



Committee and date

Audit Committee

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INTERNAL AUDIT PLAN 2010/11 – THIRD QUARTER REPORT

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Summary

This is the second report for 2010/11 summarising progress against the Internal Audit Plan covering delivery up to the end of December. Progress continues to be good with 77% of the revised plan (69% of the original plan) being completed at the three quarter mark which is in line with our target of 90% by year end.

All 26 final reports issued in the third quarter were given good or reasonable assurance opinions and contained 208 recommendations; a further 69 draft reports were issued with management responses pending.

An Internal Audit Plan of 2,909 days was agreed for the year and reported to this Committee on 24 March 2010 and reduced to 2,687 in September. Due to a further reduction in resources it has been necessary to revise the plan by a net 90 (3.3%) days to match the resources now available of 2,597 days. All changes have been approved by the Section 151 Officer and should 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 third quarter 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**.

Report

Background

1. This report follows the new style report presented to Members at the last meeting in November, we have added some additional information on the number of draft reports issued and work done for our external clients to

combine a picture of both our performance and to provide additional information on the work and findings from Internal Audit on the internal controls within the Council.

Third Quarter Performance

- The team has achieved 77% of the revised plan (69% of the original plan) which is in line with its target to deliver 90% at the year end. Performance up to the end of December 2010 is summarised by Directorate in the following table.

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

	Original Plan	Sept Revised Plan	Dec Revision	Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
Chief Executive	118	103	-13	90	83.39	71%	93%
Development Services	202	176	-17	159	63.05	31%	40%
Community Services	394	365	29	394	311.93	79%	79%
CYPS	499	581	-12	569	476.46	95%	84%
Resources	805	679	-65	614	501.42	62%	82%
S151 Planned Audit	2018	1904	-78	1826	1436.25	71%	79%
Contingencies	634	576	-4	572	433.17	68%	76%
Total S151 Audit	2652	2480	-82	2398	1869.42	70%	78%
Hon & Vol Funds	40	40		40	34.49	86%	86%
External Clients	217	167	-8	159	90.87	42%	57%
Total	2909	2687	-90	2597	1994.78	69%	77%

- Members will recall that it was necessary to reduce the plan by 222 days at the half year stage due to a redundancy, long term sickness and maternity leave. It has been necessary to reduce the plan by a further 90 days due to a second period of prolonged sickness and additional non audit work arising from the administration of the Department for Work and Pension's (DWP) Employment Authentication Service. An estimate of the time required to process each member of staff was made. Processing involves authentication and online registration of approximately 70 Council staff to enable them to access and exchange electronic data with the DWP systems. The exercise is more time consuming and has expanded in scope than originally identified, plans have been adjusted to reflect this.
- The significant changes that the Council is experiencing in the current environment require greater flexibility in respect of audit planning than previously seen. In response to this a number of significant variations have been made:
 - Cancellation of the Schools FMSiS assessments; whilst we have continued with assessments under local arrangements, there has been a reduction in planned days where assessments are no longer required.
 - As a result of the withdrawal of a number of grants from the Council, the audit requirement for these has been far lower than originally anticipated.
 - Work in new audit areas, following the Council's unitary status; continues to prove challenging in improving the control environment, sharing best practice consistently across services and changing long established working practices.

A number of revisions to the plan have been made; these reductions have been carefully selected and should not affect the ability of the Head of Audit to deliver an opinion on the control environment at the year end.

5. The Transformation Agenda is increasingly impacting on Internal Audit in the fourth quarter, as projects gain momentum and officers seek Internal Audit advice and approval. The overall level of the contingency is felt to be sufficient at this stage. Work to support the Transformation Agenda represents a far higher risk and priority than that identified from the existing audit needs assessment and strategic plan. Whilst we will carefully manage our planned work, it is absolutely vital that we proactively contribute to the transformation projects at the design stage to support the inclusion of sound internal controls and removal of unnecessary bureaucracy.

Audit Work and Findings

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

Good	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.
Reasonable	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.
Limited	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.
Unsatisfactory	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.

7. The table below shows the overall audit assurance opinions provided for each area based on work completed on 26 final audit reports issued in the third quarter i.e. after auditee responses have been received. There are 69 draft audits issued in this quarter where management responses have yet to be received; 51 of which were schools where a response is not expected until the Spring term. In addition we have also issued 22 final audit reports and signed off 13 sets of accounts for external clients.

