



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	<b>6</b>
16 June 2011	
10.00am	
	<u>Public</u>

## INTERNAL AUDIT ANNUAL REPORT 2010/11

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### 1. Summary

- 1.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2011. It reports on progress against the annual audit plan and contributes to the review of the effectiveness of the Internal Audit team as required by the Accounts and Audit Regulations 2011 6(3). It also provides the Head of Audit's (Audit Service Manger's) opinion on the internal controls, as required by the CIPFA Code of Practice for Internal Audit in Local Government, which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).
- 1.2 Final performance has been good with 99% of the revised plan (90% of the original plan) being delivered which is in line with its target to deliver 90% of the plan at the year end.
- 1.3 One hundred and ninety six good and reasonable assurances were made. One unsatisfactory assurance opinion was delivered on the Shrewsbury Sports Village and a further fifteen limited assurance opinions issued. The 212 final reports contained 2,501 recommendations. One Fundamental recommendation has been made on the Housing Benefits audit.
- 1.4 On the basis of the work undertaken and management responses received; the Council's financial systems, internal control environment and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Council's internal control environment for 2010/11.

### 2. Recommendations

The Committee are asked to consider and endorse, with or without comment;

- a) Performance against the Audit Plan for the year ended 31 March 2011.
- b) That the system of internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2010/11.

- c) The Audit Service Manager's positive year end opinion on the Council's internal control environment for 2010/11 on the basis of the work undertaken and management responses received.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery 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 and is closely aligned to the Council's strategic and operational risk registers. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the Internal Control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The next twelve months will see the embedding of the New Operating Model and delivery of the Transformation Programme, incorporating major changes to our services and processes that will impact on the internal control environment. The management of risk will be a key part to ensuring the continued delivery of our high quality services and the continued delivery of our Medium Term Financial Strategy incorporating significant saving programmes aligned to improved service delivery. Internal Audit will need to be resourced and skilled appropriately to continue to provide the appropriate level of advice and assurance on the effectiveness of the internal control environment during this period of high risk.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.4 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.5 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

### 4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

## 5. Background

- 5.1 This report is the culmination of the work of the Internal Audit team during 2010/11 and seeks to:
- Provide an opinion on the adequacy of the governance arrangements;
  - Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
  - Inform the review of an effective Internal Audit by providing performance data against the plan and comparatively with other Internal Audit providers.
- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Council to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2011, in that “a relevant body must undertake an adequate and effective internal audit of its accounting records and systems of internal control in accordance with the proper practices in relation to internal control”.
- 5.3 The CIPFA Code of Practice for Internal Auditors in Local Government defines the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Code has been achieved. This annual report provides information to support that assessment and that an effective Internal Audit is established at the Council, in accordance with the requirements of the 2011 Accounts and Audit Regulations. Internal Audit’s compliance with the full Code of Practice is detailed within another report on your agenda.
- 5.4 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a contingency provision which is utilised during the year to respond to unforeseen work demands that may arise, i.e. special investigations, advice and the introduction of new high risk areas.

### **Annual Internal Audit Opinion from Internal Audit Work undertaken during 2010/11**

- 5.5 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.
- 5.6 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. Plans have been adopted to manage outstanding concerns.
- 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.

5.7 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.

**5.8 On the basis of the work undertaken and management responses received; the Council's financial systems, internal control environment and risk management procedures are sound and working effectively and the Audit Service Manager is able to deliver a positive year end opinion on the Council's internal control environment for 2010/11.**

### Key Assurances provided during 2010/11

5.9 Audit assurance opinions are awarded on completion of audit reviews reflecting 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.

5.10 Audit work is prioritised according to risk on a scale of one to four which is established as part of the Audit Needs Assessment. We issued 16 priority one final audit reports in non fundamental system areas which are listed at **Appendix A**. Two of these, the IT Audits on the Alfie Homecare system (which is now going to be replaced) and Database access controls (weaknesses in which are partially compensated by our network access controls) received only limited assurance whilst the other 14 received good or reasonable assurance opinions.

