



Committee and Date
Audit Committee
14 February 2013
10 am

Item
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Public

INTERNAL AUDIT PLAN 2012/13 – THIRD QUARTER REPORT

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1. Summary

This report provides members with details of the work undertaken by Internal Audit for the third quarter of 2012/13 summarising progress against the Internal Audit Plan. Progress in the third quarter has been good with 72% of the revised plan (61% of the original plan) being completed which is in line with our target of 90% by year end.

Sixteen good and reasonable assurances were made and a further four limited assurance opinions issued. The 20 final reports contained 254 recommendations including one fundamental recommendation made on the General Ledger audit.

2. Recommendations

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

- a) The third quarter 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 arising from this report.

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 Internal Audit during the third quarter 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 and continues to experience an unprecedented level of staff changes together with continuing high levels of investigation work necessitating further changes to the plan.
- 5.3 An update on the Contract Rules Biennial Review report presented to Audit Committee in June 2012 as requested by Members is included within 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:

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.
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5.5 In total 20 final reports have been issued in the third quarter of 2012/13, the breakdown of which appears in the table below. In addition ten audit reports have been issued in draft for which we are awaiting management comments. We have also issued eight reports to our external clients and drawn up financial statements and completed the audits of five school and other honorary and voluntary body accounts.

Audit assurance opinions delivered in third quarter 2012/13

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Area Director					
Business Improvement			1		1
Finance and Commerce		1	2		3
Legal and Democratic					
Organisation Development		1			1
Strategic Planning		1			1
Assessment and Eligibility	3	3	1		7
Care and Well-Being					
Learning and Skills		1			1
Public Protection and Enforcement					
Safeguarding					
Business Growth and Prosperity		3			3
Care and Involvement		1			1
Environment		1			1
Facilities Management		1			1
Pensions Fund					
Total October to December	3	13	4	0	20
Total to date					
• numbers	28	54	8	1	91
• percentage	31%	59%	9%	1%	100

5.6 Sixteen good and reasonable assurances were made in the third quarter four limited opinions were issued in the following areas:

- **Civica Icon IT system** (income system) follow up of 2010/11 review
Ten of 41 recommendations remained outstanding principally concerning documentation and authorisation of changes to interface files, user account administration and system administration accounts.
- **General Ledger 2012/13** (Fundamental System)
The operation and maintenance of the General Ledger as a system remains substantially sound. However, income was not posted to the ledger or reconciled which resulted in the General Ledger becoming out of date; leading to errors, discrepancies and anomalies not being identified or addressed in a

timely manner. This has impacted on the monitoring of accounts and the resulting decision making processes.

- **Microsoft Lync Implementation**
Incomplete system inventory, lack of a project plan for second phase, some passwords not conforming to the security policy, no activity or data log retention policy and the ability for users to delete logs
- **Direct Payments (social care)**
Monitoring of service users direct payment arrangements had lapsed resulting in a significant backlog. Monitoring is key to ensuring timely and effective financial control over the direct payments process.

5.7 Work on fundamental systems audits is progressing well and scheduled for completion in the fourth quarter. 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. Three audits have been completed, one has been issued in draft and two are at the drafting stage.

Audit opinion and recommendations made on fundamental systems 2012/13

Fundamental System	Level of Assurance Given	Number of Recommendations made			
		BP	RA	S	F
Housing Rents	In progress				
Purchase Ledger	In progress				
Sales Ledger	In progress				
General Ledger	Limited	4	6	1	1
Income Collection	Starts February				
Payroll System	In progress				
Council Tax	In progress				
NNDR Collection	Draft issued				
Housing Benefits	In progress				
Budgetary Management and Control	Starts March				
Treasury Management	Good		2		
Capital Accounting System	Good				
Risk Management	In progress				

5.8 Members will recall that we reported to the last Audit Committee that due to performance issues the Chief Accountant had undertaken a management review of the Council’s Income and Sales Ledger systems operated by Shared Services and issued a report containing a number of recommendations to address the problems identified. A partial response has been received and is yet to be finalised.

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:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
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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.

5.10 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 5.6 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.

5.11 A total of 254 recommendations have been made in the 20 final audit reports issued in the third quarter; these are broken down by service area in the table below.

