



Committee and Date

Audit Committee
21 June 2013
10.00am

Item

12

Public

INTERNAL AUDIT ANNUAL REPORT 2012/13

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1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2013. It reports on progress against the annual audit plan and contributes to the review of the effectiveness of the Internal Audit team as required by the Accounts and Audit Regulations 2011 6(3). It includes the Audit Service Manager's opinion on the internal controls, as required by the CIPFA Code of Practice for Internal Audit in Local Government, which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).

Final performance has been good with 101% of revised plan days being delivered. This is in excess of the target to deliver 90% of the annual plan.

Ninety good and reasonable assurances were made in the year, together with one unsatisfactory and twelve limited opinions. The 103 final reports contained 1,171 recommendations. One fundamental recommendation has been made on the Teachers' Pensions audit.

On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council's internal control environment due to the increase in terms of numbers and negative direction of travel of the internal audit assurances provided on the principle financial systems. The issues identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their positive responses to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, there has been no evidence of significant material errors that could result in a material misstatement in the Authority's accounts and reliance can still be placed upon them for that purpose.

2. Recommendations

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

- a) Performance against the Audit Plan for the year ended 31 March 2013.

- b) That the system of internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2012/13.
- c) The Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2012/13 on the basis of the work undertaken and management responses received.

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 control creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The next twelve months will see the need to deliver significant budget savings against the continuation of the Council's development towards a commissioning authority, reviews in both children and adult services and the delivery of services in ip & e and other delivery models, incorporating major changes to our services and processes that will impact on the internal control environment. The management of risk will be a key part to ensuring the continued delivery of our high quality services and the continued delivery of our Medium Term Financial Strategy incorporating significant saving programmes aligned to improved service delivery. Internal Audit will need to be resourced and skilled appropriately to continue to provide the appropriate level of advice and assurance on the effectiveness of the internal control environment during this period of high risk.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.4 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.5 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be very positive.

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 is the culmination of the work of the Internal Audit team during 2012/13 and seeks to:
- Provide an opinion on the adequacy of the governance arrangements;
 - Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
 - Inform the review of an effective Internal Audit by providing performance data against the plan and comparatively, where available, with other Internal Audit providers.
- 5.2 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”.
- 5.3 The CIPFA Code of Practice for Internal Auditors in Local Government defines the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Code has been achieved. This annual report provides information to support that assessment and that an effective Internal Audit is established at the Council, in accordance with the requirements of the 2011 Accounts and Audit Regulations. Internal Audit’s compliance with the full Code of Practice is detailed within the report on effectiveness of internal audit also on this agenda.
- 5.4 From April 1st 2013, the Public Sector Internal Audit Standards replaced CIPFA’s Code of Practice for Internal Auditors in Local Government, against which the compliance of Internal Audit with sector standards was previously measured and reported upon. The new standards reiterate the requirement for the Audit Service Manager to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit service and includes both an internal and external assessment and the requirement for an annual report. The 2013/14 year will be assessed against these new standards.
- 5.5 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a contingency provision which is utilised during the year to respond to unforeseen work demands that may arise, i.e. special investigations, advice and the introduction of new high risk areas.

Annual Internal Audit Opinion from 2012/13 Internal Audit Work

- 5.6 It is the responsibility of Shropshire Council to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the CIPFA Code of Practice 2006 and from April 1st, the Public Sector Internal Audit

Standards, to form an opinion on the Authority's overall control system. This opinion plays a key part in informing the Authority's Annual Governance Statement and enabling the Audit Committee to deliver their annual assurance statement to Council.

5.7 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Council's internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

- The work undertaken on the fundamental financial systems has revealed five limited and one unsatisfactory assurance opinions compared to four limited opinions previously.
- From other planned audit work undertaken during the year, whilst we have issued a small number of limited and unsatisfactory opinions, there have been no major financial weaknesses or issues identified; the Council's financial systems, internal control environment and risk management procedures are sound and working effectively.

5.8 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council's internal control environment due to the increase in terms of numbers and negative direction of travel of the internal audit assurances provided on the principle financial systems. The issues identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their positive responses to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, there has been no evidence of significant material errors that could result in a material misstatement in the Authority's accounts and reliance can still be placed upon them for that purpose.

Key Assurances provided during 2012/13

5.9 Audit assurance opinions are awarded 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.

5.10 In total 103 final reports have been issued in 2012/13, these are broken down by group in the table below. Twenty four draft reports have been issued which we were awaiting responses to at the year end, these will be included in 2013/14 figures.

