



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	<b>8</b>
10 November 2011	
10.00am	
	<u>Public</u>

## INTERNAL AUDIT PLAN 2011/12 - HALF YEAR REPORT

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### 1. Summary

This report provides members with details of the work undertaken by Internal Audit for the first half of 2011/12 summarising progress against the Internal Audit Plan. It has been a good start to the year with 44% of the plan (51% of the revised plan) being completed which is in line with our target of 90% by year end.

Forty nine good and reasonable assurances were made. One unsatisfactory assurance opinion was delivered on the "Myview" payroll self service facility pilot project and a further two limited assurance opinions issued. The 52 final reports contained 484 recommendations. No fundamental recommendations have been identified.

The team has experienced a loss of staff which has necessitated a reduction of 394 days from the Audit Plan, details of which appear in Appendix A. The revised plan will be closely monitored and these reductions should not affect the ability of the Audit Service Managers' delivery of their annual assurance opinion.

### 2. Recommendations

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

- a) The half year performance against the 2011/12 Audit Plan set out in **Appendix A**.
- b) The adjustments required to the 2011/12 plan to take account of changing priorities set out in **Appendix A**.

## 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 create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.

#### **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 summarises the work of the Internal Audit team during the first half of 2011/12. 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".
- 5.2 Internal Audit operates a strategic risk based plan. In the current climate of change, the plan is under constant review to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk to enable the Manager of the Audit Service to deliver an overall opinion on the control environment.
- 5.3 Recent months have seen staff leaving and a maternity leave resulting in the loss of 394 audit days; consequently the plan has had to be reduced by this amount.

#### **Audit Work and Findings**

5.4 Audit assurance opinions are delivered 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.

5.5 In total 52 final reports have been issued in the first half of 2011/12, the breakdown of which appears in the table below. In addition 17 audit reports have been issued in draft for which we are awaiting management comments. We have also issued 21 reports to our external clients, a piece of commissioned work and drawn up the financial statements and completed the audits of 12 school and other honorary and voluntary body accounts.

#### **Audit assurance opinions delivered to September 2011/12**

<b>Directorate</b>	<b>Good</b>	<b>Reasonable</b>	<b>Limited</b>	<b>Unsatisfactory</b>	<b>Total</b>
Business Improvement		1			1
Finance & Commerce	2	1			3
Legal & Democratic	1				1
Organisation Development		1		1	2
Assessment & Eligibility	17	9			26
Learning and Skills	3	2			5
Business Growth & Prosperity	1				1
Customer Care & Involvement			2		2
Environment	2	1			3
Facilities Management	2	4			6
Pensions Fund	1	1			2
<b>Total for half year</b>					
➤ <b>numbers</b>	<b>29</b>	<b>20</b>	<b>2</b>	<b>1</b>	<b>52</b>
➤ <b>percentage</b>	<b>56%</b>	<b>38%</b>	<b>4%</b>	<b>2%</b>	<b>100</b>

5.6 Forty nine good and reasonable assurances were made in the first half year. One unsatisfactory opinion was given on the “Myview” payroll self-service facility pilot project. In response management have agreed to a number of enhancements being made to the system, including a bespoke claim form and roll out of the system is delayed whilst these issues are addressed.

5.7 Only two limited opinions were issued in the following areas:

- Northgate Revenue and Benefits system (IT Audit);
- Customer Service Centre (IT Audit);

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.

5.8 One fundamental system audit has been completed to date on Treasury Management which has been classified as good. Fundamental system audits are deliberately scheduled for the third and fourth quarters to enable a reasonable sample to be tested across the current financial year in order to satisfy external audit requirements to enable them to use our work in the formulation of their annual audit opinion.

5.9 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.

5.10 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 paragraph 5.5 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.

5.11 A total of 484 recommendations have been made in the 52 final audit reports issued in the first half year; these are broken down by audit area in the table below.

## Audit recommendations made in 2011/12

Audit Area	No of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Business Improvement		11	22		33
Finance & Commerce	5	7	2		14
Legal & Democratic		2			2
Organisation Dev.	1	2	10		13
Assessment & Eligibility	44	167	16		227
Learning and Skills	21	33	1		55
Business Growth & Prosperity.	1	18	2		21
Customer Care & Involvement	3	17	14		34
Environment	7	30	1		38
Facilities Management	10	30			40
Pensions Fund		3	4		7
<b>Total for year</b>					
➤ numbers	<b>92</b>	<b>320</b>	<b>72</b>	<b>0</b>	<b>484</b>
➤ percentage	<b>19%</b>	<b>66%</b>	<b>15%</b>	<b>-</b>	<b>100%</b>

- 5.12 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 18 recommendations (3.6%) have been rejected by management. All rejected recommendations have been discussed with the managers concerned and the reasons for rejection accepted.

