



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	13
22 March 2012	
10.00 am	
	<u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2012/13

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1. Summary

This report proposes the Internal Audit Plan for 2012/13, amounting to 2,778 days. The plan will provide coverage across the Council's services and deliver internal audit services for a range of external clients. It takes account of issues identified by managers; changes to and the introduction of new systems; allows for the transformational changes the Council will undertake and the outcome of the corporate and operational risk frameworks. Some minor adjustments may be needed to the plan before it is finalised; if significant these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2012/13 and approve its adoption.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Reviewing the risk based audit plan is an important responsibility of the Audit Committee. In devising this plan Members should be assured that the plan is linked to the Council's key risk registers and in providing this plan there is an increased opportunity that any weaknesses in the internal control environment that

are critical to the Council's operations will be identified and rectified where possible and viable.

- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information. In addition, IT audits have been selected with knowledge from the key systems register, which shows systems rated in accordance with their importance to the business.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2011, part 2, section 6 in relation to internal audit which state:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

4. Financial Implications

- 4.1 The gross budget for Internal Audit in 2012/13 is £699,790 and the proposed plan will be met from within this.

5. Background

- 5.1 The provision of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's financial systems. To this end a four year Strategic Plan covering the period April 2009 to 31 March 2013 was developed through a comprehensive risk based audit needs assessment. The audit work for the current year, 2012/13, sees the completion of the final year of the current Strategic Plan.
- 5.2 The Strategic Plan is the framework within which the annual plans are compiled prior to the start of each year. Traditionally the risk/ needs assessment would be reviewed at the beginning of the four year process, a high level strategic plan agreed and only revisited at the end of the period ready for the next strategic plan. With the significant changes that the Council is going through and further planned changes, this process is not considered timely enough. We have decided to review the risk assessment annually with Directors, Corporate Heads of Service, Group Managers and the Section 151 Officer to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is continuing to strive to improve services and use innovative approaches in addressing service delivery; audit resources are therefore targeted across Council services to support project teams through this change helping to maximise the effectiveness of internal controls particularly where changes are being undertaken. Where projects are in their early stages a "transformation" contingency will allow this support to be provided as the need is identified.
- 5.3 When considering the risks affecting audit areas account has been taken of:

- changes to and the introduction of new services;
- the Transformation Programme;
- budget pressures and saving commitments;
- previous audit findings;
- opening and closure of establishments;
- comments from the Audit Commission on scope and coverage to ensure the work of Internal Audit does not duplicate that of the external auditors;
- Audit Committee Terms of Reference;
- increased partnership working or different delivery models for future service delivery;
- risks identified by the risk management process;
- large contracts to be undertaken.

5.4 The Chartered Institute for Public Finance and Accountancy (CIPFA) identified top 10 risks for 2011 and updated these for 2012. These include:

- fraud;
- financial challenges and budget cuts;
- transformation programmes;
- achieving value for money;
- preparing for changes in external auditors;
- implementing the Localism Act;
- IT security and cyber risks;
- impact of wider economic problems;
- open public services and transparency and
- the Olympics.

All of which have been considered when forming the 2012/13 plans. **Appendix A** provides the summarised audit plan and identifies a planned day requirement of 2,778 days.

5.5 The Strategy originally predicted that there would 3,343 audit days available for delivery of the 2012/13 plan. The reduction of potential audit days available since those reported to the Committee in September 2009, as part of the Strategic Audit Plan Day Requirement 2009/10 to 2012/13, is accounted for by the permanent loss of three posts to provide savings in future year budgets, a maternity leave that will not be covered and the natural delay in filling the current vacancy. The team continues to report to the Head of Business Improvement directly with a dotted line of responsibility to the Section 151 Officer to ensure that statutory requirements are observed and delivered.

5.6 In preparing the plan for 2012/13 account has been taken of those audits completed in 2011/12. The key items to note this year are:

- Days have been included in the plan to cover the fundamental systems audit work in which reliance will be placed by the external auditors as they assess the Council's final accounts. A number of these areas will be impacted upon by the Shared Service changes to the organisation and assurance will be required to ensure that internal controls are still appropriately delivered.

