



Committee and date

Audit Committee

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INTERNAL AUDIT STRATEGIC PLAN 2009/13 AND ANNUAL AUDIT PLAN 2009/10

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Summary

This report provides Members with the outcome of the audit needs exercise which has recently been completed and forms the basis for the next four year Strategic Plan for the period 2009/13, together with details of the audit plan for 2009/10.

Recommendations

Members are asked to note:

- A. The outcome of the audit needs exercise.
- B. The summary Audit Plan for the year 2009/10 set out in **Appendix B**.

Report

1. Following the formation of the new Shropshire Council one of the key tasks for Audit Services to complete was the production of a new four year detailed risk based audit needs assessment. This is a key document which provides the framework within which the annual plans are compiled each year, and each year the needs assessment is reviewed with the Directorates and the Director of Resources to ensure that it is still robust and is meeting the needs and risk profile of the Council. It also ensures that the audit resources are targeted at the higher risk areas and a wider coverage as possible is delivered across the Council's services to provide assurance on the operation of the Council's internal control systems.

2. The starting point for the audit needs exercise was the existing audit plans of the six merging councils as it was important that all auditable areas were identified for the new Council. Equally as important were the discussions with a range of senior managers across all Directorates to identify areas of responsibility, changes that have or are planned to take place, areas of difficulty or where they perceive they have problems. This was particularly important in the new areas of responsibility that were being taken on by the new Council, such as Revenues and Benefits, Planning, Housing etc in order that a clear understanding was obtained of the services provided and the associated risks.

3. The audit needs assessment undertaken is based upon a risk assessment methodology originally developed by the Midland Counties Chief Internal Auditors Group. It can broadly be summarised as follows:-
 - The identification of all areas to be audited (the “Audit Universe”), by reference to budgets, discussions with key officers, reviews of service plans, previous audit findings etc.
 - An assessment of the audit days required without regard to the constraints of resourcing or frequency required for each audit.
 - The model contains fourteen risk elements. Each has been attached a weighting factor on a scale of 1-5 representing the inherent relative risk of that particular element. The initial weighting factor is then further qualified by a series of quantitative or qualitative judgements concerning the particular audit under consideration.
 - The identification of a risk score which prioritises one audit area against another and provides a suggested frequency for the audit to be undertaken.

4. The frequency attached to each risk score in the audit needs assessment is as follows:

Risk Index Score	Priority Indicated	Audit Frequency
Less than 60	De Minimis	If required
60-69	Low	4 year cycle
70-104	Medium Low	3 year cycle
105-115	Medium High	2 year cycle
116+	High	Annually

5. Whilst it is accepted that within the model there are a number of judgemental factors as well as objective factors in coming to a risk score, these have been applied uniformly across all types of audits. Account has also been taken of the views of the stakeholders (Directors and key officers), and these have been reflected in the risk scores as necessary.
6. The assessment of days required for each audit is a best assessment, taking into account previous experience, Audit Commission advice and comparisons with other Councils. In some cases it will be very accurate based on actual experience but, in new or changed audit areas, it is the best estimate based on knowledge of similar systems and will need to be revised upward or downwards in the light of experience.
7. Whilst every effort has been made to capture all the new audit areas for the audit needs and to understand the detail of the new areas, it will be important to carry out a detailed review and update of the audit needs at the end of this year to ensure it fully reflects all the new Council's operations.

Computer Audit

8. A separate computer audit needs assessment has been completed by the computer auditor. The risk assessment has been collated to form the basis of the computer plan for the financial years 2009/10 and 2010/11. Unlike the strategic plan which covers a four year period, the computer audit plan is only for two years due to the nature of the area and the rapid changes involved in IT.
9. The risk assessment and the computer audit plan have been developed using the risk based methodology adopted by KPMG. Within the four year strategic plan it is hoped to provide 275 days per year for computer audit work plus 25 days for investigating IT fraud. This will be a mix of days provided by the IT Auditor and days provided from general auditors. Currently we have one member of the general audit team who has a computer audit qualification and it is hoped to train another auditor to assist in this area.

Resources Available

10. Resources available for the year 2009/10 amount to 2,793 days and based on the current levels of staff within the structure, which assumes appointments will be made to the two vacant posts by 1st April 2010, there will be an estimated 12,822 days available to deliver the strategic plan over the four years.
11. One of the things that must not be overlooked are the staffing changes that have and will be taking place during 2009/10. It is important that staff are allowed to build up their skills and have the appropriate

training for them to be efficient and skilled auditors. Whilst the senior members of the team will help manage the process, with half of the audit team being new, there will inevitably be additional time spent on some of the audits as the new staff are trained in their roles and the Council's systems and procedures. Consequently 2009/10 will be a transition year for the Internal Audit team, similarly for other new teams in other service areas within the new Council.

