



Committee and date

Audit Committee

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INTERNAL AUDIT ANNUAL REPORT 2009-10

Responsible Officer Ceri Pilawski
Email: ceri.pilawski@shropshire.gov.uk

Telephone: 01743 252027

Summary

This report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2010, to report on progress against the annual audit plan and account for the application of audit resources and provide an opinion on the internal controls as required by the CIPFA Code of Practice for Internal Audit in Local Government.

On the basis of the work undertaken and findings made, there have been no major financial weaknesses or issues identified; the Council's financial systems, internal control environment and risk management procedures are sound and working effectively.

Recommendations

Members are asked to note performance against the Audit Plan for the year ended 31 March 2010 and the Head of Audit's annual opinion on the internal controls.

Report

1. The provision of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's financial and risk management systems and procedures. To this end a four year strategic plan covering the period 1 April 2009 to March 2013, was developed through a comprehensive risk based audit needs assessment.
2. The strategic plan is the framework from which annual audit plans are compiled; each year the needs assessment and strategic plan are reviewed with Directorates to ensure that they are still robust and meeting the needs of the Council. Changes to the annual plan will be made to deal with, for example, the opening and closing of establishments, the introduction of new systems and procedures, changes of staff, the transfer or pooling of services to other agencies or authorities etc. The audit plan will also be adjusted to take account of audits not completed in the year they were planned and consequently need to be carried forward.
3. For 2009/10 updates against the planned Internal Audit work have been provided

to Audit Committee by way of a half year and third quarter reports. As in previous years, it has been necessary to revise the plan following changes in the level of resources available.

4. For 2009/10 an audit plan delivering 2,793 days was agreed which, at that point, could be accommodated within the resources available. In the half year report to Audit Committee in December 2009, a revision of 83 days to the plan was identified to match to resources available. This was a direct result of the loss of a vacant auditor post, taken as part of the Resources Directorate's savings. This will reflect a 600 day reduction over the remaining three years of the strategic plan. A further revision in the plan was made in February of a net reduction of 49 (days), mainly arising as a result of unanticipated long term sickness and the need to deliver additional training requirements. The revisions were made over a number of audits, some to accommodate additional days worked on audits or where days can be saved or audits removed from the plan. Where possible cuts were made on lower risk rated audits and equally distributed across Directorates but as revisions were made late in the year and taking account of ongoing commitments this was not always possible. The revisions to the audit plan were agreed by the Director of Resources and reported to Audit Committee in February 2010.
5. The summary below provides the final outturn position for 2009/10 against the original and revised plan by Directorate and contingency type; whilst **Appendix A** provides a more detailed summary of audit actuals by service area.

Summary of Audit Actuals 2009/10

	Original Plan Days	Revised Plan Days (Feb)	Actual Days Worked	Variance from revised plan	Percentage of revised days completed (%)
<u>Auditees</u>					
Chief Executive	130	137	137.00	0.00	100
Development Services	140	85	76.62	-8.38	90
Community Services	218	153	163.52	10.52	107
Children and Young People's Services	500	542	646.35	104.35	119
Resources	584	541	484.48	-56.52	90
IT Audit	<u>225</u>	<u>196</u>	<u>167.37</u>	<u>-28.63</u>	<u>85</u>
Shropshire Council Planned Audits	1,797	1,654	1,675.34	21.34	101
<u>Contingencies</u>					
Special Investigations	155	175	232.48	57.48	133
LGR – One Council work	260	275	279.75	4.75	102
Unplanned and additional audits	70	80	101.83	21.83	127
Advisory	50	40	45.92	5.92	115
Chargeable Administration	<u>269</u>	<u>265</u>	<u>274.40</u>	<u>9.40</u>	<u>104</u>
Total Shropshire Council S151 Audits	2,601	2,489	2,609.72	120.72	105
Honorary and Voluntary	40	40	40.56	0.56	101
External Clients	<u>152</u>	<u>132</u>	<u>128.03</u>	<u>-3.97</u>	<u>97</u>
TOTAL AUDIT DAYS DELIVERED	2,793	2,661	2,778.31	117.31	104

Key Issues to note from the summary are:

Planned Audits (2,661) days:

7. The total actual days delivered exceed the revised plan days (117 days) and overall gives a percentage completion against the revised plan of 104%. This is comparable to the 102% of the revised plan completed in 2008/09. Further details in respect of the planned outturn are provided below:
8. Chief Executive: 100% complete. Work has progressed well in this area. The audit of the National Indicator sets for all six councils has been completed and awarded an unqualified opinion by the Audit Commission. The audit of the Local Public Service Agreement confirmed the Council's entitlement to £6.51 million reward grant, out of a possible £7.61 million.
9. Development Services: 90% complete. Unfortunately this area was impacted on following long term sickness within the audit team. As a result planning and building control audits are deferred to early 2010/11. Audits of Pest Control, Bereavement Services, Street Lighting and Highways Central area were completed.
10. Community Services: 107% complete. All work on homes comfort funds and trading accounts has been completed. Housing rents in relation to Oswestry have been delivered; the Bridgnorth rent audit is underway and being completed early 2010/11.
11. Children and Young People's Services: – 119% complete. The main thrust of work continues to be completion of the Financial Management Standard in Schools (FMSIS) assessments for primary and secondary schools. It is not easy to assess the exact work required at each school; some require more support than others to successfully achieve the standard but once again the main reason for the overrun this year has been on the FMSIS support we have provided to schools. Following significant staffing changes resulting from LGR, relatively inexperienced auditors new to the education arena have carried out the assessments; we have also increased the scope and coverage of audit testing and introduced a different audit approach by splitting audit testing from the assessment. The aim of which was to incorporate audit testing with our interim visit to help with progress and provide advice in an attempt to spread the workload more evenly across the Autumn and Spring terms.
12. Of the 52 primary and secondary schools scheduled for assessment, 23 schools were due for a full assessment and 29 schools were eligible for the "Light Touch" assessment, although six of these schools still opted for the full assessment. The "Light Touch" approach was developed and agreed for all schools with a budget of less than £730,000 (in 2009). The light touch reduced the amount of evidence required for those schools by concentrating on key critical evidence.

13. Of the schools assessed this year, it was pleasing to note that 47 schools were successful with 28 achieving the full standard. Of the remaining five schools, four schools failed to submit a file of evidence and one school was assessed as not achieving the standard. All schools will be issued with an action plan and ongoing support is to be offered to schools not achieving the standard. For those schools not submitting a file, letters of assurance have been obtained confirming their intention to complete the assessment by 31st March 2011.
14. As members will recall the FMSIS standard was introduced four years ago with a requirement for all schools to meet the standard. In the first year 2006/07, each authority was required to ensure their secondary schools were assessed and then over the following three years 2007/08, 2008/09 and 2009/10 all primary schools were required to be assessed. To date, we have successfully reassessed all our secondary schools with the exception of one school which failed to meet the standard and will be reassessed in 2010/11. All of our primary/special schools have now been assessed as achieving the standard with the exception of seven newly amalgamated schools which will be assessed in 2010/11 and the four primary schools who did not submit evidence this year.
15. In 2010/11, we are due to reassess 46 primary and special schools and one secondary school plus new assessments of the seven amalgamated primary schools; 54 school assessments in total. To assist with the second round reassessments, we have offered refresher and new Head Teacher training and developed a one stop shop guide of audit advice. In an effort to reduce a significant peak load problem in the Spring term and improve the resulting audit turn around time, it is planned to undertake assessments far earlier this year with schools being booked in advance for audit visits rather than awaiting their submission of evidence.
16. Resources: 90% complete. The majority of focus has been on audit of the fundamental financial systems, undertaken as part of our commitment to our joint working with the Audit Commission. The majority of systems work was completed by the year end, with slight slippage in areas new to the Council and which involved amalgamation of a number of systems and processes i.e. income collection and council tax. These will be completed early in 2010/11 and in plenty of time on which to provide assurances for the Statement of Accounts. Other key audits undertaken included:
 - National Fraud Initiative
 - Risk Management System
 - Key Supply Contracts – Financial Review
 - Final accounts and pre audit work
17. Significant Control Issue: the work in the third quarter of the year revealed a significant control issues regarding reconciliation procedures which was reported to Audit Committee in February. 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, installation problems were encountered which delayed its operation until December. This software is now working properly and has significantly improved the reconciliation process. Nevertheless, bank reconciliations did fall behind with knock on consequences for ledger reconciliation and necessitated manual reconciliations in the short term. Additional resources were deployed to address the issue and bring these reconciliations up to date.

