



Committee and date

Audit Committee

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Item No

**12**

Public

## INTERNAL AUDIT PLAN 2010/11 - HALF YEAR REPORT

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### Summary

This is the first report for 2010/11 summarising progress against the Internal Audit Plan covering delivery up to the end of September. It has been a good start to the year with 47% of the plan (51% of the revised plan) being completed in the first half year which is in line with our target of 90% by year end.

An Internal Audit Plan of 2,909 days was agreed for the year and reported to this Committee on 24 March 2010. Due to a reduction in resources it has been necessary to revise the plan by a net 222 (7.6%) days to match the resources now available of 2,687 days. All changes have been approved by the 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 2010/11 set out in **Appendix A**.
- B. The adjustments required to the 2010/11 plan to take account of changing priorities set out in **Appendix A**.

Members are asked to comment on:

- C. The revised content of the Internal Audit Report.

### Report

#### What has changed in this report?

- 1. Members will note that this report has been refreshed to help identify areas that members may wish to explore further, and to provide additional information on

the work and findings from Internal Audit on the internal controls within the Council. This should assist Members in their assessment of the control environment and help form their judgement contained in their annual report to Council.

2. Changes include:

- A table to show overall audit assurance opinions delivered in the first and second quarters on all audits concluded.
- Audit recommendations made in the first and second quarters.
- A table showing the audit assurance opinion and recommendations made on fundamental systems in the first and second quarters.

## Background

3. The Council is entering into a period of considerable change with the Transformation Programme and the impact of the Comprehensive Spending Review on top of existing service pressures. Budget cuts, loss of experienced staff and major structural change completely alter the risk horizon. Internal Audit will need to respond to these changes; resources will be redirected to support these changes and develop the skills needed to give assurance on those initiatives aimed at realising cost efficiencies whilst continuing to implement our own improvements and efficiencies in working practices.
4. Internal Audit, with its visibility and mandate to cut across the whole of the Council coupled with its council wide knowledge of systems and processes, is uniquely placed and in the necessary vantage point to help the Council address the significant challenges and risks ahead. It will need to strike a balance between providing continued assurance over the traditional S151 areas such as financial systems and the emerging risks facing the Council.
5. In these times of rapid and unparalleled change, the audit plan must be able to respond to emerging risks arising from the restructuring of staff and services. It is envisaged that the annual plan will be subject to considerable change over the remaining months of this year and we will need to build in that flexibility into next years plan as the reorganisation and transformation agendas progress. It is vital that Internal Audit has the resources to deliver the levels of assurance necessary to inform Audit Committee and the Annual Governance Statement matched to the risk appetite and changes facing the Council.

## Half Year Performance

6. The team has achieved 47% of the plan (51% of the revised plan) which is in line with its target to deliver 90% at the year end. Performance up to the end of September 2010 is summarised by Directorate in the following table.

**Table 1 - Summary of actual audit days delivered against plans, quarter two 2010/11**

	Original Plan	Revision	Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
Chief Executive	118	-15	103	81.91	69%	80%
Development Services	202	-26	176	36.59	18%	21%
Community Services	394	-29	365	216.60	55%	59%
Children & Young People's Resources	499	82	581	270.79	54%	47%
	805	-126	679	348.97	43%	51%
<b>S151 Planned Audit</b>	<b>2018</b>	<b>-114</b>	<b>1904</b>	<b>954.86</b>	<b>47%</b>	<b>50%</b>
Contingencies	634	-58	576	303.83	48%	53%
<b>Total S151 Audit</b>	<b>2652</b>	<b>-172</b>	<b>2480</b>	<b>1258.69</b>	<b>47%</b>	<b>51%</b>
Hon & Vol Funds	40	0	40	28.32	71%	71%
External Clients	217	-50	167	76.71	35%	46%
<b>Total</b>	<b>2909</b>	<b>-222</b>	<b>2687</b>	<b>1363.72</b>	<b>47%</b>	<b>51%</b>

7. It has been necessary to reduce the plan by 222 days due to a reduction in resources for the year as a result of a redundancy, long term sickness and maternity leave. The long term sickness has had a significant effect on the delivery of reviews to Development Services, which will be addressed in the second half of the year.
8. We have taken the opportunity to revisit the plan as a whole as there have been significant variations arising from:
  - The audit of the new fundamental systems delayed at the request of the S151 Officer until the last quarter, to allow sufficient time for the new systems to become embedded. However, this impacted on the close down process resulting in a much higher than anticipated carry-over of work into this year.
  - Schools FMSiS assessments rolling over from last year – this is discussed later in this report.
  - The Management Board of West Mercia Supplies deciding to delay the transfer of internal audit from Worcestershire to Shropshire until next year.
  - Some new audit areas that have proved particularly challenging in terms of the learning curve and work required to improving the control environment and change long established working practices.
  - New areas identified e.g. YPLA 6<sup>th</sup> Form Audits and the administration of the DWP's Employment Authentication Service to enable Shropshire Staff to interact electronically with the DWP.

