



Committee and Date

Audit Committee

27 March 2013

10 am

Item

9

Public

DRAFT INTERNAL AUDIT ANNUAL PLAN 2013/14

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1. Summary

This report provides Members with the outcome of the audit needs exercise which has recently been completed to inform the Internal Audit Plan for 2013/14. The annual 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. In recognition of the significant speed and scale of change experienced as the Council moves to a commissioning model, a four year plan is inappropriate; instead flexible and responsive annual plans will be produced following a rolling risk based process instead. 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 2013/14 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 risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment that are

critical to the Council's operations which will be reported 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.'

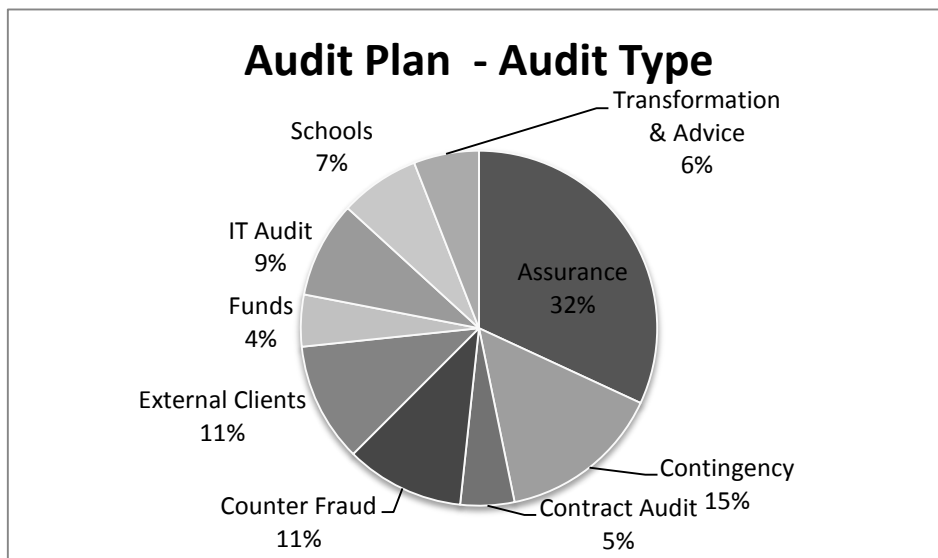
4. Financial Implications

- 4.1 The proposed plan will be met from within the approved Internal Audit budget.

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. In view of the scale and speed of organisational change, a new four year plan will be out of date within months and therefore totally inappropriate in the current climate. For 2013/14 we will adopt an annual rolling risk based audit plan with sufficient flexibility to respond to the Council's rapidly changing organisational and business needs.
- 5.2 We review the audit risk assessment annually with Directors, Area Commissioners, 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 needed.
- 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 external auditors 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 At a recent Chief Internal Auditors meeting a representative of Grant Thornton, the Council's external auditors, identified the top risks facing councils as pressures on finances and resources; changes in demands and demography and the impact of welfare reforms. These have been considered when refining the plan.
- 5.5 A separate IT audit needs assessment is used to inform the reviews in this area, the assessment was developed using a risk based methodology adopted by KPMG and is now embedded in our planning process.
- 5.6 Appendix A provides the summarised audit plan and identifies a planned day requirement of 2,246 days. These days are broken down by type in the chart below.



- 5.7 The team has seen a rationalisation of resources since it became a Unitary Council in 2009. In 2013 the team currently consists of 11.2 full time equivalents with skills in areas of finance, information technology, contracts, establishment, systems, counter fraud, investigations, governance and project management. Members will recall in September 2012 a decision was taken to supplement the team's resources by buying in a number of internal audit reviews from external suppliers. The team will continue to seek a mixed approach to its provision going forward in 2013/14 providing flexibility with any potential budget reductions and to cover temporary absences, such as three known maternity leaves that will impact next year. Following reorganisation of the senior management structure, the team's reporting

line has recently changed and it now reports to the Head of Finance, Governance and Assurance, the Section 151 Officer directly.