Table 2 – Audit assurance opinions delivered in the third quarter 2010/11

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Development Services	1	0	0	0	1
Community Services	3	2	0	0	5
CYPS	0	9	0	0	9
Resources	2	7	0	0	9
Pensions Fund	0	2	0	0	2
Total third quarter	6	20	0	0	26
Total to date	18	77	4	0	99

8. Twenty six good and reasonable assurances were made; there were no limited or unsatisfactory opinions delivered.
9. Audit recommendations are rated according to their priority as:

Best Practice (BP)	An improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	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, 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. Similarly, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority of areas examined were sound, consequently, the number of significant recommendations in Table 3 below will not necessarily correlate directly with the number of limited assurance opinions issued in Table 2 above. 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.

10. A total of 208 recommendations have been made in the 26 final audit reports issued in the third quarter; these are broken down by audit area in the table below.

Table 3 – Audit recommendations made in the third quarter 2010/11

Audit Area	No of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Development Services	0	0	0	0	0
Community Services	4	10	0	0	14
CYPS	11	77	5	0	93
Resources	4	55	36	0	95
Pensions Fund	0	3	3	0	6
Total	19	145	44	0	208
Total to date	85	734	180	0	999

11. 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. Only two recommendations (1%) have been rejected by management, these have been discussed and the reasons for rejection accepted.

Fundamental Systems - Managed Audit

12. Within the Audit Plan there are 15 reviews that are categorised as fundamental, high risk business critical systems. 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.
13. 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 three quarters 2010/11

Fundamental System	Level of Assurance Given	Number of Recommendations made			
		BP	RA	S	F
Housing Rents	Not started				
Purchase Ledger	Reasonable		8	6	
Sales Ledger	Reasonable		5	8	
General Ledger (2009-10)	Reasonable	1	12	6	
Income Collection	In progress				
Payroll System	Reasonable		17	5	
Council Tax Collection	Draft issued				
NNDR Collection	In progress				
Housing Benefits	Draft issued				
Budgetary Management & Control	Good		3		
Treasury Management	Good		5		
Capital Accounting System	Good (No recommendations)				
Risk Management	Good	1	2		
Pensions Administration	Not started				
Control of Pension Fund Managers	Not started				

14. Seven of this years 15 fundamental systems audits have been completed with final reports agreed and issued; all are assessed as good or reasonable. Of the remaining eight, two have been issued in draft, two are in progress and four are scheduled in the next two months in line for completion by the end of the year. Top up testing on key controls will be required for the Audit Commission in April and May as usual.
15. The final report for the 2009/10 General Ledger audit was delayed due to the deliberations over the recommendations made, consequently this will be one of the last audits scheduled for this year.

Further Developments – Meritec Counter Fraud Training package

16. As part of our counter fraud work, Internal Audit has, over the last three months, been working on customising a Web based online E- Learning tool to promote fraud awareness. The tool is entitled “Focus on.... Fraud & Corruption” and several councils have already introduced this software with significant positive results. Our bespoke version was launched in January with an introduction and endorsement by the Chief Executive.
17. All Members and staff are requested to complete the training which takes about 45 minutes; arrangements are being made to accommodate those staff without immediate computer access. To date over 700 staff have undertaken the course and feedback has been very positive, such as:
- “I found the course both helpful and informative, I consider it to be both appropriate and well pitched”
- “The course has made me realise that I need to be more aware in my work place – very good”
18. We will provide a further update on take up and comments in the annual report to the Audit Committee in June. The package can be accessed through the following link <http://www.meritec.co.uk/fraud2/> using the case sensitive password **Ufraud10**.

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

Internal Audit Plan 2010/11 - Half Year Report - Audit Committee 25 November 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 – THIRD QUARTER REPORT

