



Committee and Date

Audit Committee

22 March 2012

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Item

14

Public

INTERNAL AUDIT PLAN REPORT TO JANUARY 2012

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1. Summary

This report provides members with details of the work undertaken by Internal Audit to the end of January 2012 summarising progress against the Internal Audit Plan. Good progress has been made since September with 72% of the plan (84% of the revised plan) being completed which is in line with our target of 90% by year end.

Thirty three good and reasonable assurances were made. One unsatisfactory assurance opinion was delivered on the Secret Hills Discovery Centre and a further two limited assurance opinions issued. The 36 final reports contained 493 recommendations. No fundamental recommendations have been identified.

There have been minor changes to the plan in response to changing work priorities.

2. Recommendations

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

- a) The performance against the 2011/12 Audit Plan to the end of January 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 from October 2011 to the end of January 2012. 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 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.

Audit Work and Findings

- 5.3 Audit assurance opinions are delivered on completion of audit work reflecting 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.

5.4 In total 36 final reports have been issued between October 2011 and the end of January 2012, the breakdown of which appears in the table below. In addition 23 audit reports have been issued in draft for which we are awaiting management comments. We have also issued nine reports and a special investigation report to our external clients, drawn up the financial statements and completed the audits of 12 school and other honorary and voluntary body accounts.

Audit assurance opinions delivered to January 2012

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Area Directors	1	1			2
Business Improvement		1			1
Finance & Commerce			2		2
Organisation Development	3				3
Assessment & Eligibility	10	2			12
Learning and Skills		12			12
Business Growth & Prosperity				1	1
Commissioning & Procurement		1			1
Care & Wellbeing		1			1
Facilities Management	1				1
Total October to January	15	18	2	1	36
Total to date					
➤ numbers	44	38	4	2	88
➤ percentage	50%	43%	5%	2%	100

5.5 Thirty three good and reasonable assurances were made in the four months to January 2012. One unsatisfactory opinion was given relating to the Secret Hills Discovery Centre. Internal control weaknesses at the centre were identified in several areas including banking, admission and letting charges, data protection, payroll and staffing. In response management have agreed to all 66 recommendations made and Audit will be working with the service to improve their systems and processes.

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

- Sales Ledger - Periodic Income;
- Sales Ledger - Periodic Income Community Alarms;

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.

5.7 Work on fundamental system audits is currently being undertaken as planned, no new reports have been issued since September, a full update on the outcomes of each fundamental system audit will be provided in the year-end report.

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

Best Practice (BP)	Proposed 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.

5.9 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 5.7 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.

5.10 A total of 493 recommendations have been made in the 36 final audit reports issued between October and the end of January; these are broken down by audit area in the table below.

Audit recommendations made to January 2012

Audit Area	No of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Area Directors	2	22	9		33
Business Improvement		4	6		10
Finance & Commerce		7	4		11
Organisation Development	2	8	1		11
Assessment & Eligibility	20	29			49
Learning and Skills	65	171	6		242
Business Growth & Prosperity	8	49	9		66
Commissioning & Procurement	7	6	3		16
Care & Wellbeing	11	38	1		50
Facilities Management		4	1		5
Total October to January	115	338	40		493
Total for year					
➤ numbers	207	658	112	0	977
➤ percentage	21%	67%	12%	-	100%

5.11 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. It is pleasing to note that no recommendations have been rejected by management in the period October to January 2012; 18 were rejected in the first half year. All rejected recommendations are discussed with the managers concerned before reasons for rejection are accepted.

Performance to the end of January 2012 against the plan

5.12 The team has achieved 72% of the plan (84% 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 A** provides a more detailed summary by Group and Service.

