



<u>Committee and date</u>
Audit Committee
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<u>Item No</u>
<b>4</b>
Public

## INTERNAL AUDIT PLAN 2009/10 - THIRD QUARTER REPORT

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### Summary

This report provides members with details of the work undertaken by Internal Audit for the period up to 31 December 2009. Overall progress in this quarter has been good with 77% of the revised internal audit plan completed which is in line with the Audit Commission's target of 90% by the year end.

The original Internal Audit Plan of 2,793 days was revised by a net 83 days at the half year report which was reported to the last (delayed) Audit Committee in December. Due to an unanticipated long term sickness and the need to deliver additional training requirements it has been necessary to reduce the plan by a further 49 days to match the resources now available of 2,661 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 the year end opinion for informing the Annual Governance Statement.

From the work undertaken this quarter there is one significant control issue to report to the Audit Committee concerning delays in bank and ledger reconciliations which are detailed further in the report. Resources have been deployed to bring these reconciliations up to date as a priority.

### Recommendations

Members are asked to note:

- A. The third quarter 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 7 December 2009, Members were informed of the revisions necessary resulting from the loss of the vacant auditors post taken as part of the Resources Directorate's savings.

This led to a net reduction of 83 days in the current years plan and 600 days over the remaining three years of the strategic plan. This reduction will be addressed when the audit needs is reviewed in February/March 2010 and the plan for 2010/11 is produced.

2. A further reduction of a net 49 days has had to be made to the current years plan as a result of an unanticipated long term sickness and the need to deliver additional training to our new auditors.
3. 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.

### Third Quarter Performance

4. **Appendix A** provides a summary of the third quarter 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 Third Quarter Performance by Service/Contingency**

	Original Plan Days	Revised Plan Days (Sept)	Revised Plan Days (Dec)	Actual Days Worked	Variance on Dec Revised	% of Dec Revised Plan Complete
Chief Executive	130	126	137	132.27	-4.73	97%
Development Services	140	139	85	68.14	-16.86	80%
Community Services	218	195	153	99.83	-53.17	65%
Children & Young People's Ser. Resources	500	503	542	406.62	-135.38	75%
IT Audit	584	557	541	318.13	-222.87	59%
	225	204	196	147.99	-48.01	76%
<b>Planned Audit</b>	<b>1797</b>	<b>1724</b>	<b>1654</b>	<b>1172.98</b>	<b>-481.02</b>	<b>71%</b>
LGR One Council Work	260	270	275	273.49	-1.51	99%
Special Investigations	155	155	175	153.65	-21.35	88%
Unplanned & additional audits	70	70	80	79.05	-0.95	99%
Advisory and new systems	50	50	40	36.70	-3.30	92%
Chargeable administration and non audit work	269	269	265	218.97	-46.03	83%
<b>Total Section 151 Audit</b>	<b>2601</b>	<b>2538</b>	<b>2489</b>	<b>1934.84</b>	<b>-554.16</b>	<b>78%</b>
Honorary and Voluntary Funds	40	40	40	37.83	-2.17	95%
External Clients	152	132	132	63.83	-68.17	48%
<b>Total Audit Work</b>	<b>2793</b>	<b>2710</b>	<b>2661</b>	<b>2036.50</b>	<b>-624.50</b>	<b>77%</b>

5. The unit has achieved 77% of the revised plan at the end of the 3rd quarter which is in line with the Audit Commission's target of 90% by the year end. This is higher than at this time last year when the percentage of work completed was 70%. So far this year 2,036 audit days have been completed leaving 625 days to be delivered in the final quarter of the year.
6. The new staff continue to develop and have settled in very well, however, as predicted additional time is being spent on audits as the staff gain their knowledge, skills and experience. For example, four of the six auditors involved in school audit testing and FMSIS assessments have no previous school audit experience. The transition of work to the new Head of Audit Services is complete and has progressed well.