	Original Plan	Sept Rev.	Sept Revised Plan	Dec Rev.	Dec Revised Plan	Days Worked	% of Orig. Comp.	% of Dec Comp.
Chief Executive								
LADS	25	5	30	-7	23	16.39	66%	71%
Perf & Partnerships	88	-15	73	-6	67	67.00	76%	100%
Chief Execs IT audit	5	-5	0	0	0	0.00	0%	
Chief Executive	118	-15	103	-13	90	83.39	71%	93%
Development Services								
Strategy & Policy	5	0	5	0	5	0.00	0%	0%
Development Management	55	0	55	0	55	0.65	1%	1%
Economic Development	8	0	8	0	8	7.87	98%	98%
Highways Strategy	28	-22	6	0	6	1.91	7%	32%
Transportation	10	-10	0	0	0	0.00	0%	
PP - Env Health & Trad Std	10	18	28	2	30	27.89	279%	93%
PP - Waste	10	0	10	0	10	0.00	0%	0%
Env Mtce - Highways	26	4	30	-14	16	16.13	62%	101%
Env Mtce - Street Scene	5	-5	0	0	0	0.00	0%	
Parking	16	0	16	0	16	8.10	51%	51%
Business Support	5	0	5	-5	0	0.00	0%	
Development Services IT Audit	24	-11	13	0	13	0.50	2%	4%
Development Services	202	-26	176	-17	159	63.05	31%	40%
Community Services								
Housing	75	-35	40	0	40	16.19	22%	40%
OPPD	95	-51	44	-4	40	32.74	34%	82%
Learning Difficulties	38	-32	6	8	14	11.41	30%	82%
Group Homes	44	0	44	0	44	39.52	90%	90%
Comforts Funds	46	0	46	0	46	34.34	75%	75%
Trading Accounts	10	23	33	0	33	32.29	323%	98%
Leisure	20	67	87	22	109	107.83	539%	99%
Outdoor Recreation	3	0	3	4	7	6.46	215%	92%
Arts	10	0	10	0	10	1.10	11%	11%
Museums	7	0	7	4	11	10.64	152%	97%
Strategy & Business Support	10	0	10	0	10	0.00	0%	0%
Community Services IT Audit	36	-1	35	-5	30	19.41	54%	65%
Community Services	394	-29	365	29	394	311.93	79%	79%
Children & Young People's								
Early Years	15	-3	12	0	12	11.73	78%	98%
Primary	280	67	347	-14	333	280.28	100%	84%
Secondary	30	17	47	-5	42	41.68	139%	99%
Special	6	4	10	0	10	8.65	144%	87%
MAT & Prevention	15	-1	14	-5	9	8.92	59%	99%
Social Care & Safeguarding	55	-7	48	3	51	28.28	51%	55%

	Original Plan	Sept Rev.	Sept Revised Plan	Dec Rev.	Dec Revised Plan	Days Worked	% of Orig. Comp.	% of Dec Comp.
Achievement & Inclusion	15	-1	14	-1	13	13.30	89%	102%
Grants	6	0	6	2	8	7.89	132%	99%
Strategy & Business Supt	62	10	72	8	80	64.43	104%	81%
CYPS IT Audit	15	-4	11	0	11	11.30	75%	103%
Children & Young People's	499	82	581	-12	569	476.46	95%	84%
Resources								
Finance	364	8	372	-36	336	270.16	74%	80%
Property Services	89	-39	50	-15	35	29.19	33%	83%
Shire Services	40	-20	20	3	23	22.29	56%	97%
Risk Management	10	-3	7	0	7	7.21	72%	103%
Corporate Issues	124	-25	99	-8	91	68.81	55%	76%
Corporate IT Audit	131	-44	87	-5	82	70.08	53%	85%
Resources IT Audit	47	-3	44	-4	40	33.68	72%	84%
Resources	805	-126	679	-65	614	501.42	62%	82%
Section 151 Planned Audit	2018	-114	1904	-78	1826	1436.25	71%	79%
Contingencies								
Special Investigations	202	-52	150	-20	130	83.47	41%	64%
Un-planned & Additional Audits	50	9	59	0	59	52.02	104%	88%
Advisory	50	-10	40	0	40	24.66	49%	62%
Chargeable Administration	332	-5	327	16	343	273.02	82%	80%
Contingencies	634	-58	576	-4	572	433.17	68%	76%
Total Section 151 Audit	2652	-172	2480	-82	2398	1869.42	70%	78%
Honorary & Voluntary Funds								
School Funds	5	0	5	0	5	3.49	70%	70%
Other Funds	35	0	35	0	35	31.00	89%	89%
Honorary & Voluntary Funds	40	0	40	0	40	34.49	86%	86%
External Clients								
Credit Union	17	-5	12	1	13	12.85	76%	99%
Pensions Fund	63	6	69	-8	61	16.41	26%	27%
Shropshire Fire & Rescue	48	7	55	0	55	34.71	72%	63%
West Mercia Supplies	60	-56	4	0	4	1.96	3%	49%
Oswestry Town Council	29	-2	27	-1	26	24.94	86%	96%
External Clients	217	-50	167	-8	159	90.87	42%	57%
Total	2909	-222	2687	-90	2597	1994.78	69%	77%