5.11 In total 212 final reports have been issued in 2010/11, the breakdown of which appears in the table below:

**Audit assurance opinions delivered in 2010/11**

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	1	0	0	1
Development Services	4	3	0	0	7
Community Services	22	27	9	1	59
CYPS	10	95	0	0	105
Resources	9	18	6	0	33
Pensions Fund	4	3	0	0	7
<b>Total for year</b>					
➤ <b>numbers</b>	<b>49</b>	<b>147</b>	<b>15</b>	<b>1</b>	<b>212</b>
➤ <b>percentage</b>	<b>23%</b>	<b>69.5%</b>	<b>7%</b>	<b>0.5%</b>	<b>100</b>

5.12 One hundred and ninety six good and reasonable assurances were made in the year. One unsatisfactory and fifteen limited assurances were also issued; the limited assurance audits (excluding fundamental systems, which are discussed below) are listed at **Appendix A**. 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

5.13 An unsatisfactory audit opinion was issued on the Shrewsbury Sports Village due to the overall lack of procedures and poor control environment. Similar issues were identified at the Quarry Swimming and Fitness Centre (the audit report has been issued in draft) and, to a similar but lesser extent, at the Meole Brace Golf Course. Management have responded positively to the reports and as a result of these findings, we have undertaken a major piece of support work to the Community Services Leisure Team in an effort to establish and roll out standardised good practice across all leisure establishments.

5.14 Within the Audit Plan there are fifteen 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. The work of internal audit on key financial (fundamental) systems is required to cover transactions across the whole of the financial year. Therefore, it is not uncommon for draft reports to be in progress at the year end.

5.15 A summary of the level of assurance for each fundamental review area together with the number of recommendations made is shown in the table below.

**Audit opinion and recommendations made on fundamental systems 2010/11**

Fundamental System	Level of Assurance Given	Number of Recommendations made			
		BP	RA	S	F
Housing Rents (currently in draft)	Reasonable	16	40	2	
Purchase Ledger	Reasonable		8	6	
Sales Ledger	Reasonable	1	5	8	
General Ledger	Good	4	7	1	
Income Collection	Reasonable		5	2	
Payroll System	Reasonable		17	5	
Council Tax Collection	Limited		9	7	
NNDR Collection	Limited	1	8	3	
Housing Benefits	Limited		5	3	1
Budgetary Management & Control	Good		3		
Treasury Management	Good		5		
Capital Accounting System	Good (No recommendations)				
Risk Management	Good	1	2		
Pensions Administration	Good	2	6		
Control of Pension Fund Managers	Good		3		

5.16 All 15 fundamental systems audits have been completed; seven are assessed as good, five as reasonable and three with limited opinions. The Housing Rent audit was delayed at the auditees request to allow for year end work to be completed and has recently been issued in draft awaiting management responses. Top up testing as required on key controls for the Audit Commission on audits completed earlier in the year was completed in April and May as usual.

5.17 Limited opinions were given in respect of Council Tax, NNDR and Housing Benefits. 2009/10 saw massive upheaval in these areas as the five former District Council systems were amalgamated in to a new single system - Northgate Revenues & Benefits. These areas were audited for the first time, with scoping concentrating on high level key controls; this provided reasonable assurances last year. In 2010/11 the scope was defined wider and reviewed the operational side of the systems, this together with failure to fully address a number of significant recommendations has led to the current assurance levels. Specifically the main areas of weakness identified were as follows:

<b>Council Tax</b>	Management of arrears, recovery, special arrangements and write offs, and properties with “no value” in the system.
<b>NNDR</b>	The year end close down process, particularly the method by which figures are verified and balanced (this is a legacy issue from cut over), action on void reports, and monitoring of the Bailiff Service.

<b>Housing Benefits</b>	Recovery of Benefit overpayments, review of the parameters on standard and incomplete claim reports, the reviewing of backdated claims and the reconciliation of subsidy data.
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5.18 One fundamental recommendation was made in the fourth quarter relating to the recovery of Benefit overpayments. Whilst there are strong processes in place for the collection of overpayments from ongoing benefits (the percentage recovery rate was 99.7%) there has been a significant rise in the value of non current uncollected debt. The issue was attributed to the poor quality of data transferred from legacy systems which has frustrated recovery action coupled with sickness within the recovery team. Management have acknowledged the problem and have now put new staff and processes in place to tackle the outstanding arrears.