### Planned Audit

7. Chief Executive – work has progressed well in this area with 97% of the revised days delivered. Since the last report, the audit of the Local Public Service Agreement (LPSA) has been completed and is in the process of being reported. Assistance with and audit of the Registrars reconciliation processes has also been delivered and only the preparatory work for next years National Performance Indicators audit remains outstanding. A net increase of 11 days has been required to complete the planned work.
8. Development Services – 80% of revised planned days delivered. Unfortunately, the long term sickness has occurred in this audit group and cuts have had to be made to ensure we deliver our fundamental systems. Work will continue with the completion of audits on Highways and Car Park income but 54 days have been cut from the plan as the Planning and Building Control audits scheduled for this year have had to be deferred to early next year.
9. Community Services – 65% of revised plan delivered. A reduction of 42 days has been made against the original plan to compensate for an additional piece of work commissioned by Community Services on specific grants. The work on Group Homes and Comforts Funds continues to progress well and will be delivered by 31 March.
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 31 March 2010 which accounts for 90% of the CYPs audit plan. Schools audit testing is substantially complete and FMSIS assessments will take place in the final quarter. As mentioned previously, four of six auditors deployed on school audits are new to the area necessitating additional specific training sessions and some double manning as the new auditors gain experience in school systems and FMSIS audit requirements. This has led to an anticipated increase of 39 days to complete audit work which, if current progress is maintained, the 31 March target should be achieved leaving very little carryover of work into the 2010/11 year compared to last year.
11. Resources – The majority of work in Resources is the audit of our fundamental financial systems which we undertake as part of our commitment to our joint working with the Audit Commission. These 12

audits account for just over 10% of audit time and it is important that this work is completed and reported on by the end of the financial year in time for the Audit Commission's review of our work as part of their final accounts audit opinion work. The work usually falls in the second half of the financial year as the Audit Commission requires testing through out the year. We undertake "top up" testing in April for those remaining months not covered by our main audit. Since the half year report, substantial progress has been made on the fundamental system audits, five have been completed and reports issued, two are substantially completed, two underway and the remaining three scheduled for February starts. We are scheduled to complete this work together with the Corporate Governance and Risk Management audits in time to inform the year end Head of Audit opinion. The work on the NFI is virtually complete, some former District Council work on council tax single person discount remains outstanding and the next data download is due early next year.

12. IT Audit – 76% of revised plan complete. Good progress on the completion of the planned IT audit work continues although we have had to make a small reduction of 8 days to compensate for the number of small IT misuse investigations being experienced at the moment, it is hoped the revised plan of 196 days will be completed by the end of the year.
13. LGR One Council Work – as previously reported most of the One Council contingency was used up in the first half of the year as the team helped with a range of transition issues. Minor issue continued to emerge in the 3rd quarter but on a reducing scale, 273 days have now been used and necessitating a slightly increase in the allocation to 275 days.
14. Special Investigations – It has been necessary to increase the contingency by 20 days to 175 days following the work undertaken in the 3rd quarter. There have been six main investigations, which have accounted for 124 days, these are now completed. Computer misuse continues to be a problem, with one case currently under investigation; one other case is also underway. On the basis of the information to date, it is felt the revised contingency allocation of 157 days should be sufficient providing no major investigation work is required in the next two months.
15. Unplanned and Additional Audits – 99% of the revised contingency has been used by the end of December. The majority of this work arises in the first quarter from completion of unfinished work from the previous year plus any commissions in the year. Two major pieces of work which have now been completed which accounted for over half of the 80 days revised allocation. Based on current priorities we do not have the capacity to undertake any further unplanned work this year unless other audits are cut from the plan which must be approved by the S151 Officer.
16. Advisory and New Systems – currently 37 days used. To date 44 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. A reduction of 10 days has been made as our contribution to the Lean Service Reviews has been somewhat less than we originally

anticipated as the current programme of reviews have tended towards workflows and involvement with the Customer First Centre rather than involving fundamental internal control issues.

