



Committee and Date

Audit Committee  
7 December 2012  
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Item

**15**

Public

## INTERNAL AUDIT PLAN 2012/13 - 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 2012/13 summarising progress against the Internal Audit Plan. Following a number of staffing changes it has been a challenging start to the year with 43% of the plan (48% of the revised plan) being completed which is in line with our target of 90% by year end.

Sixty five good and reasonable assurances were made. One unsatisfactory assurance opinion was delivered on the administration of the Teacher's Pension Scheme a further four limited assurance opinions issued. The 71 final reports contained 789 recommendations. No fundamental recommendations have been identified.

### 2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) The half year performance against the 2012/13 Audit Plan set out in **Appendix A**.
- b) The adjustments required to the 2012/13 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 2012/13. 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 As reported previously, the team has experienced an unprecedented level of staff changes recently coupled with continuing high levels of investigation work necessitating further changes to the plan.
- 5.3 The Audit Commissions latest edition of Protecting the Public Purse and the Better Governance Forum’s (BGF) Audit Committee update have recently been received and a brief synopsis of each has been included in this report.

#### 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 71 final reports have been issued in the first half of 2012/13, the breakdown of which appears in the table below. In addition 18 audit reports have been issued in draft for which we are awaiting management comments. We have also issued 25 reports to our external clients and drawn up the financial statements and completed the audits of eight school and other honorary and voluntary body accounts.

**Audit assurance opinions delivered to September 2012/13**

<b>Directorate</b>	<b>Good</b>	<b>Reasonable</b>	<b>Limited</b>	<b>Unsatisfactory</b>	<b>Total</b>
Area Director	0	2	0	0	2
Business Improvement	2	0	0	0	2
Finance and Commerce	4	1	3	1	9
Legal and Democratic	0	2	0	0	2
Organisation Development	0	1	0	0	1
Assessment and Eligibility	11	19	0	0	30
Care and Well-Being	0	1	0	0	1
Learning and Skills	2	6	1	0	9
Public Protection and Enforcement	0	1	0	0	1
Safeguarding	0	1	0	0	1
Business Growth and Prosperity	0	2	0	0	2
Care and Involvement	0	2	0	0	2
Environment	2	1	0	0	3
Facilities Management	0	2	0	0	2
Pensions Fund	4	0	0	0	4
<b>Total for half year</b>					
• <b>numbers</b>	<b>25</b>	<b>41</b>	<b>4</b>	<b>1</b>	<b>71</b>
• <b>percentage</b>	<b>35%</b>	<b>58%</b>	<b>6%</b>	<b>1%</b>	<b>100</b>

5.6 Sixty six good and reasonable assurances were made in the first half year. One unsatisfactory opinion was given on the administration of the Teacher’s Pension Scheme due to the number of recommendations made which included eight significant and 14 recommendations requiring attention. Key information could not be found and there were a number of specific pension queries that had led to the qualification of the Teacher s Pension Annual Return by the Audit Commission. The administration of the scheme has now been transferred to the Human Resources Advice Team within Shared Services; management have responded positively to

the recommendations made and a progress report on implementation of the recommendations is due shortly.

5.7 Four limited opinions were issued in the following areas:

- Income 2011/12 (Details reported in June)
- Purchase Ledger 2011/12 (Details reported in June)
- Sales Ledger 2011/12 (Details reported in June)
- Alveley Primary School

The three fundamental systems audits were reported to Audit Committee in June 2012 as part of the 2011/12 year-end report and will be followed up as part of this year’s routine fundamental systems audit reviews.

5.8 Work has begun on fundamental systems audits and will be completed as usual in the third and fourth quarters. This enables a reasonable sample to be tested across the current financial year in order to satisfy external audit requirements and enable them to use our work in the formulation of their annual audit opinion.

5.9 Information received by finance staff suggested that performance in the first six months of the year in relation to the Council’s Income and Sales Ledger systems operated by Shared Services had encountered problems, including the late posting of income, chasing of old debt and failing to complete reconciliations. The Chief Accountant has undertaken a management review of these areas and made a number of recommendations which are being considered by Shared Services to rectify the problems. Audits in these areas have been delayed to allow for corrective action to be implemented in order for Internal Audit to give an assurance on the planned improvements. It is expected that assurances on these systems will be impacted on by the performance to date.

5.10 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.

5.11 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 5.6 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.

- 5.12 A total of 789 recommendations have been made in the 71 final audit reports issued in the first half year; these are broken down by area in the table below.