### Half Year Performance against the plan

- 5.13 The team has achieved 44% 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 2011 is summarised in the following table. **Appendix B** provides a more detailed summary by Group and Service.

### Summary of audit days delivered and revisions to the audit plan, half year 2011/12

	Original Plan	Sept Revision	Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
Chief Executive	651	-230	421	146.9	23%	35%
People	592	-133	459	282.8	48%	62%
Places	394	-113	281	146.0	37%	52%
Health & Care	79	-16	63	18.8	24%	30%
<b>S151 Planned Audit</b>	<b>1,716</b>	<b>-492</b>	<b>1,224</b>	<b>594.5</b>	<b>35%</b>	<b>49%</b>
Contingencies & other chargeable work	894	83	977	573.3	64%	59%
<b>Total S151 Audit</b>	<b>2,610</b>	<b>-409</b>	<b>2,201</b>	<b>1,167.8</b>	<b>45%</b>	<b>53%</b>
Honorary & Vol. Funds	40	0	40	25.9	65%	65%
External Clients	218	15	233	72.5	33%	31%
<b>Total</b>	<b>2,868</b>	<b>-394</b>	<b>2,474</b>	<b>1,266.2</b>	<b>44%</b>	<b>51%</b>

- 5.14 We have experienced several staffing changes in recent months, one auditor has left the organisation, another has moved to a post in Finance and our IT Auditor will be leaving at the end of November. In addition, whilst we will welcome back an Auditor from Maternity leave in January, a second maternity leave will commence in December. While we plan to recruit to the IT auditor post quite quickly, we will have lost 394 planned audit days as a result of these staff changes, consequently the plan has had to be reduced by this amount.
- 5.15 As previously reported, special investigation work continues at a significant level, we have spent 256 days on investigation work to date against the original contingency of 150 days; we have had to increase the budget by 200 days to give us a further 100 days for the second half of the year. We will continue to closely monitor the situation and make further changes as required.
- 5.16 The 14% reduction in the plan has necessitated a 492 day (29%) reduction in S151 planned audits to compensate for the loss of staffing resources and the increase in contingencies to cope with the level of special investigations and other unplanned work. We will ensure fundamental systems audits are completed and sufficient planned audit work is undertaken to enable the Audit Service Manager (Head of Audit) to deliver the annual audit assurance opinion on internal control at the year end.
- 5.17 Work for our external clients is progressing as scheduled; the original estimate has been increased for additional work commissioned by Shropshire Fire and Rescue Service which has been partially offset by a reduction in the agreed plan for West Mercia Supplies.

**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 2011/12 - Audit Committee 23 March 2011  
 Code of Practice for Internal Auditors in Local Government 2006 –published December 2006.  
 Accounts and Audit Regulations 2011.  
 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 Audit Plan by Group and Service

**AUDIT PLAN BY GROUP AND SERVICE – HALF YEAR REPORT 2011/12**

	Original Plan	Sept Rev.	Sept Revised Plan	Days Worked	% of Original Complete	% of Sept Complete
<b>Chief Executive</b>						
<b>Area Directors</b>						
Leisure Service	60	-15	45	0.7	1%	2%
<b>Business Improvement</b>						
Business Performance Management	40	-20	20	17.2	43%	86%
ICT Implementation & Architecture	39	-21	18	5.0	13%	28%
ICT Operations	62	-41	21	4.6	7%	22%
Risk Management	18	0	18	0.2	1%	1%
	159	-82	77	27.0	17%	35%
<b>Finance and Commerce</b>						
Financial Advice (s151)	93	-28	65	42.6	46%	66%
Financial Management	77	-16	61	19.2	25%	31%
Treasury and Exchequer	129	-37	92	33.7	26%	37%
	299	-81	218	95.5	32%	44%
<b>Legal and Democratic</b>						
Democratic and Election Projects	10	-6	4	0.4	4%	10%
Legal	10		10		0%	0%
	20	-6	14	0.4	2%	3%
<b>Organisation Development</b>						
HR Services	73	-14	59	15.0	21%	25%
HR Systems, Measures & Prog Mgt	15	-15	0		0%	
	88	-29	59	15.0	17%	25%
<b>Strategic Panning</b>						
Partnership	10	-10	0		0%	
Planning and Corporate Policy	15	-7	8	8.3	55%	104%
	25	-17	8	8.3	33%	104%
<b>Total for Chief Executive</b>	<b>651</b>	<b>-230</b>	<b>421</b>	<b>146.9</b>	<b>23%</b>	<b>35%</b>
<b>People</b>						
<b>Assessment and Eligibility</b>						
Developmental Support	10	0	10		0%	0%
Long Term Support	10	-10	0		0%	
Provider Services	188	-28	160	88.2	47%	55%
	208	-38	170	88.2	42%	52%
<b>Learning and Skills</b>						
Business Support	19	-9	10		0%	0%
Education Improvements	246	-22	224	156.8	64%	70%
Lifelong Learning	39	-29	10	10.3	26%	103%
	304	-60	244	167.1	55%	68%