17. Chargeable Administration and Non Audit Work – 83% of the revised allocation used at the end of December. Completion of the audit needs assessment and the audit strategic plan in the first six months accounts for almost a third of work in this area. A small number of adjustments including increasing the time required to service the Audit Committee and provide Member's training have been made resulting in a small net reduction of 4 days. Overall the revised allocation at 265 days should be sufficient.
18. Honorary and Voluntary Funds – The audit of honorary and voluntary funds has now been completed whilst work on our fee earning school funds continues. The original allocation of 40 days is felt to be adequate and no changes have been made.
19. External Clients – work for the Just Credit Union has been completed and work is substantially underway for the Shropshire Fire and Rescue Service and Oswestry Town Council, both of which are on target for completion by the end of the year. Pension Fund work commences in January with a review of our controls over pension fund managers and pensions administration.
20. Significant Control Issues – the work in the third quarter of the year has revealed a significant control issue to be report to Audit Committee. Problems were encountered in the first half of the year with delays in reconciling and coding income resulting from the combination of the large increase in the number of transactions processed, new income streams, new collection mechanisms and the number of residual payments to the former district bank accounts. In addition it was recognised that our existing bank reconciliation software was inadequate for the new Council's requirements, and whilst a replacement was procured in September, we encountered installation problems which has delayed its operation until December. This software is now working properly and has significantly improved the reconciliation process. Nevertheless, bank reconciliations did fall behind and necessitated manual reconciliations in the short term. Currently bank reconciliations are complete to the end of September and work is ongoing to bring the remaining months up to date. As a consequence the ledger to cash book reconciliation has fallen behind as this requires the bank reconciliation to be completed. The Director of Resources is aware of the issues and has deployed additional resources to address the issue and bring these reconciliations up to date as a priority.

In all other areas, 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. With the exception noted above, none of the weaknesses identified would lead to a breakdown in the internal control framework or material loss to the Authority.

Summary

21. Overall progress in the third quarter has been good with 77% of the revised internal audit plan complete. Substantial progress has been made on the fundamental systems audits and the work for our external clients, schools audit testing is substantially complete and FMSIS assessments will take place in the final quarter. It has been necessary to cut a net 49 days from the plan to accommodate sickness and training and the contingencies remaining are very tight. Whilst resources are available to complete the balance of the revised plan any unanticipated changes would require further revisions to the planned work schedule and approved by the Director of Resources.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>                  Internal Audit Strategic Plan 2009/13 and Annual Audit Plan 2009/10 Audit Committee 17 September 2009                  Internal Audit Plan 2009/10 - Half Year Report – Audit Committee 7 December 2009</p>
<p><b>Human Rights Act Appraisal</b>                  The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998</p>
<p><b>Environmental Appraisal</b>                  N/A</p>
<p><b>Risk Management Appraisal</b>                  Internal audit is a key part in managing both financial and operational risks</p>
<p><b>Community / Consultations Appraisal</b>                  N/A</p>
<p><b>Cabinet Member</b>                  Keith Barrow, Leader of the Council (Brian Williams, Chairman of Audit Committee)</p>
<p><b>Local Member</b>                  All</p>
<p><b>Appendices</b>                  Appendix A – 2009/10 Audit Plan by Directorate and Service – Third Quarter Report</p>

## 2008/10 AUDIT PLAN BY DIRECTORATE AND SERVICE – THIRD QUARTER REPORT

	Original Plan	Revised Plan	Revision	3rd Qtr Revised	Days Worked	Variance	% Complete
<b>CHIEF EXECUTIVE</b>							
LADS	15	6	5	11	10.81	-0.19	98%
Performance & Partnerships	115	120	6	126	121.46	-4.54	96%
	130	126	11	137	132.27	-4.73	97%
<b>DEVELOPMENT SERVICES</b>							
Strategy & Policy	5	0	0	0	0.00	0.00	
Development Management	45	45	-38	7	2.34	-4.66	33%
Economic Development	3	3	0	3	1.08	-1.92	36%
Highways Strategy	5	0	0	0	0.00	0.00	
Transportation	5	5	-5	0	0.00	0.00	
Env. Health & Trading Standards	14	18	4	22	21.83	-0.17	99%
Waste	10	10	-10	0	0.00	0.00	
Env. Maintenance. – Highways	37	42	1	43	39.43	-3.57	92%
Parking	16	16	-6	10	3.46	-6.54	35%
	140	139	-54	85	68.14	-16.86	80%
<b>COMMUNITY SERVICES</b>							
Housing	35	35	0	35	7.82	-27.18	22%
OPPD	24	20	-18	2	0.00	-2.00	0%
Learning Difficulties	5	3	-3	0	0.00	0.00	
Group Homes	44	53	-2	51	33.91	-17.09	66%
Comforts Funds	47	51	2	53	49.96	-3.04	94%
Trading Accounts	7	7	0	7	7.38	0.38	105%
Learning	20	10	-10	0	0.00	0.00	
Leisure	10	8	-8	0	0.76	0.76	
Outdoor Recreation	3	3	-3	0	0.00	0.00	
Arts	8	5	0	5	0.00	-5.00	0%
Museums	10	0	0	0	0.00	0.00	
Strategy & Business Support	5	0	0	0	0.00	0.00	
	218	195	-42	153	99.83	-53.17	65%
<b>CHILDREN &amp; YOUNG PEOPLE'S</b>							
Early Years	10	7	0	7	7.01	0.01	100%
Primary	260	264	30	294	232.69	-61.31	79%
Secondary	186	186	7	193	121.23	-71.77	63%
Special	9	9	-2	7	3.23	-3.77	46%
Social Care & Safeguarding	20	21	1	22	22.46	0.46	102%
Youth Support	0	7	0	7	7.03	0.03	100%
Grants	8	8	3	11	11.10	0.10	101%
Strategy & Business Support	7	1	0	1	1.87	0.87	187%
	500	503	39	542	406.62	-135.38	75%
<b>RESOURCES</b>							
Finance	415	406	-2	404	214.79	-189.21	53%
Property Services	3	3	-3	0	0.20	0.20	0%
Shire Services	15	0	0	0	0.00	0.00	0%
Risk & Insurance	10	10	0	10	2.90	-7.10	29%
Corporate Issues	131	128	-1	127	100.24	-26.76	79%
Chargeable non Audit	10	10	-10	0	0.00	0.00	
	584	557	-16	541	318.13	-222.87	59%