**Audit recommendations made in first half year 2012/13**

Audit Area	No of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Area Director	4	28	11	0	43
Business Improvement	0	1	0	0	1
Finance & Commerce	10	60	29	0	99
Legal and Democratic	0	1	5	0	6
Organisation Development.	2	16	9	0	27
Assessment and Eligibility	73	111	18	0	202
Care and Well-Being	16	19	3	0	38
Learning and Skills	58	108	5	0	171
Public Protection and Enforcement	1	4	5	0	10
Safeguarding	1	5	1	0	7
Business Growth and Prosperity.	5	41	12	0	58
Care & Involvement	12	22	14	0	48
Environment	2	7	2	0	11
Facilities Management	12	29	3	0	44
Pensions Fund	9	14	1	0	24
<b>Total for year</b>					
• numbers	<b>205</b>	<b>466</b>	<b>118</b>	<b>0</b>	<b>789</b>
• percentage	<b>26%</b>	<b>59%</b>	<b>15%</b>	<b>0</b>	<b>100%</b>

- 5.13 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 eight recommendations (1%) 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**

- 5.14 The team has achieved 43% of the plan (48% of the revised plan) which is in line with its target to deliver 90% at the year end and the performance at the same time last year. Performance up to the end of September 2012 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, half year 2012/13**

	Original Plan	June Revision	October Revision	Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
Chief Executive	589	-146	10	453	182.4	31%	40%
People	677	-173	6	510	224.8	33%	44%
Places	449	-111	-16	322	125.9	28%	39%
Health and Care	88	-2	0	86	20.7	23%	26%
<b>S151 Planned Audit</b>	<b>1,803</b>	<b>-432</b>	<b>0</b>	<b>1,371</b>	<b>553.8</b>	<b>31%</b>	<b>40%</b>
Contingencies and other chargeable work	757	115	0	872	506.8	67%	58%
<b>Total S151 Audit</b>	<b>2,560</b>	<b>-317</b>	<b>0</b>	<b>2,243</b>	<b>1,060.5</b>	<b>41%</b>	<b>47%</b>
Honorary and Voluntary Funds	40	0	0	40	34.5	86%	86%
External Clients	157	47	0	204	101.0	64%	50%
<b>Total</b>	<b>2,757</b>	<b>-270</b>	<b>0</b>	<b>2,487</b>	<b>1,196.0</b>	<b>43%</b>	<b>48%</b>

- 5.15 As a result of the staffing changes previously reported, we have completed the mini tendering exercise using the Staffordshire Internal Audit framework contract. Whilst we originally estimated 200 days from external providers, due to further budget cuts and the cost of external work, we have only been able to procure 106 audit days to cover ten assignments at a cost of £36,000. The contracts have been won by two companies, Haines Watt and Deloitte; work is scheduled from December through to February with the target of all reports being finalised and issued before the end of March 2013.
- 5.16 As previously reported, special investigation work continues at a significant level, we have spent 248 days on investigation work to date against the original contingency of 165 days; we have had to increase the budget twice by 235 days in total to give us 400 days for the year. We will continue to closely monitor the situation and make further changes as required.
- 5.17 Work for our external clients is progressing as scheduled and should be largely complete by Christmas leaving the remaining quarter to concentrate on Shropshire Council's audit plan.

**Protecting the Public Purse 2012**

- 5.18 The Audit Commission published their annual report on their survey of detected fraud in Local Government last month. The headline messages are:
- Fraud continues to be a significant problem.
  - Fraud against the UK economy is estimated to cost £73 billion of which the Public Sector accounts for £20.3 billion, Local Governments share is £2.2 billion (i.e. just 10% of public sector fraud losses).

5.19 In relation to Local Government:

- The number and value of detected fraud (124,000 cases worth £179,000 is broadly the same as last year (down by two to three per cent).
- Housing and Council Tax benefit fraud accounts for more than half the detected fraud.
- Whilst Council Tax Discount and procurement fraud are significant, the Audit Commission believe Tenancy Fraud is the single largest fraud area, particularly in the London area.

5.20 The Report contains nine recommendations, our response to each is summarised in the table below.

<b>Recommendation</b>	<b>Shropshire Compliance/Action</b>
Use counter fraud checklist in Protecting the Public Purse.	Completed last year.
Review Counter fraud strategies in the context of "Fighting Fraud Locally" produced by the NFA.	Completed.
Apply the NFA's good practice guidance and tools to match the best in tackling fraud.	Tools will be reviewed and applied where beneficial
Actively pursue potential frauds identified through the NFI	Completed and ongoing, data submissions made on time and reports expected from February 2013 onwards.
Refresh local strategies to tackle tenancy fraud	A meeting will have taken place in November with a representative from the Tenancy Fraud Forum to discuss ways forward to help identify methods of detecting tenancy fraud and to investigate the possibility of training provision for housing staff to raise tenancy fraud awareness.
Engage with the Tenancy Fraud Forum	The fraud checklist has been completed and will be used to identify improvements
Use the tool produced by the London Public Sector Counter Fraud Partnership to help prevent and detect procurement fraud.	This tool will be reviewed and applied if suitable. Its use is being discussed as part of wider internal audit networking groups.
Maintain robust staff recruitment and internal controls to guard against fraud.	Controls are in place and assessed on all audits we undertake.
Remain vigilant to mandate fraud	Picked up as part of the Purchase Ledger audit, our staff have foiled significant mandate fraud previously.