5.19 Audit recommendations are also an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority:

<b>Best Practice (BP)</b>	Proposed 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.

5.20 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 the table below will not necessarily correlate directly with the number of limited assurance opinions issued in 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

5.21 A total of 2,501 recommendations have been made in the 212 final audit reports issued in the year; these are broken down by audit area in the table below.

**Audit recommendations made in 2010/11**

Audit Area	No of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Chief Executive	2	11	0	0	13
Development Services	0	49	7	0	56
Community Services	93	254	145	0	492
CYPS	315	1,110	69	0	1,494
Resources	24	235	154	1	414
Pensions Fund	5	23	4	0	32
<b>Total for year</b>					
➤ <b>numbers</b>	<b>439</b>	<b>1,682</b>	<b>379</b>	<b>1</b>	<b>2,501</b>
➤ <b>percentage</b>	<b>18%</b>	<b>67%</b>	<b>15%</b>	<b>-</b>	<b>100%</b>

- 5.22 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. A total of 35 recommendations (1.5%) have been rejected in the year by management. However, 25 rejections (i.e. 1%) related to the FMSiS framework which schools considered onerous and, with the demise of the existing framework, no longer required. All rejected recommendations have been discussed with the managers concerned and the reasons for rejection accepted.
- 5.23 Whilst limited audit opinions have been issued on three fundamental systems together with one fundamental recommendation, these relate to specific aspects of the systems; the systems themselves are generally sound and the issues raised are not sufficient to undermine the Council's control environment or the Audit Service Manager's annual opinion.

**Audit Performance**

- 5.24 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the CIPFA Code of Practice, benchmarking the service against others in the sector and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

**Performance against the plan**

- 5.25 The team has achieved 99% of the revised plan (90% of the original plan) which is in line with its target to deliver 90% of the plan at the year end. When contingency work is taken into account, 105% of the revised plan has been delivered. Performance to the end of 2010/11 is summarised by Directorate in the following table. **Appendix B** provides a more detailed summary.



**Summary of actual audit days delivered against plans, year end 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	92.73	79%	103%
Development Services	202	176	-17	159	118.94	59%	75%
Community Services	394	365	29	394	409.18	104%	104%
CYPS	499	581	-12	569	560.85	112%	99%
Resources	805	679	-65	614	630.18	78%	103%
<b>S151 Planned Audit</b>	<b>2,018</b>	<b>1,904</b>	<b>-78</b>	<b>1,826</b>	<b>1,811.88</b>	<b>90%</b>	<b>99%</b>
Contingencies	634	576	-4	572	711.39	112%	124%
<b>Total S151 Audit</b>	<b>2,652</b>	<b>2,480</b>	<b>-82</b>	<b>2,398</b>	<b>2,523.27</b>	<b>95%</b>	<b>105%</b>
Honorary & Vol. Funds	40	40		40	35.21	88%	88%
External Clients	217	167	-8	159	145.02	67%	91%
<b>Total</b>	<b>2,909</b>	<b>2,687</b>	<b>-90</b>	<b>2,597</b>	<b>2,703.50</b>	<b>93%</b>	<b>104%</b>

- 5.26 Members will recall that it was necessary to reduce the plan twice by a total of 312 days due to a redundancy, long term sickness, maternity leave, additional non audit work arising from the administration of the Department for Work and Pension's (DWP) Employment Authentication Service and changes to the FMSiS framework.
- 5.27 The single most significant effect in the fourth quarter is the number of special investigations that have arisen. A total of 113 days has been spent in the last quarter compared to 83 days for the first nine months of the year. We are not sure why this has occurred, but it may be a consequence of the role out of the "Meritec" Fraud awareness software or the general economic climate. This has resulted in increased pressure on the senior members of the team who both lead on investigations whilst supervising the delivery of planned work necessary for the year end assurance reports and the Audit Commission's financial statements audit.
- 5.28 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. As expected, the Transformation Agenda is increasingly impacting on Internal Audit as projects gain momentum and officers seek Internal Audit advice and approval. This has led to more days than expected being spent on advising on new system design and implementation. In particular the team has been heavily involved in the "MyView" project aimed at introducing on line forms for starters, leavers, staff changes and travel claims.
- 5.29 Work for our external clients has fallen slightly short of the original plan, but all slippage has been agreed with, or is at the request of, our clients and will be completed in the first quarter of 2011/12.