	Original Plan	Revised Plan	Revision	3rd Qtr Revised	Days Worked	Variance	% Complete
<b>IT AUDIT</b>							
Corporate Systems	90	99	-5	94	79.60	-14.40	85%
Children & Young People's	11	12	0	12	3.24	-8.76	27%
Community Services	56	57	-3	54	35.15	-18.85	65%
Development Services	14	0	0	0	0.00	0.00	
Resources	49	36	0	36	30.00	-6.00	83%
Chief Execs	5	0	0	0	0.00	0.00	
	225	204	-8	196	147.99	-48.01	76%
<b>CONTINGENCY</b>							
LGR - One Council work	260	270	5	275	273.49	-1.51	99%
Fraud Contingency	155	155	20	175	153.65	-21.35	88%
Unplanned audit contingency	70	70	10	80	79.05	-0.95	99%
Advisory - new systems	50	50	-10	40	36.70	-3.30	92%
	535	545	25	570	542.89	-27.11	100%
<b>CHARGEABLE OVERHEADS</b>							
Cheque Procedures	46	36		36	26.38	-9.62	73%
Audit Committee	30	30	10	40	29.18	-10.82	73%
Corporate Mtgs (Security Group, Finance Officers etc)	15	14	-3	11	10.54	-0.46	96%
Audit Plans & Needs Assessment	70	90	-2	88	80.88	-7.12	92%
Mk Insight - Development	20	20	-6	14	7.67	-6.33	55%
S151, Audit Commission & Director Qtrly Meetings	21	16	-3	13	9.22	-3.78	71%
Chief Auditors Network	15	17	2	19	15.59	-3.41	82%
Staff Appraisal	26	20	-7	13	8.58	-4.42	66%
Other chargeable work	26	26	5	31	30.93	-0.07	100%
	269	269	-4	265	218.97	-46.03	83%
<b>HONORARY &amp; VOL. FUNDS</b>							
School Funds	5	5	0	5	2.66	-2.34	53%
Other Funds	35	35	0	35	35.17	0.17	100%
	40	40	0	40	37.83	-2.17	95%
<b>EXTERNAL CLIENTS</b>							
Credit Union	15	15	0	15	15.20	0.20	101%
Pensions Fund	45	45	0	45	4.69	-40.31	10%
Shropshire Fire & Rescue	42	42	0	42	23.44	-18.56	56%
Shrewsbury Town Council	25	3	0	3	3.12	0.12	104%
Oswestry Town Council	25	27	0	27	17.38	-9.62	64%
	152	132	0	132	63.83	-68.17	48%
<b>TOTAL AUDIT DAYS 2009/10</b>	<b>2793</b>	<b>2710</b>	<b>-49</b>	<b>2661</b>	<b>2036.50</b>	<b>-624.50</b>	<b>77%</b>