Final audit report assurance opinions issued in 2012/13

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Area Directors		2			2
Business Improvement	2		3		5
Finance and Commerce	4	2	5	1	12
Legal and Democratic Services		3			3
Organisation Development		2			2
Strategic Planning		1			1
Assessment and Eligibility	18	23	1		42
Care & Well-Being		1	1		2
Learning and Skills	2	7	1		10
Public Protection and Enforcement		1			1
Safeguarding		2			2
Business Growth and Prosperity		5	1		6
Customer Care and Involvement		4			4
Environment	2	2			4
Facilities Management		3			3
Pensions Fund	4				4
Total for 2012/13					
➤ numbers	32	58	12	1	103
➤ percentage	31%	56%	12%	1%	100%
Percentage 2011/12	42%	51%	4%	3%	100%

5.11 Ninety good and reasonable assurances were made in the year amounting to 87% of the opinions delivered. This shows a 6% decline in the higher level of assurance compared to the previous year, offset by a 6% increase in unsatisfactory and limited opinions. One unsatisfactory assurance was issued which is detailed below and twelve limited opinions, 13% in total compared to 7% last year. 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.

5.12 An unsatisfactory audit opinion was issued on the Teachers' Pensions. The audit was conducted at the end of 2011/12 but was only finalised in July 2012. The issues were around payments for pension contributions being deducted from the relevant employees' salary; new joiners to the scheme been administered correctly and promptly; employees who have opted out of the pension scheme dealt with

properly and there is appropriate documentation on their personal files; employees who have opted to pay Additional Voluntary Contributions including buying back additional years have been administered satisfactorily and information and personnel files are held securely.

5.13 Twelve limited assurance opinions were issued on the following audits:

Audit	Weaknesses
Alveley Primary School	Areas for improvement included governance processes, purchasing, income collection, banking, imprest and school fund and inventory procedures.
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.
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.
Homeworking and flexible security arrangements	Areas for improvement in: appropriate management arrangements being in place surrounding the home-working processes; Setup and configuration of IT equipment in the home is undertaken to agreed protocols; Hardware and communication media are protected against damage, malfunction and misuse. Suitability of locations is given due consideration; and support processes are in place which maintains work continuity.
General Ledger	See fundamental systems below.
IBS Housing System	Issues were principally concerning documentation, change management, user training, user account administration and system administration accounts, management audit trails and business continuity processes.
Income Collection (2011/12)	See fundamental systems below for the results of the 2012/13 audit which was in draft at the 31 st March 2013.
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.
Privileged User security	Areas for improvement include: privileged users are managed in line with internal policies and procedures; window services are controlled effectively; each domain has an appropriate security policy applied and users and groups are managed proactively.
Purchase Ledger (2011/12)	See fundamental systems below for the results of the 2012/13 audit which was in draft at the 31 st March 2013.

Sales Ledger (2011/12)	See fundamental systems below for the results of the 2012/13 audit which was in draft at the 31 st March 2013.
Theatre Severn Wireless Internet Services follow up	Areas for improvement include: policies, procedures and external legislation are adhered to; appropriate organisational and technical security controls are in place; wireless services are deployed in a controlled manner with effective security; unauthorised access cannot be gained to sensitive data or programs and information management and governance processes are in place.

Once again, positive management responses have been received to implement the recommendations made which we will follow up in 2013/14.

5.14 Within the Audit Plan there are thirteen reviews that are categorised as fundamental, high risk business critical systems. In addition, these reviews contribute to the work of our external auditors and the planning of the reviews, helps to avoid duplication of work between the two audit services. Given their high risk and their importance to the business the areas are audited annually and have a strong influence in informing our Annual Governance Statement. The work of internal audit on key financial (fundamental) systems is required to cover transactions across the whole of the financial year. Therefore, it is not uncommon for draft reports to be in progress at the year end and therefore not included in the summary of final reports issued in the table above.

5.15 A summary of the level of assurance for each fundamental review area together with the number of recommendations made is shown in the table below.