Summary of audit days delivered and revisions to the audit plan, January 2012

	Original Plan	Sept Revised Plan	January Revision	January Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
Chief Executive	651	421	18	439	328.7	50%	75%
People	592	459	-54	405	398.7	67%	98%
Places	394	281	-18	263	214.0	54%	81%
Health & Care	79	63	5	68	41.4	52%	61%
S151 Planned Audit	1,716	1,224	-49	1175	982.8	57%	84%
Contingencies & other chargeable work	894	977	77	1054	918.5	103%	87%
Total S151 Audit	2,610	2,201	28	2,229	1,901.3	73%	85%
Honorary & Vol. Funds	40	40	-10	30	28.7	72%	96%
External Clients	218	233	-37	196	137.3	63%	70%
Total	2,868	2,474	-19	2,455	2,067.3	72%	84%

5.13 Following the loss of two auditors earlier in the year we have filled the two vacant posts by promoting our trainees. Since that time we have recruited one new trainee from the redeployment pool and are currently externally advertising the remaining post. Minor changes have been necessary to accommodate changing priorities of work and recruitment delays, which has resulted in an increase of 28 days to Shropshire Council work but an overall reduction of 19 days due to changing requirements of our external clients.

5.14 As previously reported, special investigation work continues at a significant level, we have spent 362 days on investigation work to date against the revised contingency of 350 days; we have had to increase the budget by a further 40 days to cover existing work to the end of the year.

5.15 Work for our external clients is progressing as scheduled; the original estimate has been reduced by 47 days, firstly by slipping IT audit work to next year and secondly by reducing the agreed plan to a minimum level of coverage for West Mercia Supplies due to the impending sale.

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
Internal Audit Plan 2011/12 - Half Year Report - Audit Committee 10 November 2011
Code of Practice for Internal Auditors in Local Government 2006 (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 - Report to End of January 2012

Audit Plan by Group and Service – Report to End of January 2012

	Original Plan	Sept Rev.	Sept Revised Plan	Jan Rev	Jan Revised Plan	Days Worked	% of original complete	% of Jan complete
Chief Executive								
Area Director								
Leisure Services	60	-15	45	11	56	47.0	78%	84%
Business Improvement								
Business Performance Management	40	-20	20	-3	17	17.2	43%	101%
ICT Implementation and Architecture	39	-21	18	-2	16	16.1	41%	101%
ICT Operations	62	-41	21	-5	16	20.7	33%	129%
Risk Management	18		18	-11	7	3.4	19%	49%
	159	-82	77	-21	56	57.4	36%	103%
Finance and Commerce								
Financial Advice (s151)	93	-28	65	19	84	78.8	85%	94%
Financial Management	77	-16	61		61	27.4	36%	45%
Treasury and Exchequer	129	-37	92	8	100	56.8	44%	57%
	299	-81	218	27	245	163.0	55%	67%
Legal & Democratic Services								
Democratic and Election Services	10	-6	4		4	2.5	25%	63%
Legal Services	10		10		10	3.1	31%	31%
	20	-6	14	0	14	5.6	28%	40%
Organisation Development								
HR Services	73	-14	59	-9	50	40.4	55%	81%
HR Systems, Measures & Prog Mgt	15	-15	0		0	0.0	0%	
	88	-29	59	-9	50	40.4	46%	81%
Strategic Planning								
Partnership	10	-10	0		0		0%	
Planning and Corporate Policy	15	-7	8	10	18	15.3	102%	85%
	25	-17	8	10	18	15.3	61%	85%
Total for Chief Executive	651	-230	421	18	439	328.7	50%	75%
People								
Assessment & Eligibility								
Developmental Support	10		10		10	4.9	5%	5%
Long Term Support	10	-10	0		0		0%	
Provider Services	188	-28	160	-18	142	111.9	60%	79%
	208	-38	170	-18	152	116.8	56%	77%
Learning & Skills								
Business Support	19	-9	10	-8	2	2.2	12%	110%
Education Improvements	246	-22	224	-22	202	236.5	96%	117%
Lifelong Learning	39	-29	10	1	11	11.3	29%	103%
	304	-60	244	-29	215	250.0	82%	116%
Public Protection & Enforcement								
Environmental Enforcement	15	-15	0		0	0.0	0%	
Environmental Health	10		10	-7	3	2.6	26%	87%
	25	-15	10	-7	3	2.6	10%	87%