	Original Plan	Sept Rev.	Sept Revised Plan	Days Worked	% of Original Complete	% of Sept Complete
<b>Public Protection &amp; Enforcement</b>						
Environmental Enforcement	15	-15	0		0%	
Environmental Health	10	0	10	2.6	26%	26%
	25	-15	10	2.6	10%	26%
<b>Safeguarding</b>						
Children's Placement Services and Joint Adoption	30	5	35	24.9	83%	71%
Support Services	25	-25	0		0%	
	55	-20	35	24.9	45%	71%
<b>People</b>	<b>592</b>	<b>-133</b>	<b>459</b>	<b>282.8</b>	<b>48%</b>	<b>62%</b>
<b>Places</b>						
<b>Business Growth &amp; Prosperity</b>						
Enterprise & Business	13	-12	1		0%	0%
Outdoor Recreation	5	10	15	14.3	286%	95%
Theatre Severn	10	-10	0		0%	
Visitor Economy	10	13	23	20.5	205%	89%
	38	1	39	34.8	92%	89%
<b>Commissioning and Procurement</b>						
Contracts	5	0	5		0%	0%
Procurement	10	0	10	8.8	88%	88%
	15	0	15	8.8	59%	59%
<b>Customer Care and Involvement</b>						
Benefits	35	0	35	3.0	9%	9%
Customer Services	10	-10	0		0%	
Revenues	55	-15	40		0%	0%
	100	-25	75	3.0	3%	4%
<b>Environment</b>						
Development Management	53	-25	28	27.9	53%	100%
Highways and Transport	35	-8	27	6.7	19%	25%
Waste Service	18	0	18	12.5	69%	69%
	106	-33	73	47.1	44%	65%
<b>Facilities Management</b>						
Estates and Facilities	10	3	13	7.4	74%	57%
Passenger Transport	25	9	34	32.5	130%	96%
Property Services	40	-30	10		0%	0%
Shire services	60	-38	22	12.4	21%	56%
	135	-56	79	52.3	39%	66%
<b>Places</b>	<b>394</b>	<b>-113</b>	<b>281</b>	<b>146.0</b>	<b>37%</b>	<b>52%</b>
<b>Health and Care</b>						
<b>Care and Well Being</b>						
Health & Social Care Integration	6	-1	5		0%	0%
Housing Landlord Services	73	-15	58	18.8	26%	32%
<b>Health and Care</b>	<b>79</b>	<b>-16</b>	<b>63</b>	<b>18.8</b>	<b>24%</b>	<b>30%</b>
<b>Section 151 Planned Audit</b>	<b>1,716</b>	<b>-492</b>	<b>1,224</b>	<b>594.5</b>	<b>35%</b>	<b>49%</b>

**Contingencies & Other Chargeable**

Transformation projects	200	-50	150	53.3	27%	36%
Fraud Contingency	150	200	350	256.9	171%	73%
Unplanned Work	50	30	80	70.6	141%	88%
Advice	50	-30	20	9.9	20%	50%
Chargeable Overheads	444	-67	377	182.6	41%	48%
	894	83	977	573.3	64%	59%

<b>Total Section 151 Audit</b>	<b>2,610</b>	<b>-409</b>	<b>2,201</b>	<b>1,167.8</b>	<b>45%</b>	<b>53%</b>
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**External Clients**

Honorary and Voluntary Funds	40	0	40	25.9	65%	65%
Just Credit Union	15	0	15	0.3	2%	2%
Oswestry Town Council	31	0	31	20.1	65%	65%
Pensions Fund	63	0	63	9.8	16%	16%
Shropshire Fire and Rescue	49	20	69	41.8	85%	61%
West Mercia Supplies	60	-5	55	0.5	1%	1%
	258	15	273	98.4	38%	36%

<b>Total Audit Plan</b>	<b>2,868</b>	<b>-394</b>	<b>2,474</b>	<b>1,266.2</b>	<b>44%</b>	<b>51%</b>
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