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 draft 31/3/13)	Reasonable	8	14	5	
Purchase Ledger (in draft 31/3/13)	Limited		8	11	
Sales Ledger (in draft 31/3/13)	Limited	1	11	10	
General Ledger	Limited	4	6	1	1
Income Collection (in draft 31/3/13)	Limited	2	15	2	1
Payroll System (in draft 31/3/13)	Unsatisfactory		21	14	
Council Tax (in draft 31/3/13)	Good	1	11		
NNDR Collection	Reasonable	2	18	1	
Housing Benefits (in draft 31/3/13)	Limited		4	3	
Budget Management & Control	Not completed				
Treasury Management	Good		2		
Capital Accounting System	Good				
Risk Management	Good				

5.16 Of the 13 fundamental systems audits, one has been delayed in to the 2013/14 12 have been completed; four are assessed as good; two as reasonable; five have limited opinions and one is unsatisfactory. The General Ledger audit has seen a drop from good to limited and Payroll reasonable to unsatisfactory assurance.

5.17 The Payroll system received an unsatisfactory opinion principally due to resources not being prioritised to follow up the previous audit recommendations, a lack of documented policies and procedures; authorisation and administration processes for starters and leavers; regular management reviews of overpayments data and recoveries and appropriate management reports generated from the payroll system. This is a fundamental system which manages a significant amount of Council expenditure; it has previously been assessed at a “reasonable” level of assurance for the previous three years. In addition the Purchase Ledger, Income and Sales Ledger systems also continue to receive a limited opinion for a second year. Opinions have been limited since the transfer of these transactional systems to Shared Services. It is a lack of improvement in these areas collectively that has impacted on and reduced the assurance level on the General Ledger to limited by affecting the quality, timeliness and accuracy of data transferring between and recorded in the systems necessitating a fundamental recommendation covering the service level agreement, key performance indicators and management of the service.

5.18 Management have provided positive responses to address the issues identified and the main areas of weakness identified appear in the table below. However, the direction of travel continues to be in a downward direction:

Payroll	<p>The scope of this audit was limited to the follow up of previous recommendations plus high level ‘key’ controls. Positive assurance was provided in respect of employees being paid the correct amount each month to reflect contracted hours (based on a test of new starters) and transactions being reconciled to the ledger.</p> <p>However, the majority of previous recommendations had not been addressed and covered the need for up to date policies and procedures to ensure compliance with legislation and internal regulations; Starters should be appropriately authorised and set up in line with internal regulations; Management should conduct a regular review of the overpayments data and ensure that recoveries are appropriately controlled; Leavers should only be paid to the last day and appropriate management reports are generated from the payroll system.</p>
Purchase Ledger	<p>Areas agreed by management for action include the need to bring procedure notes up to date; overdue transactions being regularly reviewed; changes to supplier details need management review; authorised signatory records should be up to date and invoices only processed if signed by an authorised individual. In addition, further work is required on the identification and recovery of duplicate payments and informing managers of learning in order that the risk of future duplicate payments is further reduced; there is a need to restrict access to authoriser functions and remove access to inactive user accounts; and to perform a risk assessment for personal and sensitive data. A recommendation was also made to the Treasury team to ensure that CHAPs payments are checked for authorisation prior to processing.</p>
Sales Ledger	<p>Internal control weaknesses agreed with management for improvement include the need to comply with financial rules in respect of credit note authorisation and write off; ensure that access rights to the system remain appropriate and are up to date; that officers identify and allocate unallocated income in a timely manner.</p> <p>In addition, outstanding areas for improvement from previous audits included: improving evidence of assurances that charges are being</p>

	levied on workshop unit lettings; introducing a system to advise budget holders of non-payment; introducing formalised debt recovery procedures and policies; a review of key performance indicators and controls to pursue aged debtors for recovery.
General Ledger 2012/13	The operation and maintenance of the General Ledger as a system remains substantially sound and was assured as “good” in the last two years. 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.
Income collection	This review included income collection and the process for the reconciliation of the cash book. A fundamental recommendation was raised in respect of the failure to reconcile the Allpay (income) system for the 2012/13 financial year. Other significant issues were the reconciliation of the giro account to the bank statements and delays in the allocation of cash and cheque income received at Guildhall.
Housing benefits	Last year members were advised of the fundamental recommendation relating to the proactive assessment, prioritisation, recovery and monitoring of overpayments owing to the Council. A bad debt provision has been made which partially addresses this issue, but prompt and effective action is still required to ensure that the remaining debt is reduced. This recommendation has been re-rated as significant to reflect the action taken. Two further significant issues identified relate to ensuring that unpaid debtor invoices are pursued in a timely manner and that the reconciliation between the Council Tax and Housing Benefits system is re-instated.