5.21 The Council has a zero tolerance to fraud and continues to take a strong stance in the prevention, detection and investigation of fraud which is reflected in our Counter Fraud, Bribery and Anti-Corruption Strategy, which is the subject of a separate report on this agenda.

### **BGF Audit Committee Update**

5.22 Issue nine of the Better Governance Forum's Audit Committee Update was received in October and circulated to Members electronically. The update covered:

- The audit committee role in supporting the achievement of value for money.
- Developments you may need to know about:
  - Public Sector Internal Audit Standards (PSIAS).
  - Good Governance Guidance Note and revised addendum.
  - Local Government funding.
  - Draft Local Audit Bill Consultation.
  - National Audit Office report on Internal Audit in Central Government.
  - Developing corporate anti-fraud capability in the public services.
  - National Fraud Initiative reports.
  - Outcomes of information governance audits by the Information Commissioner.
- The audit committee cycle.

5.23 The new Public Sector Internal Audit Standards (PSIAS) will replace CIPFA's Code of Practice for Internal Auditors in Local Government 2006. The Joint standard, drafted by CIPFA and the Institute of Internal Auditors, is due to be published in late December and become effective on 1<sup>st</sup> April 2013 for the 2013/14 financial year. A separate report will be presented to Members in the new year including an assessment of how we will comply with the new standard and what we need to do to achieve full compliance.

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

Draft Internal Audit Annual Plan 2012/13 - Audit Committee 22 March 2012  
 Internal Audit Annual Plan 2012/13 Audit Committee 19 September 2012  
 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 2012/13

	Original Plan	June Rev.	Oct Rev.	October Revised Plan	Sept Actual	% of Original Complete	% of Revised Complete
<b>CHIEF EXECUTIVE</b>							
<b>Area Directors</b>							
Leisure Services	10	2	-2	10	10.3	103%	103%
Community Action	5			5	0.1	2%	2%
	15	2	-2	15	10.4	69%	69%
<b>Business Improvement</b>							
Performance & Design	20	-5	-2	13	6.4	32%	49%
ICT Implementation & Architecture	26	-3	3	26	8.5	33%	33%
ICT Operations	92	-6	-10	76	10.2	11%	13%
Risk Management	16	-4		12	6.8	43%	57%
	154	-18	-9	127	31.9	21%	25%
<b>Finance &amp; Commerce</b>							
Financial Advice (S.151)	121	-47	12	86	41.5	34%	48%
Financial Management	81	-23	13	71	34.4	42%	48%
Treasury & Exchequer	85	6	-1	90	47.9	56%	53%
	287	-64	24	247	123.8	43%	50%
<b>Legal and Democratic</b>							
Democratic & Election Services	9	-5	-3	1	0.6	7%	60%
Legal Services Places	5			5		0%	0%
	14	-5	-3	6	0.6	4%	10%
<b>Organisation Development</b>							
HR Services	53	-26		27	4.0	8%	15%
HR Systems & Programme Mgt	13	-5		8	0.1	1%	1%
Strategic HR Business Partner	15	-15				0%	
	81	-46	0	35	4.1	5%	12%
<b>Strategic Planning</b>							
Infrastructure & Growth	5	-5				0%	
Partnership	10	-10				0%	
Planning & Corporate Policy	23			23	11.6	50%	50%
	38	-15	0	23	11.6	31%	50%
<b>CHIEF EXECUTIVE</b>	<b>589</b>	<b>-146</b>	<b>10</b>	<b>453</b>	<b>182.4</b>	<b>31%</b>	<b>40%</b>
<b>PEOPLE</b>							
<b>Assessment &amp; Eligibility</b>							
Developmental Support	5		-5			0%	
Long Term Support	24	-19		5	5.3	22%	106%
Provider Services	246	25	38	309	154.6	63%	50%
	275	6	33	314	159.9	58%	51%
<b>Learning &amp; Skills</b>							
Business Support	24	-11		13		0%	0%
Education Improvements	257	-139	-9	109	51.8	20%	48%
Lifelong Learning	10	-5		5		0%	0%
	291	-155	-9	127	51.8	18%	41%