In carrying out the revision we have taken into account the existing control environment and whether imminent change will render audit findings and assurances out of date and therefore of limited value. As a result 16 priority one audits and a further 28 priority two to four audits have been delayed; these reductions should not affect the ability of the Head of Audit to deliver an opinion on the control environment at the year end.

9. The Transformation Agenda, budget pressures and rate of change envisaged

over the short and medium term is significant and will impact on the work of Internal Audit. Whilst the contingency has been reduced in the light of a lower than expected number of fraud investigations, it is envisaged that work to support the Transformation Agenda will be required and result in further revisions to the plan as the scale of change, like local Government Reorganisation, represents a far higher risk and higher priority than that identified from the existing audit needs assessment and strategic plan.

## Audit Work and Findings

10. On completion of audit reviews an assurance opinion is given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

<b>Good</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
<b>Reasonable</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non compliance with some of the controls.
<b>Limited</b>	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
<b>Unsatisfactory</b>	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

11. The table below shows the overall audit assurance opinions provided for each area based on work completed on 73 final audit reports issued in the first half year i.e. after auditee responses have been received.

Table 2 – Audit assurance opinions delivered first and second quarters 2010/11

<b>Directorate</b>	<b>Good</b>	<b>Reasonable</b>	<b>Limited</b>	<b>Unsatisfactory</b>
Development Services	0	2	0	0
Community Services	7	15	2	0
CYPS	0	35	0	0
Resources	4	4	2	0
Pensions Fund	1	1	0	0
<b>Total</b>	<b>12</b>	<b>57</b>	<b>4</b>	<b>0</b>

12. Sixty nine good and reasonable assurances were made. Whilst no unsatisfactory opinions were delivered, four limited assurance opinions were issued in the following areas:

- Mobile phones;
- Markets;
- Oswestry Comforts Funds;
- Housing rents – Bridgnorth;

In each case positive responses have been received by management and will be followed up next year to determine whether satisfactory improvements have been made. Housing rents is discussed below in the Fundamental Systems section of this report.

13. Audit recommendations are rated according to their priority as:

<b>Best Practice (BP)</b>	An improvement rather than addressing a risk.
<b>Requires Attention (RA)</b>	Addressing a minor control weakness or housekeeping issue.
<b>Significant (S)</b>	Addressing a significant control weakness where the system may be working but errors may go undetected.
<b>Fundamental (F)</b>	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

Recommendations are rated in relation to the audit area rather than the Council's control environment so that, for example, a control weakness deemed serious at one school which results in a significant or fundamental recommendation would not affect the Council's overall control environment unless it was affecting all schools. Any significant or fundamental recommendations resulting from a control weakness in the Council's control environment would be reported in detail to the Audit Committee.

14. A total of 791 recommendations have been made in the 73 final audit reports issued in the first half year; these are broken down by audit area in the table below.

Table 3 – Audit recommendations made in the first and second quarters 2010/11

<b>Audit Area</b>	<b>No of Recommendations made</b>				
	<b>Best Practice</b>	<b>Requires Attention</b>	<b>Significant</b>	<b>Fundamental</b>	<b>Total</b>
Development Services	0	15	13	0	28
Community Services	37	75	19	0	131
CYPS	20	395	27	0	442
Resources	7	95	76	0	178
Pensions Fund	2	9	1	0	12
<b>Total</b>	<b>66</b>	<b>589</b>	<b>136</b>	<b>0</b>	<b>791</b>

15. It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course; recommendations are followed up after six months by obtaining an update from management on progress made. We are in the progress of changing our manual follow up system to one processed through the MKInsight system (Audit Management Software) which

should streamline the follow up process and provide much better management information on implementation progress.