## Reporting

- 5.30 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.
- 5.31 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

## Compliance with CIPFA Code of Internal Audit Practice

- 5.32 The Audit Commission in 2010 reviewed Internal Audit against the Code and was satisfied that it complies 99%. The 1% non-compliance relates to some minor non audit works that, in the Audit Commission's view did not distract from the main business. Internal Audit has completed a self assessment in the current year against the same Code and continues to be satisfied with its compliance. The review forms part of another report on this agenda: Annual review of the effectiveness of Internal Audit 2010/11.

## Benchmarking

- 5.33 Benchmarking is accepted as a key method for comparing performance across a range of councils providing similar services. Internal Audit has been a member of the CIPFA Audit Benchmarking Club since its inception. The information it provides is seen as invaluable in helping us to check our performance against our peers and best in class.
- 5.34 The exercise is conducted annually and provides data comparisons in respect of costs, audit coverage, staffing, and performance over time and compares Shropshire's data with its quartile equivalents for the tier of authority.
- 5.35 With any benchmarking data some caution with interpretation should be exercised, the CIPFA Benchmarking Club is well established and has been considerably refined and improved since its inception so it is recognised as being a reliable set of comparative performance indicators. The data identifies Shropshire as performing well with its Unitary peers, particularly in cost per day and days of audit delivered per auditor.
- 5.36 The draft Benchmarking data for 2011 is due imminently but not available at the time of writing this report. We have updated key performance indicators from last years exercise (only the draft report was available at the time of last years meeting) and added our 2010/11 submission for comparison. We will circulate the latest benchmarking report to Members as soon as it becomes available. The key performance indicators are shown below:

Key Indicator	2009/10 Actual		2010/11 Actual Shropshire
	Shropshire	Unitary Average	
Days per Auditor	178	171	165
Cost per Day	£274	£329	£272
	2010/11 Estimate		2011/12 Estimate Shropshire
	Shropshire	Unitary Average	
Days per Auditor	186	178	179
Cost per Day	£263	£310	£269

### Quality Assurance/Customer Feedback Survey

5.37 A customer feedback survey form is sent out with the majority of audits completed. These provide key feedback on the quality of audit service in relation to a number of areas, including:

- Pre auditing arrangement
- Post audit briefing
- Audit scope
- Accuracy, clarity and timeliness of the report production
- Practicality of recommendations
- Professionalism of approach and
- Communication skills.

5.38 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last three years and the percentage of excellent and good responses are identified in the table below:

### **Customer Feedback Survey Forms - percentage of excellent and good responses**

Item Being Scored	2008/9	2009/10	2010/11	Direction of Travel
Pre-audit arrangements	92%	94%	93%	=
Post-audit briefing	90%	91%	94%	↑
Audit coverage/scope of the audit	99%	100%	99%	=
Timeliness of production of report	82%	78%	84%	↑
Accuracy and clarity of report	96%	97%	88%	↓
Practicality of recommendations	93%	94%	84%	↓
Professionalism of approach	96%	99%	99%	=
Communication skills	96%	96%	97%	=
Timeliness, competence, manner	97%	94%	99%	↑
Number of forms returned	60	69	92	

- 5.39 Overall the results are very similar to last year and continue to demonstrate a positive direction of travel in the majority of cases, showing services delivered consistently at a high level. The information is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences. We still need to further improve on the turn around time between fieldwork and issue of reports which is reflected in some of the comments we have received. We have rescheduled school audits through out the year to reduce the year end bottleneck which contributed significantly to the delay in issuing final reports.
- 5.40 During the last year a number of compliments and comments have been received in respect of the audit service from both questionnaires and directly, these appear in **Appendix C**. Comments in the main have been very positive. A number of comments in relation to school audits have provided a useful learning point, particularly the “pedantic” nature of recommendations necessitated by FMSiS; which is reflected in the falling percentage satisfied with the “Practicality of recommendations” area of the questionnaire. This issue should be addressed with the roll out of the less prescriptive schools assessment scheme later this year.
- 5.41 Members will recall that following the Team’s Away Day in February 2010 looked at its strengths and areas requiring improvement an Improvement Plan was adopted. Improvements were targeted in the areas of: strategy and planning; ethics and independence, preparation, data quality, reporting, training and relationships. A listing of outcomes against the Improvement Plan is attached as **Appendix D**. Major impacts have been delivered in the areas of:
- report writing on an exception basis;
  - introduction of the new audit work software;
  - regular bite sized training sessions and
  - improved risk awareness and data collection methodologies.