18. IT Audit: 85% complete. The main reasons behind not achieving all planned audits was as a result of the IT Auditor helping out on LGR, one council work and supporting a number of special investigations.
19. Contingencies (934 days)
20. Special Investigations: 133% complete. 155 days were originally allocated, the half year report identified the need to raise the contingency to 175 days and 232 days have been used. Special investigations have been higher than normal of which there have been 14 main investigations. The number of investigations rose significantly in the last quarter, these have involved computer and telephone misuse, procurement and contract management, cash income abuse, cheque fraud and data management. As with previous years where problems of system failures and procedure breakdowns are identified recommendations will be made to resolve the issues identified.
21. LGR – One Council work: 102% complete. The team helped with a range of transition issues. This included rolling out new home systems and procedures, banking arrangements, controlled stationery issue, collection and destruction, security reviews, post procedures and general advice across all the new areas of the authority for new staff unfamiliar with the Council's working practices and procedures.
22. Unplanned and additional audits: 127% of the contingency was used. 99% was used in the first half of the year, completing unfinished work from the previous year. Large pieces of work commissioned during the year included CRB and new starter arrangements, nursery providers, and a review of data handling security in relation to data sticks. Activity here is significantly higher than previous years and may reflect the massive changes experienced during the first year of the new Unitary Council.
23. Advisory: 115% of allocation used. Internal Audit is most efficient when it is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or systems development. It also offers general advice on processes and procedures and interpretation of the financial and contract rules. It is seen as very important that officers feel they are able to contact Internal Audit for advice and help and this is something which is encouraged by all the team. 46 days of advisory work has been undertaken during the year.

As part of internal audit's advisory work the team participated in a number of Lean Service reviews across the Council. 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 maintained and not weakened.

24. Chargeable Administration (Other Duties): 104% complete. This area of work covers a wide range of activities which are not direct audit work, examples of which are:

- Meetings with the Director of Resources to discuss progress and issues raised by audit work.
- Liaison with the Audit Commission Auditors, regular meetings are held with our Audit Manager to discuss work plans, issues of common concern and the managed audit programme. Working closely with our external auditors ensures no duplication of effort, shares knowledge and maximises the benefits of the audit work of both teams. Under the managed audit initiative our external auditors rely on the work completed by Internal Audit to inform their annual audit opinion on the Council's accounts.
- Servicing the Audit Committee
- CIPFA bench marking exercise
- Staff appraisals and other corporate requirements
- Attendance at Chief Auditors meetings
- Financial appraisals
- Non audit work requested by the Director of Resources
- Implementation of new audit and risk management software
- Cheque administration and reconciliation
- Audit needs assessment
- Assisting the DP/FOI team due to the large increase in requests.

25. Honorary and Voluntary Funds: 101% complete. All honorary and voluntary fund audits have been completed.

26. External clients: 97% complete. Work has almost been completed and is scheduled to be finished in early 2010/11. This slight slippage will not impact on the timing of any assurances required. In December, the Head of Audit reported to committee that Shrewsbury Town Council did not require the services of the Internal Audit team as they were seeking alternative provision of the service from elsewhere. This allowed 22 days to be reallocated to other areas of the plan.

27. **Fundamental Recommendations**

Members will recall that at their meeting on the 7th December 2009, they assessed the Audit Committee against CIPFA's Self Assessment Checklist. As a result members requested a report in respect of all fundamental recommendations made and therefore this is included within this report.

For 2009/10 in common with previous years there have been no fundamental recommendations made.

28. **Self evaluation**

The team is keen to review and improve its activities. As part of this process the Team's Away Day in February looked at its strengths and areas requiring improvement. From this an Improvement Plan has been adopted targeting improvements in the areas of:

- Strategy and Planning
- Ethics and Independence
- Preparation
- Data Quality
- Reporting
- Training – CPD and
- Relationships

29. Members will notice officers from Internal Audit attending training and committee to meet the members and see the processes at first hand. This was one of the outputs of the improvement work. A full copy of the Improvement Plan is attached as **Appendix B** Internal Audit Improvement Plan 2010/11.

30. **Annual Audit Opinion from Internal Audit Work undertaken during 2009/10**

31. It is the responsibility of Shropshire Council to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the CIPFA Code of Practice 2006 to form an opinion on the Authority's overall control system. This opinion plays a key part in informing the Authority's Annual Governance Statement and enabling the Audit Committee to deliver their annual assurance statement to Council.

32. The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Council's internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

- The work undertaken on the fundamental financial systems. Whilst revealing a number of areas of weakness and identifying areas for improvement there are no significant material weaknesses that could result in a material misstatement in the Authority's accounts and that reliance can be placed upon them. The concerns over cheque and other reconciliations have been addressed.
- From other planned audit work undertaken during the year, there have

been no major financial weaknesses or issues identified; the Council's financial systems, internal control environment and risk management procedures are sound and working effectively.

33. These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

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

N/A

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 of managing both financial and operational risks

Community / Consultations Appraisal

N/A

Cabinet Member

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

Local Member

All

Appendices

Appendix A - Summary of Audit Actuals by Directorate and Service 2009/10
Appendix B - Internal Audit Improvement Plan 2010/11