## Fundamental Systems - Managed Audit

16. Within the Audit Plan there are 15 reviews that are categorised as fundamental, high risk business critical systems (Housing Rents is counted as one review). These reviews are covered as part of the managed audit with our external auditors and as such are audited annually and have a strong influence in informing our Annual Governance Statement.
17. A summary of the level of assurance for each review area together with the number of recommendations made is shown in the table below:

Table 4 – Audit opinion and recommendations made on fundamental systems in the first and second quarters 2010/11

Fundamental System	Level of Assurance Given	Number of Recommendations made			
		BP	RA	S	F
Housing Rents – Oswestry (2009-10)	Reasonable		5	7	
Housing Rents – Bridgnorth (2009-10)	Limited		5	8	
Purchase Ledger					
Sales Ledger					
General Ledger					
Income Collection (2009-10)	Reasonable	1	14	6	
Payroll System					
Council Tax Collection (2009-10)	Reasonable	1	10	13	
NNDR Collection (2009-10)	Reasonable	1	10	10	
Housing Benefits (2009-10)	Reasonable	4	21	13	
Budgetary Management and Control	Good		3		
Treasury Management	Good		5		
Capital Accounting System					
Risk Management					
Pensions Administration (2009-10)	Good		3	1	
Control of Pension Fund Managers					

18. Several fundamental system audits were delayed last year due to timing issues at the year end as close down work quite rightly took priority. Whilst a relatively high number of significant recommendations were identified in the Council Tax, NNDR and Housing Benefit audits, management responded positively and were working towards implementation of recommendations even before the audits was complete, we were therefore able to issue reasonable rather than limited opinions in these areas.
19. In the case of the Bridgnorth Rents system, whilst no significant errors were identified, the overall control environment was considered weak; consequently a limited assurance was issued. Again a positive management response was received and it is envisaged that many of the control issues will have been

addressed by the introduction of the new single rents system in July 2010. This is scheduled to be audited in early 2011, the results of which will be reported to the Committee.

20. Work is well underway on the current year's fundamental systems and should be completed before the year end to avoid any carry over into 2011/12. Top up testing on key controls will be required for the Audit Commission in April and May as usual.

### **Financial Management Standard in Schools (FMSiS) Assessments**

21. The need to complete FMSiS assessments dominated the work of the team last year resulting in an overrun into 2010/11 ready for the annual signing of the Section 52 statement by the Section 151 Officer (the annual statement on school balances which includes the number of schools deemed to have met the FMSiS standard).
22. The overrun is smaller than previous years and, following a review of our process, we have started assessments far earlier in the Autumn term this year in order to begin to address the year end bottleneck; indeed 10 of 54 assessments have already been completed, the results from which will be included in the next quarterly report when we have had responses back from the schools concerned. To date, none have failed to meet the standard in what is their second assessment. Next year we are planning to deliver schools FMSiS training in the Spring term which will enable us to conduct assessments in the Summer term thereby spreading schools work across the year and finally addressing the year end bottleneck.

### **Stop Press – FMSiS Announcement**

23. The Secretary of State for Education has just been announced the scrapping of the Financial Management Standard in Schools; an update on the implications of this announcement will be provided to Members by the Head of Audit at this meeting.

### **Other Developments – MKInsight Audit & Risk Management System**

24. The implementation of MKInsight is going reasonably well, the audit report has been totally restyled in to an exception report format and is yielding considerable efficiencies in terms of report writing time. The new way of working is taking time to customise and configure; consequently we are currently limiting use to pilot audits in order to develop our knowledge of how the system works and the various modules interrelate with one another.
25. Recommendation tracking is in the process of being implemented, all recommendations made this year are now input to the system which will allow further analysis of recommendations made and help track implementation by management as the year progresses replacing our existing manual and somewhat labour intensive system.