Audit recommendations made in third quarter 2012/13

Audit Area	No of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Area Director					
Business Improvement		2	10		12
Finance & Commerce	9	19	17	1	46
Legal and Democratic					
Organisation Development		1	4		5
Strategic Planning		2	1		3
Assessment and Eligibility	23	50	15		88
Care and Well-Being					
Learning and Skills	2	7	6		15
Public Protection and Enforcement					
Safeguarding					
Business Growth and Prosperity	8	40	11		59
Care & Involvement		2	2		4
Environment	3	5	4		12
Facilities Management	2	5	3		10
Pensions Fund					
Total October to December	47	133	73	1	254
• Total to date	252	599	191	1	1,043
• percentage	24.2%	57.4%	18.3%	0.1%	100%

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 two recommendations (less than 1%) have been rejected by management. All rejected recommendations have been discussed with the managers concerned and the reasons for rejection accepted.

Third Quarter Performance against the plan

- 5.13 The team has achieved 72% of the revised plan (61% of the original 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 December 2012 is summarised in the following table. **Appendix A** provides a more detailed summary by Group and Service.

Summary of audit days delivered and plan revisions 3rd Quarter 2012/13

	Original Plan	October Revised Plan	January Revision	January Revised Plan	Days Worked	% of Original Complete	% of Jan Revised Complete
Chief Executive	589	453	-44	409	250.6	43%	61%
People	677	510	-51	459	295.1	44%	64%
Places	449	322	-49	273	187.6	42%	69%
Health and Care	88	86	-3	83	30.5	35%	37%
S151 Planned Audit	1,803	1,371	-147	1,224	763.8	42%	62%
Contingencies and other chargeable work	757	872	1	873	743.7	98%	85%
Total S151 Audit	2,560	2,243	-146	2,097	1,507.5	59%	72%
Honorary and Voluntary Funds	40	40	-3	37	36.3	91%	98%
External Clients	157	204	-4	200	144.7	92%	72%
Total	2,757	2,487	-153	2,334	1,688.5	61%	72%

- 5.14 Internal Audit work tendered to Haines Watt and Deloitte is progressing and two draft reports have now been received out of the assignments awarded. The 106 days (5% of the plan) will further improve the completion percentage when included in the final quarter's figures.
- 5.15 Special investigation work continues at a significant level, we have spent 365 days on investigation work to date. In addition the work on ip&e is gathering pace placing further pressures on our senior resources. The recently recruited Trainee/Support Officer has left the Council; the post will not be filled in the immediate term necessitating a further revision to the audit plan. The team has another maternity leave which will impact on available resources next year. The opportunity has been taken to further reduce the plan to an achievable level given the rapidly changing risk and demands on the service. This has resulted in a reduction of 146 planned audit days to the Council and a further seven from our external clients.

6 Contract Rules Biennial Review – Update In June 2012 a report was presented to Audit Committee on the Biennial review of compliance with Contract Rules procedures. Six recommendations were made and a “reasonable” audit opinion was delivered, Members requested an update to a future meeting on progress made on the implementation of recommendations made.

6.2 Implementation of recommendations is progressing. Group Managers have been reminded by the Council’s Procurement Officer of their obligations to obtain company financial health checks on all major contracts and that any changes to major contracts must be authorised by the Corporate Head of Legal and Democratic Services. Group Managers have also been requested to update their authorisation lists, however with the current structural changes being undertaken, this is an ongoing task. Further Contract Rules revisions are being finalised pending being issued in draft consultation and subsequent approval later this year.

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
Internal Audit Plan 2012/13 - Half Year Report Audit Committee 7 December 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 – 3rd QUARTER REPORT 2012/13

	Original Plan	October Revised	Jan Revision	Jan Revised	Dec Actual	% of Original Complete	% of Jan Revised Complete
CHIEF EXECUTIVE							
Area Directors							
Leisure Services	10	10		10	10.2	102%	102%
Community Action	5	5	-5		0.1	2%	
	15	15	-5	10	10.3	69%	103%
Business Improvement							
Performance & Design	20	13	-1	12	7.4	37%	62%
ICT Implementation & Architecture	26	26	-18	8	8.9	34%	111%
ICT Operations	92	76	-20	56	21.6	23%	39%
Risk Management	16	12		12	7.4	46%	62%
	154	127	-39	88	45.3	29%	51%
Finance & Commerce							
Financial Advice (S.151)	121	86	-1	85	68.1	56%	80%
Financial Management	81	71		71	48.7	60%	69%
Treasury & Exchequer	85	90	-1	89	43.0	51%	48%
	287	247	-2	245	159.8	56%	65%
Legal and Democratic							
Democratic & Election Services	9	1	3	4	0.6	7%	15%
Legal Services Places	5	5	-5			0%	
	14	6	-2	4	0.6	4%	15%
Organisation Development							
HR Services	53	27		27	18.1	34%	67%
HR Systems & Programme Mgt	13	8		8	0.1	1%	1%
Strategic HR Business Partner	15					0%	
	81	35	0	35	18.2	22%	52%
Strategic Planning							
Infrastructure & Growth	5					0%	
Partnership	10					0%	
Planning & Corporate Policy	23	23	4	27	16.4	71%	61%
	38	23	4	27	16.4	43%	61%
CHIEF EXECUTIVE	589	453	-44	409	250.6	43%	61%
PEOPLE							
Assessment & Eligibility							
Developmental Support	5					0%	
Long Term Support	24	5		5	5.3	22%	106%
Provider Services	246	309	-24	285	210.2	85%	74%
	275	314	-24	290	215.5	78%	74%