## Fraud prevention

- 5.42 As part of our counter fraud work, Internal Audit has customised and provided 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.
- 5.43 To supplement this, in March 2011, we launched a management version, called “Meritex – Focus .... On Fraud and Corruption – Management Edition”, which includes a more strategic overview of fraud and corruption and was sent directly to all managers with “post to post” reporting responsibilities in the HR system.
- 5.44 To date over 2,300 employees completed the general version and over 100 managers have completed the management version. Again feedback continues to be positive for both versions, comments received in relation to the management version include:

“I have a better understanding of fraud and corruption and I feel that I am in a stronger position to respond to potential fraud in my service; thank you.”

“....shows awareness and that you must be vigilant at all times”

- 5.45 In addition to the online training, discussions are now taking place with Human Resources to roll out appropriate training to staff who do not have internet access and we will report back to Audit Committee on how this training will be delivered.

### **Review of the effectiveness of Internal Audit work by the Audit Committee**

- 5.46 The Council has a well established Audit Committee, which operates in accordance with best practice. Its terms of reference and associated working practices are aligned with those suggested by CIPFA. Its members receive regular training on the role of the committee and how they can best support this, as well as the roles of internal and external audit. Periodically it undertakes a self-assessment exercise and seeks to improve the way in which it operates and has most recently done this in February 2011, following which members agreed to conduct a skills assessment to inform future training sessions and this has been completed.
- 5.47 The Committee provides an Annual Assurance Report to Council to summarise its work and opinion on internal controls. This can be located on another report on this meetings agenda.
- 5.48 The Council’s Audit Committee considers external and internal audit reports and the Committee requests management responses to any significant issues reported, including reporting the progress made in implementing audit recommendations. Members of the Senior Management Board and senior officers have attended the Audit Committee to provide management responses in relation to a number of reports. Examples of audit work and remedial action that have been scrutinised by the Audit Committee include reports on housing rent arrears, updates on new IT systems such as the housing one and procurement processes, for example the Highway and Environment Term Service contract

#### **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

Internal Audit Plan 2010/11 – Third Quarter Report - Audit Committee 8 February 2011

Code of Practice for Internal Auditors in Local Government 2006 –published December 2006.

Accounts and Audit Regulations 2011.

Various internal documents supporting the review of the CIPFA Code of Practice checklist.

Audit Management system.

**Cabinet Member (Portfolio Holder)**

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

**Local Member:** All

**Appendices**

Appendix A List of assurances provided against high risk areas audited 2010/11 (excluding fundamental systems) and List of areas given limited levels of assurance (excluding fundamental systems) 2010/11

Appendix B Audit Plan by directorate and service – Annual Report 2010/11

Appendix C Summary of compliments and comments 2010/11

Appendix D Internal Audit Improvement Plan Outcomes 2010/11

**List of assurances provided against high risk areas audited 2010/11**  
(Excluding fundamental systems)

<b>Audit Area</b>	<b>Assurance provided</b>
Funding & Programmes (Business Enterprise Fund)	Good
Parking - Cash Collection 9/10	Reasonable
Parking - Cash Collection 10/11	Good
IT Audit of CareFirst	Reasonable
IT Audit of ALFIE Homecare	Limited
EMS - Education Management System	Reasonable
Building Schools for the Future (William Brookes)	Reasonable
Bank/Ledger Reconciliation incl. cash book	Reasonable
Physical & Environmental Controls	Reasonable
Database Access Control	Limited
IT Audit of SAMIS	Good
AUDDIS Direct Debit System	Reasonable
IT Audit of AXIS Pension System	Reasonable
Audit of Pension Fund Treasury Managers (SCT)	Reasonable
Control Reports Review - FRAG's & SAS 70's	Reasonable
Pension contribution from participating bodies	Good