	Original Plan	June Rev.	Oct Rev.	October Revised Plan	Sept Actual	% of Original Complete	% of Revised Complete
<b>Public Protection &amp; Enforcement</b>							
Community Welfare	5	-5				0%	
Environmental Enforcement	20	-4		16	12.1	61%	76%
Environmental Health	28	-15	-5	8	0.5	2%	6%
	53	-24	-5	24	12.6	24%	52%
<b>Safeguarding</b>							
Assessment & Looked After Children	8			8		0%	0%
Children's Placement Services & Joint Adoption	45		-13	32	0.5	1%	2%
Support Services	5		0	5		0%	0%
	58	0	-13	45	0.5	1%	1%
<b>PEOPLE</b>	<b>677</b>	<b>-173</b>	<b>6</b>	<b>510</b>	<b>224.8</b>	<b>33%</b>	<b>44%</b>
<b>PLACES</b>							
<b>Business Growth &amp; Prosperity</b>							
Enterprise & Business	31	-16	-5	10	2.1	7%	21%
Theatre Severn	12	-4	7	15	13.3	111%	89%
Visitor Economy	29	-3	16	42	22.4	77%	53%
	72	-23	18	67	37.8	53%	56%
<b>Commissioning/ Procurement</b>							
Procurement	73	-17	-8	48	8.3	11%	17%
Contracts	5			5		0%	0%
	78	-17	-8	53	8.3	11%	16%
<b>Customer Care &amp; Involvement</b>							
Benefits	45		-15	30	8.4	19%	28%
Customer Services	8			8		0%	0%
Revenues	40	3		43	20.0	50%	47%
	93	3	-15	81	28.4	31%	35%
<b>Environment</b>							
Development Management	30	-20		10	10.6	35%	106%
Highways & Transport	38	6	2	46	24.4	64%	53%
Waste Service Manager	15	-15				0%	
	83	-29	2	56	35.0	42%	62%
<b>Facilities Management</b>							
Estates & Facilities	20	-10	-5	5		0%	0%
Passenger Transport	17	-2	-3	12	12.3	72%	103%
Property Services	45	-15	-5	25	3.7	8%	15%
Shire Services	41	-18		23	0.4	1%	2%
	123	-45	-13	65	16.4	13%	25%
<b>PLACES</b>	<b>449</b>	<b>-111</b>	<b>-16</b>	<b>322</b>	<b>125.9</b>	<b>28%</b>	<b>39%</b>
<b>HEALTH &amp; CARE</b>							
<b>Care and Well-Being</b>							
Housing Landlord Services	5			5	0.2	3%	3%
Health & Social Care Integration	12	-2		10	4.0	33%	40%
Housing Health & Well-Being	8			8		0%	0%
Housing Landlord Services	63			63	16.5	26%	26%
<b>HEALTH &amp; CARE</b>	<b>88</b>	<b>-2</b>	<b>0</b>	<b>86</b>	<b>20.7</b>	<b>23%</b>	<b>24%</b>

	<b>Original Plan</b>	<b>June Rev.</b>	<b>Oct Rev.</b>	<b>October Revised Plan</b>	<b>Sept Actual</b>	<b>% of Original Complete</b>	<b>% of Revised Complete</b>
<b>Contingencies &amp; Chargeable</b>							
Transformation Projects	150		-50	100	30.1	20%	30%
Fraud Contingency	165	128	107	400	247.7	150%	62%
Unplanned Work	50			50	42.1	84%	84%
Advice	30	-10	-10	10	4.3	14%	43%
Other non-audit Chargeable Work	362	-3	-47	312	182.5	50%	58%
<b>Contingencies &amp; Chargeable</b>	<b>757</b>	<b>115</b>	<b>0</b>	<b>872</b>	<b>506.7</b>	<b>67%</b>	<b>58%</b>
<b>Total for Shropshire</b>	<b>2,560</b>	<b>-317</b>	<b>0</b>	<b>2,243</b>	<b>1,060.5</b>	<b>41%</b>	<b>47%</b>
<b>External Clients</b>							
Honorary and Voluntary Funds	40			40	34.5	86%	86%
Just Credit Union	15			15	1.5	10%	10%
Shropshire Fire and Rescue	53			53	31.8	60%	60%
Pension Fund	60	23		83	38.2	64%	46%
Oswestry Town Council	29			29	23.7	82%	82%
West Mercia Energy		24		24	5.8		24%
<b>Total External Clients</b>	<b>197</b>	<b>47</b>	<b>0</b>	<b>244</b>	<b>135.5</b>	<b>66%</b>	<b>56%</b>
<b>Total Audit Plan</b>	<b>2,757</b>	<b>-270</b>	<b>0</b>	<b>2,487</b>	<b>1,196.0</b>	<b>43%</b>	<b>48%</b>