- A contingency of 150 days is allocated to transformation projects, this represents a reduction of 50 days on last year's plan reflecting the number of projects now known and therefore included as specific areas in the plan. The remainder of these projects are yet to be clearly identified and scoped but will include:
 - procurement and commissioning initiatives;
 - reviewing different delivery models (shared services, outsourcing, trusts and partnerships);
 - project assurance;
 - advising on changes to processes and internal controls as a result of structural change and staffing reductions and
 - Government/legislative changes to systems.
- Significant changes continue to be delivered in respect of our human resource management and payroll processes. To reflect these risks time has been allocated to a number of reviews in this area.
- Given the proposed changes to services and processes, it is envisaged that these will impact on internal controls i.e. the reduced workforce may impact on separation of duties and the economic climate may encourage potential frauds. The fraud contingency is therefore set at 165 days. This is significantly lower than the actual amount required in 2011/12 which reflected an unusually high level and complexity of investigations. If the trend continues the plan will have to be revised accordingly.
- All schools will be expected to conduct an assessment against the Schools Financial Value Standard (SFVS) once a year, which means that the first reports from most schools will be due by 31 March 2013. However, for those schools which never attained the previous Financial Management Standard in Schools (FMSiS), they must complete and submit a SFVS by 31 March 2012. Schools affected have been notified of the requirement.
- The standard will not be formally assessed like FMSiS. However, a copy of the statements will be provided to Internal Audit to determine if the statement appears reasonable based on previous audit testing. Where appropriate, Audit Services may undertake a more in depth assessment of the answers given and this might include an audit and/or discussion with the Head Teacher and/ or governors. In all cases, the contents of these statements will be taken into account in planning our future programme of school audits.
- Days are allocated to provide Internal Audit Services to our external clients: Shropshire Fire and Rescue, Just Credit Union, Shropshire Pension Fund and Oswestry Council.
- Increased time on ICT audits is planned with support for the IT Auditor from other team members with appropriate skills.
- With planned initiatives in the area of procurement and commissioning, the area of contract auditing continues to be invested in with planned work on

- financial evaluation of companies tendering for work, procurement cards, key supply contracts and contract rules.
- The plan provides professional training for five auditors during the year. This helps to retain staff and to future proof the skills of team members, to the benefit of both the Council and auditors.
- 5.7 A copy of the draft plan will be forwarded to the external auditor inviting their comments on coverage and to maximise any shared learning from each other's work.
- 5.8 Whilst every effort has been made to include all key audit areas required in the plan, if other items are identified from discussions with our colleagues from the Audit Commission, or as knowledge becomes available from other sources, these will be agreed with the Section 151 Officer and reported to a future Audit Committee.

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

Audit universe and resources analysis

Cabinet Member (Portfolio Holder) Keith Barrow (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member n/a

Appendices

Appendix A – 2012/13 Summary of Draft Internal Audit Plan by Service

APPENDIX A

2012/13 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Planned Days
CHIEF EXECUTIVE	
Area Directors	
Leisure Services	10
Environmental Maintenance	22
	<u>32</u>
Business Improvement	
Performance & Design	20
ICT Implementation & Architecture	26
ICT Operations	92
Risk Management	16
	<u>154</u>
Finance & Commerce	
Financial Advice (S.151)	121
Financial Management	81
Treasury & Exchequer	85
	<u>287</u>
Legal and Democratic	
Democratic & Election Services	9
Legal Services Places	5
	<u>14</u>
Organisation Development	
HR Services	53
HR Systems Measures & Programme Management	13
Strategic HR Business Partner	15
	<u>81</u>
Strategic Planning	
Infrastructure & Growth	5
Partnership	10
Planning & Corporate Policy	23
	<u>38</u>
Total for Chief Executive	<u>606</u>
PEOPLE	
Assessment & Eligibility	
Developmental Support	5
Long Term Support	24
Provider Services	246
	<u>275</u>
Learning & Skills	
Business Support	24
Education Improvements	257
Lifelong Learning	10
	<u>291</u>

Public Protection & Enforcement	
Community Welfare	5
Environmental Enforcement	20
Environmental Health	28
	<hr/> 53
Safeguarding	
Assessment & Looked After Children	8
Children's Placement Services & Joint Adoption	45
Support Services	5
	<hr/> 58
Total for People	<hr/> 677
PLACES	
Business Growth & Prosperity	
Enterprise & Business	31
Theatre Severn	12
Visitor Economy	29
	<hr/> 72
Commissioning/ Procurement	
Procurement	73
Contracts	5
	<hr/> 78
Customer Care & Involvement	
Benefits	45
Customer Services	8
Revenues	40
	<hr/> 93
Environment	
Development Management	30
Highways & Transport	38
Waste Service Manager	15
	<hr/> 83
Facilities Management	
Estates & Facilities	20
Property Services	45
Shire Services	41
	<hr/> 106
Total for Places	<hr/> 432
HEALTH & CARE	
Care and Well-Being	
Housing Landlord Services	5
Health & Social Care Integration	12
Housing Health & Well-Being	8
Housing Landlord Services	63
Total for Health and Care	<hr/> 88

Contingencies & Other Chargeable work	
Transformation Projects	150
Fraud Contingency	165
Unplanned Work	50
Advice	30
Other Chargeable Work	362
Total Contingencies and Chargeable work	757
Total for Shropshire	2,560
External Clients	
Honorary and Voluntary Funds	40
Just Credit Union	15
Shropshire Fire and Rescue	53
Pension Fund	81
Oswestry Town Council	29
Total External Clients	218
Total Audit Plan	2,778