**List of areas given limited levels of assurance 2010/11**  
(Excluding fundamental systems)

**Audit Area**

Kempsfield  
Copperfield Drive Group Home  
24 Heath Houses Group Home  
48 Porchfields Group Home  
Oswestry (Avalon) Comforts Funds  
Greenacres Rural Unit Trading A/C  
Meole Brace Golf Course  
The Meres Restaurant  
ALFIE Homecare IT system  
Database Access Controls  
Mobile phones  
Markets

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

	Original Plan	Sept Rev.	Sept Revised Plan	Dec Rev.	Dec Revised Plan	Days Worked	% of Orig. Comp.	% of Dec Comp.
<b>Chief Executive</b>								
LADS	25	5	30	-7	23	24.16	97%	105%
Performance & Partnerships	88	-15	73	-6	67	68.57	76%	102%
Chief Execs IT audit	5	-5	0	0	0	0.00	0%	
<b>Chief Executive</b>	<b>118</b>	<b>-15</b>	<b>103</b>	<b>-13</b>	<b>90</b>	<b>92.73</b>	<b>79%</b>	<b>103%</b>
<b>Development Services</b>								
Strategy & Policy	5	0	5	0	5	0.00	0%	0%
Development Management	55	0	55	0	55	40.94	74%	74%
Economic Development	8	0	8	0	8	7.94	99%	99%
Highways Strategy	28	-22	6	0	6	9.09	32%	152%
Transportation	10	-10	0	0	0	0.00	0%	
PP - Env Health & Trading Std	10	18	28	2	30	27.66	277%	92%
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	15.74	98%	98%
Business Support	5	0	5	-5	0	0.00	0%	
Development Services IT Audit	24	-11	13	0	13	1.44	6%	11%
<b>Development Services</b>	<b>202</b>	<b>-26</b>	<b>176</b>	<b>-17</b>	<b>159</b>	<b>118.94</b>	<b>59%</b>	<b>75%</b>
<b>Community Services</b>								
Housing	75	-35	40	0	40	46.14	62%	115%
OPPD	95	-51	44	-4	40	40.33	42%	101%
Learning Difficulties	38	-32	6	8	14	15.83	42%	113%
Group Homes	44	0	44	0	44	62.23	141%	141%
Comforts Funds	46	0	46	0	46	41.68	91%	91%
Trading Accounts	10	23	33	0	33	32.29	323%	98%
Leisure	20	67	87	22	109	107.97	540%	99%
Outdoor Recreation	3	0	3	4	7	6.46	215%	92%
Arts	10	0	10	0	10	14.20	142%	142%
Museums	7	0	7	4	11	11.12	159%	101%
Strategy & Business Support	10	0	10	0	10	6.98	70%	70%
Community Services IT Audit	36	-1	35	-5	30	23.95	67%	80%
<b>Community Services</b>	<b>394</b>	<b>-29</b>	<b>365</b>	<b>29</b>	<b>394</b>	<b>409.18</b>	<b>104%</b>	<b>104%</b>
<b>Children &amp; Young People's</b>								
Early Years	15	-3	12	0	12	11.73	78%	98%
Primary	280	67	347	-14	333	351.46	126%	106%
Secondary	30	17	47	-5	42	42.75	143%	102%
Special	6	4	10	0	10	10.73	179%	107%
MAT & Prevention	15	-1	14	-5	9	8.92	59%	99%
Social Care & Safeguarding	55	-7	48	3	51	34.36	62%	67%