	Original Plan	October Revised	Jan Revision	Jan Revised	Dec Actual	% of Original Complete	% of Jan Revised Complete
Learning & Skills							
Business Support	24	13	-5	8	1.3	5%	16%
Education Improvements	257	109	-15	94	65.1	25%	69%
Lifelong Learning	10	5	3	8		0%	0%
	291	127	-17	110	66.4	23%	60%
Public Protection & Enforcement							
Community Welfare	5					0%	
Environmental Enforcement	20	16	16	32	12.1	61%	38%
Environmental Health	28	8	-8		0.5	2%	
	53	24	8	32	12.6	24%	39%
Safeguarding							
Assessment & Looked After Children Children's Placement Services & Joint Adoption	8	8	-8			0%	
Support Services	45	32	-5	27	0.6	1%	2%
	5	5	-5			0%	
	58	45	-18	27	0.6	1%	2%
PEOPLE	677	510	-51	459	295.1	44%	64%
PLACES							
Business Growth & Prosperity							
Enterprise & Business	31	10	-6	4	2.1	7%	53%
Theatre Severn	12	15		15	15.3	128%	102%
Visitor Economy	29	42	-5	37	37.7	130%	102%
	72	67	-11	56	55.1	77%	98%
Commissioning/ Procurement							
Procurement	73	48	-10	38	22.2	30%	58%
Contracts	5	5		5		0%	0%
	78	53	-10	43	22.2	28%	52%
Customer Care & Involvement							
Benefits	45	30	-3	27	13.1	29%	49%
Customer Services	8	8		8		0%	0%
Revenues	40	43	12	55	46.1	115%	84%
	93	81	9	90	59.2	64%	66%
Environment							
Development Management	30	10		10	10.6	35%	106%
Highways & Transport	38	46	-19	27	26.2	69%	97%
Waste Service Manager	15					0%	
	83	56	-19	37	36.8	44%	99%

	Original Plan	October Revised	Jan Revision	Jan Revised	Dec Actual	% of Original Complete	% of Jan Revised Complete
Facilities Management							
Estates & Facilities	20	5		5		0%	0%
Passenger Transport	17	12	-2	10	9.8	58%	98%
Property Services	45	25		25	4.0	9%	16%
Shire Services	41	23	-16	7	0.5	1%	7%
	123	65	-18	47	14.3	12%	30%
PLACES	449	322	-49	273	187.6	42%	69%
HEALTH & CARE							
Care and Well-Being							
Housing Landlord Services	5	5		5	0.2	4%	4%
Health & Social Care Integration	12	10	-4	6	4.7	39%	78%
Housing Health & Well-Being	8	8		8		0%	0%
Housing Landlord Services	63	63	1	64	25.6	41%	40%
HEALTH & CARE	88	86	-3	83	30.5	35%	37%
Contingencies & Chargeable							
Transformation Projects	150	100		100	64.7	43%	65%
Fraud Contingency	165	400		400	365.1	221%	91%
Unplanned Work	50	50	15	65	58.5	117%	90%
Advice	30	10		10	8.0	27%	80%
Other non-audit Chargeable Work	362	312	-14	298	247.4	68%	83%
Contingencies & Chargeable	757	872	1	873	743.7	98%	85%
Total for Shropshire	2,560	2,243	-146	2,097	1,507.5	59%	72%
External Clients							
Honorary and Voluntary Funds	40	40	-3	37	36.3	91%	98%
Just Credit Union	15	15		15	1.5	10%	10%
Shropshire Fire and Rescue	53	53		53	36.6	69%	69%
Pension Fund	60	83	-4	79	53.9	90%	68%
Oswestry Town Council	29	29		29	27.9	96%	96%
West Mercia Energy		24		24	24.8		103%
Total External Clients	197	244	-7	237	181.0	92%	76%
Total Audit Plan	2,757	2,487	-153	2,334	1,688.5	61%	72%