	Original Plan	Sept Rev.	Sept Revised Plan	Jan Rev	Jan Revised Plan	Days Worked	% of original complete	% of Jan complete
Safeguarding								
Children's Placement & Joint Adoption	30	5	35		35	29.3	98%	84%
Support Services (Safeguarding)	25	-25	0		0	0.0	0%	
	55	-20	35	0	35	29.3	53%	84%
People	592	-133	459	-54	405	398.7	67%	98%
Places								
Business Growth & Prosperity								
Enterprise and Business	13	-12	1		1	0.0	0%	0%
Outdoor Recreation	5	10	15	3	18	18.0	360%	100%
Theatre Severn	10	-10	0		0	0.0	0%	
Visitor Economy	10	13	23	6	29	28.9	289%	100%
	38	1	39	9	48	46.9	123%	98%
Commissioning & Procurement								
Contracts	5		5		5	5.0	100%	100%
Procurement	10		10		10	10.5	105%	105%
	15	0	15	0	15	15.5	103%	103%
Customer Care & Involvement								
Benefits	35		35	-5	30	28.6	82%	95%
Customer Services	10	-10	0	2	2	0.7	7%	35%
Revenues Manager	55	-15	40		40	0.5	1%	1%
	100	-25	75	-3	72	29.8	30%	41%
Environment								
Development Management	53	-25	28		28	28.0	53%	100%
Highways and Transport	35	-8	27	-12	15	11.0	31%	73%
Waste Services Manager	18		18	1	19	18.1	101%	95%
	106	-33	73	-11	62	57.1	54%	92%
Facilities Management								
Estates and Facilities	10	3	13		13	12.2	122%	94%
Passenger Transport	25	9	34	7	41	40.1	160%	98%
Property Services	40	-30	10	-10	0	0.0	0%	
Shire Services	60	-38	22	-10	12	12.4	21%	103%
	135	-56	79	-13	66	64.7	48%	98%
Places	394	-113	281	-18	263	214.0	54%	81%
Health and Care								
Care & Wellbeing								
Health and Social Care Integration	6	-1	5		5	2.3	38%	46%
Housing Landlord Services	73	-15	58	5	63	39.1	54%	62%
Health and Care	79	-16	63	5	68	41.4	52%	61%
Total S151 Planned Audit	1,716	-492	1,224	-49	1,175	982.8	57%	84%

	Original Plan	Sept Rev.	Sept Revised Plan	Jan Rev	Jan Revised Plan	Days Worked	% of original complete	% of Jan complete
Contingencies & Other Chargeable								
Transformation Projects	200	-50	150		150	90.7	45%	60%
Fraud Contingency	150	200	350	40	390	361.9	241%	93%
Unplanned Audit Contingency	50	30	80	10	90	68.4	137%	76%
Advisory Contingency	50	-30	20		20	15.2	30%	76%
Chargeable Overheads	444	-67	377	27	404	382.3	86%	95%
	894	83	977	77	1054	918.5	103%	87%
Total Shropshire Council	2,610	-409	2,201	28	2,229	1,901.3	73%	85%
External Clients								
Total Honorary & Voluntary Funds	40		40	-10	30	28.7	72%	96%
Credit Union	15		15		15	15.7	105%	105%
Oswestry Town Council	31		31		31	25.8	83%	83%
Pension Fund	63		63	-21	42	24.4	39%	58%
Shropshire Fire & Rescue	49	20	69		69	59.2	121%	86%
West Mercia Supplies	60	-5	55	-16	39	12.2	20%	31%
	258	15	273	-47	226	166.0	64%	73%
Total Audit Plan	2,868	-394	2,474	-19	2,455	2,067.3	72%	84%