	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	13.91	93%	107%
Grants	6	0	6	2	8	8.02	134%	100%
Strategy & Business Supt	62	10	72	8	80	67.67	109%	85%
CYPS IT Audit	15	-4	11	0	11	11.30	75%	103%
<b>Children &amp; Young People's</b>	<b>499</b>	<b>82</b>	<b>581</b>	<b>-12</b>	<b>569</b>	<b>560.85</b>	<b>112%</b>	<b>99%</b>
<b>Resources</b>								
Finance	364	8	372	-36	336	349.51	96%	104%
Property Services	89	-39	50	-15	35	30.98	35%	89%
Shire Services	40	-20	20	3	23	27.02	68%	117%
Risk Management	10	-3	7	0	7	7.21	72%	103%
Corporate Issues	124	-25	99	-8	91	98.67	80%	108%
Corporate IT Audit	131	-44	87	-5	82	76.55	58%	93%
Resources IT Audit	47	-3	44	-4	40	40.24	86%	101%
<b>Resources</b>	<b>805</b>	<b>-126</b>	<b>679</b>	<b>-65</b>	<b>614</b>	<b>630.18</b>	<b>78%</b>	<b>103%</b>
<b>Section 151 Planned Audit</b>	<b>2018</b>	<b>-114</b>	<b>1904</b>	<b>-78</b>	<b>1826</b>	<b>1811.88</b>	<b>90%</b>	<b>99%</b>
<b>Contingencies</b>								
Special Investigations	202	-52	150	-20	130	196.58	97%	151%
Un-planned & Additional Audits	50	9	59	0	59	58.92	118%	100%
Advisory	50	-10	40	0	40	56.45	113%	141%
Chargeable Administration	332	-5	327	16	343	399.44	120%	116%
<b>Contingencies</b>	<b>634</b>	<b>-58</b>	<b>576</b>	<b>-4</b>	<b>572</b>	<b>711.39</b>	<b>112%</b>	<b>124%</b>
<b>Total Section 151 Audit</b>	<b>2652</b>	<b>-172</b>	<b>2480</b>	<b>-82</b>	<b>2398</b>	<b>2523.27</b>	<b>95%</b>	<b>105%</b>
<b>Honorary &amp; Voluntary Funds</b>								
School Funds	5	0	5	0	5	4.01	80%	80%
Other Funds	35	0	35	0	35	31.20	89%	89%
<b>Honorary &amp; Voluntary Funds</b>	<b>40</b>	<b>0</b>	<b>40</b>	<b>0</b>	<b>40</b>	<b>35.21</b>	<b>88%</b>	<b>88%</b>
<b>External Clients</b>								
Credit Union	17	-5	12	1	13	14.76	87%	114%
Pensions Fund	63	6	69	-8	61	49.56	79%	81%
Shropshire Fire & Rescue	48	7	55	0	55	54.29	113%	99%
West Mercia Supplies	60	-56	4	0	4	2.76	5%	69%
Oswestry Town Council	29	-2	27	-1	26	25.88	89%	100%
<b>External Clients</b>	<b>217</b>	<b>-50</b>	<b>167</b>	<b>-8</b>	<b>159</b>	<b>147.25</b>	<b>68%</b>	<b>93%</b>
<b>Total</b>	<b>2909</b>	<b>-222</b>	<b>2687</b>	<b>-90</b>	<b>2597</b>	<b>2705.73</b>	<b>93%</b>	<b>104%</b>

## Summary of compliments and comments 2010/11

“.....Recommendations very helpful“

“...X Auditor .....was very helpful, supportive & polite.”.....“ I welcome the supportive and professional help of auditors and find their involvement in checking our financial management and providing advice where necessary reassuring”

“The audit was excellent; the one improvement I would like to see is the length of time between the audit and the report reduced”

“As this is a new post for me it (*the audit*) has been very helpful”

“this is the first audit we have received; external scrutiny has been helpful”

“very time consuming for the many roles we are trying to fulfil in an under funded primary school. Some recommendations very pedantic. Audit essential but too detailed every 3 years”

“very pleased to see the speed with which the (*audit*) report was returned”

“Yes (*the audit was a positive support*) – but much too time consuming”

“New (*style exception*) report much imp-roved, thank you”

“The audit very much focused on the negative aspects of the service”

“It was a pleasure to work with Auditor X, she was extremely professional”

“We found the process of FMSiS to be a very useful tool.....however we found the need for auditors to make recommendations means that the emphasis on finding items for the exception report make the audit process feel a little like a negative and pedantic procedure”

“Thank you, Auditor X, for all your help.”