5.8 In preparing the plan for 2013/14 plan account has been taken of those audits completed in 2012/13. 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 may be placed by the external auditors as they assess the Council's final accounts. A number of these areas have been impacted upon following structural changes to the council and assurance will be required to ensure that internal controls are still appropriately delivered.
- A contingency of 100 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, ip&e, outsourcing, trusts and partnerships);
 - project assurance;
 - advising on changes to processes and internal controls as a result of structural change, staffing reductions and process reengineering 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 continues to be allocated to a number of reviews in this area.
- Given the on-going changes to services and processes in order to deliver efficiency and therefore cost savings, 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 counter fraud and investigation contingency is therefore set at 200 days. This is an increase of 50 days on the plan last year to reflect significant increase seen in investigations over the last two years. This is in addition to NFI and other pieces of work conducted in various reviews that help to counter fraud activity.
- To help supplement counter fraud activity the Council has submitted a bid to the Department for Communities and Local Government for funding to help tackle fraud in social housing. There is £9.5m available over the next two years and the bid is to support a county wide initiative with the Registered Social Landlords to create and support an anti-fraud campaign through the use of publicity and extra resources to enforce the Council's zero fraud tolerance position. The bids are currently being evaluated and the Council will be made aware of the outcome in late March.
- Schools will be in their second year of the Schools Financial Value Standard (SFVS), under which they are expected to conduct an annual assessment by the 31 March 2014. Copies of the statements are 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. A review of the specific risks in relation to schools looks at the SFVS statements, planned income and expenditure, any surplus or deficit and the date and assurance from the last audit in determining the priority for audit reviews. The current plan allows for a review of primary schools every five years and secondary schools every three.

- Days are allocated to provide Internal Audit Services to our external clients: Shropshire Fire and Rescue, Just Credit Union, Shropshire Pension Fund, West Mercia Energy and Oswestry Town Council.
- Increased time on ICT audits is planned, with support for the IT Auditor from other team members and external providers, to reflect the changes in IT applications and the consideration of replacement systems and new technology.
- 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 service level agreements.
- The plan provides professional training for two 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.

5.9 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.

5.10 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 – 2013/14 Summary of Draft Internal Audit Plan by Service

APPENDIX A

2013/14 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
OPERATIONS DIRECTOR	
Governance	16
COMMISSIONING	
Director of Commissioning	
Leisure	41
Area Commissioner Central	
Growth Point	5
Planning and Corporate Policy	12
Housing Services	48
Development Management	14
	<hr/> 79
Area Commissioner South	
Highways and Transport	36
Passenger Transport	4
	<hr/> 40
Public Protection	
Environmental Health	14
Licensing	10
	<hr/> 24
Business Growth and Prosperity	
Enterprise & Business	17
Old Market Hall, Shrewsbury	4
Visitor Economy	5
	<hr/> 26
Total for Commissioning	210
RESOURCES AND SUPPORT	
Business Performance Management	8
Programme Management, Systems and Transition	
Shared Services - Management	10
Shared Services - ICT Implementation & Architecture	38
Shared Services - ICT Operations	72
Shared Services - Finance	40
Shared Services - Human Resources	32
Shared Services - Shire Services	30
	<hr/> 222
Finance, Governance and Assurance	
Risk Management	5
Financial Advice (S151)	65
Financial Management	65
Treasury & Exchequer	45
Procurement	44
	<hr/> 224

	Days
Democratic and Election Services	
Democratic and Election Services	11
Information Governance	9
	<u>20</u>
Human Resources	
Payroll and Human Resources	24
Customer Care and Support	
Benefits	32
Customer Services	9
Revenues Manager	45
Estates and Facilities	51
	<u>137</u>
Total for Resources and Support	<u>635</u>
ADULT SERVICES	
Long Term Support	104
Provider Services - Comforts Funds	30
Provider Services - Group Homes	57
Provider Services - Trading Accounts	13
Total for Adult Services	<u>204</u>
PUBLIC HEALTH	
CHILDREN'S SERVICES	
Business Support	13
Primary /Special Schools	126
Education Improvements - Secondary	37
Lifelong Learning	15
Children's Placement Services & Joint Adoption	46
Total for Children's Services	<u>237</u>
Contingencies & Other Chargeable work	
Fraud Contingency	200
IT Frauds and Advice Contingency	18
Transformation Projects	100
Advisory Contingency	20
Unplanned Work	48
Liquidations Contingency	1
Other non audit Chargeable Work	285
Total Contingencies & Other Chargeable work	<u>672</u>
Total for Shropshire	<u>2,002</u>

	Days
External Clients	
Honorary and Voluntary Funds	40
Just Credit Union	15
Shropshire Fire and Rescue	52
Pension Fund	52
Oswestry Town Council	29
STAR (ALMO)	30
West Mercia Energy	26
Total External Clients	244
Total Audit Plan	2,246