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

Draft Internal Annual Audit Plan 2010/11 Audit Committee 24 March 2010

**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



## APPENDIX A

## 2010/11 AUDIT PLAN BY DIRECTORATE AND SERVICE – HALF YEAR REPORT

	Original Plan	Revision	Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
<b>Chief Executive</b>						
LADS	25	5	30	15.99	64%	53%
Perf & Partnerships	88	-15	73	65.92	75%	90%
Chief Execs IT audit	5	-5	0	0.00	0%	
<b>Chief Executive</b>	<b>118</b>	<b>-15</b>	<b>103</b>	<b>81.91</b>	<b>69%</b>	<b>80%</b>
<b>Development Services</b>						
Strategy & Policy	5		5	0.00	0%	0%
Development Management	55		55	0.65	1%	1%
Economic Development	8		8	0.45	6%	6%
Highways Strategy	28	-22	6	1.85	7%	31%
Transportation	10	-10	0	0.00	0%	
PP - Env Health & Trad Std	10	18	28	10.74	107%	38%
PP - Waste	10		10	0.00	0%	0%
Env Mtce - Highways	26	4	30	16.13	62%	54%
Env Mtce - Street Scene	5	-5	0	0.00	0%	
Parking	16		16	6.77	42%	42%
Business Support	5		5	0.00	0%	0%
Development Services IT Audit	24	-11	13	0.00	0%	0%
<b>Development Services</b>	<b>202</b>	<b>-26</b>	<b>176</b>	<b>36.59</b>	<b>18%</b>	<b>22%</b>
<b>Community Services</b>						
Housing	75	-35	40	16.12	21%	40%
OPPD	95	-51	44	13.81	15%	31%
Learning Difficulties	38	-32	6	3.89	10%	65%
Group Homes	44		44	28.99	66%	66%
Comforts Funds	46		46	22.90	50%	50%
Trading Accounts	10	23	33	32.29	323%	98%
Leisure	20	67	87	78.80	394%	91%
Outdoor Recreation	3		3	0.82	27%	27%
Arts	10		10	1.05	11%	11%
Museums	7		7	0.79	11%	11%
Strategy & Business Support	10		10	0.00	0%	0%
Community Services IT Audit	36	-1	35	17.14	48%	49%
<b>Community Services</b>	<b>394</b>	<b>-29</b>	<b>365</b>	<b>216.60</b>	<b>55%</b>	<b>59%</b>
<b>Children &amp; Young People's</b>						
Early Years	15	-3	12	11.66	78%	97%
Primary	280	67	347	110.91	40%	32%
Secondary	30	17	47	41.21	137%	88%
Special	6	4	10	3.56	59%	36%
MAT & Prevention	15	-1	14	8.22	55%	59%
Social Care & Safeguarding	55	-7	48	20.41	37%	43%
Achievement & Inclusion	15	-1	14	11.49	77%	82%

	Original Plan	Revision	Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
Grants	6		6	0.00	0%	0%
Strategy & Business Supt	62	10	72	52.57	85%	73%
CYPS IT Audit	15	-4	11	10.76	72%	98%
<b>Children &amp; Young People's</b>	<b>499</b>	<b>82</b>	<b>581</b>	<b>270.79</b>	<b>54%</b>	<b>47%</b>
<b>Resources</b>						
Finance	364	8	372	198.16	54%	53%
Property Services	89	-39	50	24.60	28%	49%
Shire Services	40	-20	20	16.00	40%	80%
Risk Management	10	-3	7	0.00	0%	0%
Corporate Issues	124	-25	99	57.82	47%	58%
Corporate IT Audit	131	-44	87	30.56	23%	35%
Resources IT Audit	47	-3	44	21.83	46%	50%
<b>Resources</b>	<b>805</b>	<b>-126</b>	<b>679</b>	<b>348.97</b>	<b>43%</b>	<b>51%</b>
<b>S151 Planned Audit</b>	<b>2018</b>	<b>-114</b>	<b>1904</b>	<b>954.86</b>	<b>47%</b>	<b>50%</b>
<b>Contingencies</b>						
Special Investigations	202	-52	150	55.48	27%	37%
Un-planned & Additional Audits	50	9	59	43.47	87%	74%
Advisory	50	-10	40	14.24	28%	36%
Chargeable Administration	332	-5	327	190.64	57%	58%
<b>Contingencies</b>	<b>634</b>	<b>-58</b>	<b>576</b>	<b>303.83</b>	<b>48%</b>	<b>53%</b>
<b>Total S151 Audit</b>	<b>2652</b>	<b>-172</b>	<b>2480</b>	<b>1258.69</b>	<b>47%</b>	<b>51%</b>
<b>Hon &amp; Vol Funds</b>						
School Funds	5		5	0.97	19%	19%
Other Funds	35		35	27.35	78%	78%
<b>Hon &amp; Vol Funds</b>	<b>40</b>	<b>0</b>	<b>40</b>	<b>28.32</b>	<b>71%</b>	<b>71%</b>
<b>External Clients</b>						
Credit Union	17	-5	12	9.69	57%	81%
Pensions Fund	63	6	69	15.60	25%	23%
Shropshire Fire & Rescue	48	7	55	32.56	68%	59%
West Mercia Supplies	60	-56	4	1.59	3%	40%
Oswestry Town Council	29	-2	27	17.27	60%	64%
<b>External Clients</b>	<b>217</b>	<b>-50</b>	<b>167</b>	<b>76.71</b>	<b>35%</b>	<b>46%</b>
<b>Total</b>	<b>2909</b>	<b>-222</b>	<b>2687</b>	<b>1363.72</b>	<b>47%</b>	<b>51%</b>