasury Management	3	0	0	3	0	0
	Creditors	5	0	0	0	5	0
IEWM							
	Improvement and Efficiency West Midlands	5	0	0	2	0	3
Pension Fund							
	Pensions Investment Management	1	0	0	1	0	0
Total		146	0	0	86	35	25

Status of Fundamental Recommendations Made in the Period 1 April 2016 to 31 March 2017

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Adult Services							
	Adults Case File	2	0	0	1	0	1
Children, Families and Communities							
	School Visits - St James	1	0	0	1	0	0
	School Visits - Fort Royal	2	0	0	2	0	0
	School Visits - The Forge PRU	2	0	0	1	0	1
Commercial & Change							
	ICT Infrastructure	1	0	0	1	0	0
	Access Controls	1	0	0	0	1	0
Total		9	0	0	6	1	2

Appendix D: Outstanding 2015/16 Recommendations due to be implemented in 2016/17.

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
Adult Services							
	Commissioning (Health)	5	0	0	5	0	0
	Direct Payments Adults	7	0	0	7	0	0
	Care Act Post Implementation	1	0	0	1	0	0
Economy and Infrastructure							
	Highways Customer and Community	3	0	0	2	1	0
	Flood Management	3	0	0	1	0	2
	Highways Maintenance Contract	2	0	0	2	0	0
Children, Families and Communities							

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	SEN(D) Transport	5	0	0	4	0	1
	Foster Payments	6	0	0	5	0	1
	Foster Carers - the Foster Carer Journey	4	0	0	4	0	0
	Worcestershire Schools Budgetary Control	6	0	0	6	0	0
	Worcestershire Schools Staffing	1	0	0	1	0	0
	Direct Payments - Children	9	0	0	4	0	5
	Child Academic Improvement in Care Homes	10	0	0	10	0	0
Commercial & Change							
	Job Evaluation	2	0	0	0	2	0

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	Use of Consultants	20	0	0	20	0	0
	Business Ownership of Systems and Assets	2	0	0	1	0	1
Finance							
	Transactional HR, Payroll & Finance Contract: Contract Management	6	0	0	6	0	0
	Purchase Orders-Payments	5	0	0	5	0	0
	Payroll	4	0	0	3	0	1
	Feeder systems	2	0	0	2	0	0
Pension Fund							
	Pensions Administration	3	0	0	1	0	2

		Number of Recommendations					
	Audit	Made	Risk Accepted	Redundant	Implemented	Not yet due to be implemented	Outstanding
	Pensions Investments	2	0	0	2	0	0
	Pensions Governance	2	0	0	1	0	1
Total		110	0	0	93	3	14