



Committee and date

Audit Committee

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INTERNAL AUDIT PLAN 2009/10 - HALF YEAR REPORT

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Summary

This report provides members with details of the work undertaken by Internal Audit in the first half of 2009/10. It has been a good start to the year with 49% of the revised plan being completed in the first half year which is in line with the Audit Commission's target of 90% by year end.

An Internal Audit Plan of 2,793 days was agreed for the year and reported to this Committee on 17th September 2009. Due to a reduction in resources it has been necessary to revise the plan by a net 83 days to match the resources now available of 2,710 days. All changes have been approved by the Director of Resources (Section 151 Officer) and will not affect the ability of the Head of Audit Services to deliver their year end opinion for informing the Annual Governance Statement.

Recommendations

Members are asked to note:

- A. The half year performance against the plan in 2009/10 set out in **Appendix A**.
- B. The summary revised audit plan for the year 2009/10 set out in **Appendix A**.

Report

1. At the last meeting of the Audit Committee on 17th September 2009, Members were informed of the work undertaken to prepare a new four year detailed risk based audit needs assessment for the new Shropshire Council.

They were informed that this is a key document which provides the framework within which the annual plans are compiled each year, and that each year the needs assessment will be reviewed and updated to ensure that it is still robust and is meeting the needs and risk profile of the Council.

2. For 2009/10 a plan to deliver 2,793 days was agreed which was 525 days less than the 3,318 days identified by the audit needs assessment, but it was felt that it was possible to manage within the resources available. This would necessitate the Head of Audit Services, in consultation with the Director of Resources, moving audits to future years where there was sufficient additional capacity to ensure all audits could be completed over the four years of the plan. However, as part of the requirement for the Resources Directorate to identify savings for 2010/11, the vacant auditor post has been taken as part of the Resources Directorate's savings. The effect of the loss of the auditor post will mean a reduction of 83 days for the 2009/10 plan and a reduction of approximately 600 days over the remaining three years of the plan. This reduction will need to be addressed when the audit needs is reviewed in February/March 2010 and the plan for 2010/11 is produced.

3. In respect of the 2009/10 plan, the impact is that the planned resources of 2,793 days has been reduced to 2,710 days. To accommodate this reduction the original plan has been reduced by a net 83 days and a revised plan produced to deliver 2,710 days. Wherever possible it is the lowest risk audits that have been removed from the plan for this year. The list of reductions has been agreed by the Director of Resources as Section 151 Officer. A copy of the revised plan is shown for Member's information in **Appendix A**. As Members have previously been advised, the plan is not set in "tablets of stone" and it will need to be changed and amended over the next three years to ensure it is providing assurance on the Council's operations. As it is a risk based plan the Head of Audit Services will ensure that the key high risk audits are undertaken each year before time is allocated to the lower risk areas.

Half Year Performance

4. **Appendix A** provides a summary of the half year performance by area of work, i.e. planned audit by each service and contingency area, this is summarised in Table 1 below:

Table 1 – Summary of Audit Half Year Performance

	Original Plan Days	Revised Plan Days	Actual Days Worked	Variance on Revised	% of Revised Completed
Chief Executive	130	126	100.72	-25.28	80%
Development Services	140	139	36.91	-102.09	27%
Community Services	218	195	70.62	-124.38	36%
Children and Young People's Services	500	503	201.62	-301.38	40%
Resources	584	557	203.83	-353.17	37%
IT Audit	225	204	87.60	-116.40	43%
Planned Audit	1797	1724	701.30	-1022.70	41%
LGR One Council Work	260	270	253.96	-16.04	94%
Special Investigations	155	155	72.20	-82.80	47%
Unplanned and additional audits	70	70	61.53	-8.47	88%
Advisory and new systems	50	50	21.49	-28.51	43%
Chargeable administration and non audit work	269	269	163.77	-105.23	61%
Total Section 151 Audit	2601	2538	1274.25	-1263.75	50%
Honorary and Voluntary Funds	40	40	29.05	-10.95	73%
External Clients	152	132	33.59	-98.41	25%
Total Audit Work	2793	2710	1336.89	-1373.11	49%

5. The unit has achieved 49% of the revised plan at the half year which is in line with the Audit Commission's target of 90% at the year end. This is a little higher than at this time last year when the percentage of work completed was 46%, although we did have the support of an external supplier to help deliver the internal audit plan in the second half of 2008/09.
6. The new staff within the team have settled in very well but inevitably there will be additional time spent on audits as the staff gain their knowledge, skills and experience. The transition of work to the new Head of Audit Services is progressing well and it is hoped this will be a seamless transfer.

Planned Audit

7. Chief Executive – work has progressed well in this area with over 80% of the revised days delivered. The audit of the National Indicator sets for all the six councils has been completed and reported, with no qualifications. The Audit Commission have reviewed this work and no

issues have been raised. Work on the audit of the Local Public Service Agreement (LPSA) is nearly completed and will be reported on shortly. A net decrease of 4 days has been made to the planned days, and it is felt that the revised days of 126 days will be achieved by the end of the year.