Outcome of the Audit Needs

12. The audit needs assessment has identified an audit day requirement of 12,808 days to undertake the four year strategic plan which when compared to the resources available of 12,822 days, identifies a close match between resources available and work required. However, in the first year of the plan, there is an imbalance as the days required significantly exceeds the days available. **Appendix A** identifies the yearly audit requirement and the days available over the four years of the plan. The strategic plan for 2009/10 identifies a requirement for 3,318 days whilst resources available amount to 2,793 days, leaving a shortfall of 525 days. Experience has shown that over a four year plan changes both in staffing, systems and working arrangements can be significant. In view of this it is intended that the first year of the plan will be managed within the resources available by the Head of Audit Services in consultation with the Director of Resources. This will necessitate moving audits to future years where there is sufficient capacity to ensure all audits are completed over the four years of the plan.
13. A summary of the audit plan by Service for 2009/10 is attached at **Appendix B**, because of the level of changes that will take place over the four years of the plan; a detailed allocation of days has not been undertaken for the remaining years. The strategic plan and the annual plan will be reviewed each year and amended as necessary to meet the changing requirements of the Council.
14. Other key issues arising out of the audit needs assessment are:
 - All fundamental systems (ie purchase ledger, sales ledger, payroll, income) and the new systems, housing, revenues and benefits, planning, building control are included in line with the Audit Commission requirement, as the work completed by Internal Audit forms part of their annual audit opinion work. In 2009/10, it is important that the new systems such as revenues and benefits, housing, planning and building regulations are included as full systems audits. This will allow the assurance to be given that despite the change of staff, offices and systems that there are still good controls and procedures in place.
 - Provision has been made in the plan for the Financial Management Standard in Schools (FMSIS) audits to be

undertaken.

For 2009/10, we have the first review and update of those secondary schools completed three years ago, and we have the final tranche of the primary schools which are due for their first assessments. Overall, when the audit year 2009/10 is complete the secondary schools will have completed their second assessment and the primary schools will have all completed their first assessment. The output from these assessments allows the Director of Resources to sign off the Section 52 Statement which provides assurance on the financial controls and procedures in schools to the Department for Children, Schools and Families.

- Cash income collection is always a vulnerable area with the merging of the Councils, there are now some major cash generating areas which will require regular audit visits to ensure all cash is being appropriately accounted for. In the first year of the plan visits are identified for the following areas:
 - Parking Cash Collection and Enforcement
 - Bereavement Services (including the Crematorium)
 - Quarry Swimming and Fitness centre
 - Shrewsbury Sports Village
 - Severn Valley Park
 - Theatre Severn
 - Acton Scott
 - Cash Offices – regulatory visits
 - Primary Cash Collection

- Audits are identified to review the major partnering contracts that are in operation such as:
 - Coverage Care (provision of care)
 - Enterprise (roads construction and maintenance)
 - Veolia (management and disposal of waste)
 - Mouchel Parkman (engineering design)

- Provision has been made over the four years to review key construction contracts that are underway, this will be from advertisement to tender stage to the completion of the contract. In 2009/10, time has been allowed for work on the Music Hall Redevelopment.

- An allowance has been provided to pick up any work arising following the move to One Council. A contingency of 260 days has been included in the first year of the plan. In addition, days have been provided in 2009/10 to review the preparation of the new Council's Balance Sheet and to review the closures of all the old Council's bank accounts.

- Provision has been made for the audits required for our external clients. This is chargeable work and internal audit services are currently provided to:
 - Shropshire and Wrekin Fire Authority
 - Just Credit Union
 - Shropshire County Pension Fund
 - Shrewsbury Town Council
 - Oswestry Town Council
- From 2010/11 an allocation of 50 days has been included in the strategic plan to carry out specific value for money studies on those areas identified by audit work or senior managers, where it is felt improvements could be made. Due to the pressure on the number of days available in 2009/10 it has not been possible to provide resources for any studies this year.
- Counter Fraud Work – this is a particularly important role for the Audit Team and days have been allocated to provide some fraud awareness training and to look into specific areas where fraud could be expected. This is in addition to the work that is carried out bi-annually in respect of the Audit Commission's National Fraud Initiative. It is planned that our fraud and awareness training will be undertaken jointly with our colleagues in the Revenues and Benefits Fraud Team.
- **Appendix C** identifies a small number of audits, mainly small libraries where risks are felt to be minimal. These will only be visited or audits undertaken if there were to be any surplus audit days over the four year plan, or if the risk has deemed to have changed.

Contingency

15. An allowance for contingencies has been included in the strategic plan as follows:

Fraud and Irregularities	250
Advice on new and existing systems	50
Unplanned Audit Work	50

At the time of preparing this report and with the knowledge of the level of fraud and irregularities identified to date, for the 2009/10 plan the fraud and irregularities contingency has been reduced to 155 days. Similarly due to the level of unplanned work identified this contingency has been raised to 70 days.

Audit Commission

16. The Audit Commission's Audit Manager for the Council has received copies of the main audit needs assessment and the computer audit needs assessment. She has been asked to comment on its scope, coverage, frequency of audit and number of days allocated to individual audits as they place reliance on the work of Internal Audit when giving their annual audit opinion. It is hoped that a response will be available to update members at the Committee.

Summary

17. The audit needs assessment work undertaken has provided the foundations for the next four year strategic plan. At this time it is felt to be robust and comprehensive but as referred to earlier in this report it will need a review and update at the end of this first year of the new Shropshire Council in order that it can be updated in the light of experience. The plan is not fixed in "tablets of stone" and needs to be reviewed and updated regularly if it is going to meet the requirements of providing an effective, efficient and pro-active internal audit service.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Human Rights Act Appraisal

The recommendations contained in this report are compatible with the provisions of the Human Rights act 1998

Environmental Appraisal

N/A

Risk Management Appraisal

The failure to have a robust strategic audit plan in place could leave the Council open to fraudulent activities.

Community / Consultations Appraisal

N/A

Cabinet Member

Brian Williams (Chairman of Audit Committee)

Local Member

N/A

Appendices

Appendix A – 2009/10 – 2012/13 Strategic Audit Plan Day Requirements Compared to Audit Days Available

Appendix B – 2009/10 – Audit Plan by Service

Appendix C – Areas not subject to Audit