“I am writing to thank you and XX for the supportive, transparent and thorough way in which you addressed the recent incident we had within our ..... I think we have had an excellent opportunity to benefit from your support and subsequent recommendations and thank you for this help”

”Again, thank you for your help and advice with our Audit”

“I should like to thank you for your help with the Audit. Please convey my thanks to Auditor X ..... She was extremely helpful and competent”

## INTERNAL AUDIT IMPROVEMENT PLAN OUTCOMES 2010/11

### STRATEGY and PLANNING

- **Strategy and Plans are well communicated with clients:** the plan has been reorganised for 2011/12 to reflect the structure supporting the New Operating Model and has been communicated to all key officers. Work will be ongoing to further refine it.
- **Strategy and plans adequately reflect time required.** Time recording actuals are being used to refresh the plan as required.
- **The Audit team understand the strategy and plans and their role in them.** This is reinforced through team meetings where plans and actuals delivered are discussed. A new risk assessment sheet has been adopted to be completed at the end of each audit to refresh the risk score for future strategy planning. Auditors are encouraged to identify new areas for audits from their visits and relationships with clients. Performance indicators are being established and attributed to individual auditors through their appraisals in support of the plans.
- **Auditors are aware of and informed of the role of Audit Committee.** Auditors have been informed of the role of the Committee and have attended committees to see them working in practice.

### PREPARATION

- **Audits are delivered on time to the required quality.** Improvements are ongoing and include individual and team performance indicators, snapshot training sessions at audit team meetings and more focused discussions with auditors who struggle.
- **The fraud checklist is completed.** Following a review of this process its use was challenged and the team approach to fraud prevention will be delivered through additional and innovative counter fraud work.
- **Previous recommendations are looked at and updated.** This has been adopted.
- **Access to systems, buildings and people is arranged in advance of the audit.** Plans are allocated on a quarterly basis allowing auditors to plan and organise their visits better.
- **More efficient, targeted use of resources directed at key areas.** This is ongoing, the control sheet has been reviewed and updated; the use of Morgan Kai (MK), the team's electronic software, is providing an opportunity to challenge approaches as programmes are uplifted onto the system and Seniors consider resources and direct auditors to those of priority.
- **Increased accountability of managers of their controls.** Control self assessments have been designed and are being tested and rolled out in areas such as leisure and schools; meeting arrangements with managers occur more systematically with the inclusion of this on the control sheet and audit briefs are sent out in advance or pre meetings arranged where appropriate.

- **Information is stored once and can be located easily.** Improvements have been made but further work is required on version control and storage of documents, including transfer to the v drive. Increasingly links are sent with emails to avoid circulating large attachments and all staff received training in relation to information governance, data handling and freedom of information requests and specific systems, such as Resourcelink, COMMIS and Lotus Notes.
- **The time recording system holds information that informs managers and auditors.** The system has been replaced with MK and improvements have been and continue to be made. Data reports will be further reviewed and adapted in 2011. Auditors understand the importance of time recording and work to completing reviews within the allocated time.
- **The team has a clear understanding of where it wants to be and smart performance measures to monitor its delivery.** Smarter indicators have been set through appraisals and progress against these will be reported at team meetings.
- **Completed satisfaction forms are received from customers providing an informative insight into audits service delivery.** The survey is under review informed by research into other public body's internal audit surveys.

## **REPORTING**

- **Reports are clear, easily understood and effectively produced.** Exception reports are now adopted and achieve this outcome following each audit review. Auditors are working with external clients to move to exception reporting with their accounts. MK allows the report to be automatically generated from the working papers, reducing the time taken for their production. All staff received training in the new reports and surrounding process such as recommendation tracking and debrief meetings. Committee reports have also been refreshed and lead to an easier understanding of their contents.

## **TRAINING - CPD**

- **Auditors are trained to an appropriate level to deliver audits to a high, professional standard.** Auditors are encouraged to complete their continuous professional development (CPD); two of the team are completing professional qualification courses; audit team meetings are used to share changes to key material systems and processes and officers from other services are invited to update the team on their services.

## **RELATIONSHIPS**

- **Services delivered to internal and external clients are professional, timely, accurate and complete.** As mentioned above improvements have been made in relation to the management and reporting of audits. The team is aware of the importance of marketing itself and each officer is responsible for providing a professional approach when out on audits.
- **Auditors have a general awareness of the role of the External Auditor.** The External Auditor attended a team meeting and updated all in their role.