8. Development Services – 27% of revised planned days delivered. Substantial work has been ongoing during October and November to ensure as much of the plan is delivered as possible. Due to shortfalls in the planned days delivered in previous years, it is important that the majority of planned days are delivered in this area this year.
9. Community Services – 36% of revised plan delivered. A reduction of 23 days has been made against the original plan and it is felt the delivery of the balance of the days can be achieved by the end of the year.
10. Children and Young People's Services – as with the previous three years the main emphasis here is to complete the Financial Management Standard in Schools (FMSIS) audits by 31st March 2010. The work has been divided up across all the auditors and a substantial amount of the testing work has been completed already. The schools have been requested to ensure their assessments are ready by 31st December 2009, which will allow the audit team to complete their work before 31st March 2010. If current progress is maintained this target should be achieved and there should be very little carryover of work into the 2010/11 year.
11. Resources – A substantial amount of the work here is related to the audit of the key financial systems for the new Council; and will include full audits of the new areas of work such as Council Tax, NNDR and Housing Benefits plus those that have experienced major change such as Income. It is important that this work is completed and reported on by the end of the financial year as reliance is placed on the work completed by internal audit by the Audit Commission as part of their final accounts audit work. A detailed plan of all systems to be audited has been compiled allocating members of the team to the systems to be audited along with a target completion date. Another key area of work completed in the first half year was the review of the National Fraud Initiative matches for all six councils. Reports on the completion of this work have been provided to Audit Committee. The pre-audit of the six predecessor authority accounts was completed to very tight deadlines and helped secure the unqualified audit opinion from the Audit Commission.
12. IT Audit – 43% of revised plan complete. Progress on the completion of the planned IT audit work has been good in the first half of the year and it is hoped the revised plan of 204 days will be completed by the end of the year.
13. LGR One Council Work – as was to be expected most of the One Council contingency has been used up in the first half of the year as

the team helped with a range of transition issues. 254 days have been used out of the initial 260 day allocation and the allocation has been revised upwards by 10 days to 270 days. Overall the work in this area is mainly completed and it is felt that the allocation of 270 days should be sufficient.

14. Special Investigations – 47% of planned allocation used at half year. There have been four main investigations, which have accounted for 65 days. Three are now completed, and the one is progressing to disciplinary. On the basis of the information to date, it is felt the contingency allocation of 155 days should be sufficient.
15. Unplanned and Additional Audits – 88% of contingency has been used at the half year. Two pieces of work have accounted for 36 days out of the 70 days allocation. Based on current levels of work whilst tight, it is felt the contingency will be adequate for the year.
16. Advisory and New Systems – currently 21 days used which is comparable with this time last year. To date 30 individual jobs have been identified on the time recording system along with an unknown number of telephone queries which would have been answered immediately, or with a call back once the advice/query has been addressed. No change to the original allocation has been made.

As part of internal audits advisory work we are now participating in the Lean Service reviews across a number of areas. This is beneficial in that the documentation prepared allows the audit team to gain, very quickly, an understanding of the area under review. More importantly, however, it allows Internal Audit to ensure there are appropriate controls and checks in place in any system changes proposed to improve the services to the end user. By offering advice and input before the changes are made ensures the internal control framework is not weakened. Currently this work is being coded against the advisory code and while the exact time that will be spent on the work is unknown, it is felt very important that Internal Audit have an input where key changes to controls are proposed.

17. Chargeable Administration and Non Audit Work – 61% of allocation used at the half year. A substantial part of the work in the first half year related to the completion of the audit needs assessment and the production of the annual audit plan, amounting to some 79 days. Overall the original allocation at 269 days is felt to be at the right level and no changes have been made.
18. Honorary and Voluntary Funds – a substantial number of the honorary and voluntary funds work has been completed in the first half year. A number of new funds were inherited from Shrewsbury and Atcham Borough Council and are included in this years allocation of 40 days. The original allocation of 40 days is felt to be adequate and no changes have been made.

19. External Clients – work has almost been completed for the Just Credit Union and work is underway or scheduled for the Shropshire Fire and Rescue Service to ensure completion by the end of the year. Pension Fund work is planned in the second half year. The key item to note here is the notification recently received from Shrewsbury Town Council, who have informed us that they do not require the services of the Internal Audit team and will be seeking a provider elsewhere. As a result the plan has been reduced by 22 days and a balance of three days remains in respect of the work already undertaken in preparing an audit needs assessment and a four year strategic plan for the Town Council. A further two days has been added to the Oswestry Town Council to reflect their planned work to be undertaken this year.
20. Significant Control Issues – the work in the first half of the year has not identified any significant control issues to report to Audit Committee. Whilst a substantial number of reports have been completed and recommendations for improvements made, assurances can be given that control systems are in place and operating effectively in the areas examined. None of the weaknesses identified would lead to a breakdown in the internal control framework or material loss to the Authority.
21. Summary

The Audit Teams performance for the first half year has been good and is on target to achieve the Audit Commission's target of 90% of the revised plan. Revisions to the plan have been necessary to accommodate the reduction in resources by the loss of the vacant audit post. All revisions to the plan have been agreed and approved by the Director of Resources as Section 151 Officer. The revised plan is felt to be achievable given the current level of resources and anticipated unplanned and special investigation work levels. Any changes upward in these areas would necessitate further revisions to the planned work schedule.

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

Internal audit is a key part in managing both financial and operational risks

Community / Consultations Appraisal

N/A

Cabinet Member

Keith Barrow, Leader of the Council (Brian Williams, Chairman of Audit Committee)

Local Member

All

Appendices

Appendix A – 2009/10 Summary of Audit Plan by Service – Half Year Report