5.19 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.

5.20 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 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.

5.21 A total of 1,171 recommendations have been made in the 103 final audit reports issued in the year; these are broken down by audit area in the table below together with the percentages for the previous year for comparison.

Audit recommendations made in 2012/13

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Area Directors	4	28	11	0	43
Business Improvement	0	10	26	0	36
Finance and Commerce	19	79	46	1	145
Legal and Democratic Services	0	1	5	0	6
Organisation Development	2	17	13	0	32
Strategic Planning	0	2	1	0	3
Assessment and Eligibility	100	189	42	0	331
Care & Well-Being	17	26	12	0	55
Learning and Skills	60	115	11	0	186
Public Protection and Enforcement	1	4	5	0	10
Safeguarding	5	11	1	0	17
Business Growth and Prosperity	13	88	32	0	133
Customer Care and Involvement	14	42	17	0	73
Environment	5	12	6	0	23
Facilities Management	14	34	6	0	54
Pensions Fund	9	14	1	0	24
Total for year					
➤ numbers	263	672	235	1	1171
➤ percentage	23%	57%	20%	-	100%
Percentage 2011/12	21%	66%	13%	-	100%

5.22 The percentage of significant recommendations has risen slightly compared to last year with a corresponding fall in best practice and requires attention recommendations. The one fundamental recommendation made on the General Ledger system is explained earlier in this report.

5.23 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. There has been a slight fall in the number of recommendations rejected. A total of 11 recommendations equivalent to 0.9% of all recommendations made have been rejected by management (compared to 1.2% in 2011/12). All rejected recommendations have been discussed with the managers concerned and the reasons for rejection accepted.

5.24 The work undertaken on the fundamental financial systems has revealed five limited and one unsatisfactory assurance opinions compared to four limited opinions previously. This demonstrates an increase in terms of numbers and direction of travel of the principle financial systems receiving such assurances. Given the significance of these systems: the payroll system, responsible for processing c36% of the Council's expenditure; the continuing

internal control issues within the income, sales and purchase ledgers and their impact on the general ledger system in 2012/13; I consider these issues sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their positive responses to address the issues identified. Whilst revealing these control weaknesses and highlighting them to management for prioritisation, there has been no evidence of significant material weaknesses that could result in a material misstatement in the Authority's accounts and reliance can be placed upon them for that purpose. These issues are reflected in the Annual Governance Statement as a specific action for improvement and plans have already been adopted to manage the outstanding concerns; initial steps including changes to reporting lines and additional technical expertise and resources being deployed with a delivery date of October 2013.

Audit Performance

- 5.25 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the CIPFA Code of Practice, benchmarking the service against others in the sector and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.
- 5.26 This is the last time the Internal Audit Service will be assessed for compliance against CIPFA's Code of Practice. On April the 1st 2013 compliance with the Public Sector Internal Audit Standards (PSIAS) became mandatory and will be used to assess the service.

Performance against the plan

- 5.27 The team has achieved 94% of the revised plan (63% of the original plan) which is in excess of the target to deliver 90% of the plan at the year end. When contingency work is taken into account, 101% of the revised plan has been delivered. Performance to the end of 2012/13 is summarised by Directorate in the following table. **Appendix A** provides a more detailed summary.

Summary of actual audit days delivered against plans, year-end 2012/13

	Original Plan	January Revised Plan	Days Worked	% of Original Complete	% of Revised Complete
Chief Executive	589	409	377.0	64%	92%
People	677	444	424.7	63%	96%
Places	449	273	259.2	58%	95%
Health & Care	88	83	71.9	82%	87%
S151 Planned Audit	1,803	1,209	1,132.8	63%	94%
Contingencies & other chargeable work	757	873	978.6	129%	112%
Total S151 Audit	2,560	2,082	2,111.4	82%	101%
Honorary & Vol. Funds	40	37	37.4	94%	101%
External Clients	178	198	200.3	113%	101%
Total	2,778	2,317	2,349.1	85%	101%

- 5.28 Members will recall that it was necessary to revise the plan three times in the year due to resourcing changes as follows:
- September** a combination of staff leaving, reduction in hours, maternity leave and recruitment issues totalling 525 days lost, offset by engaging external providers of internal audit services resulting in a net reduction of 293 days.
- December** Changes to the plan to reflect increased levels of special investigation and transformational work, resources remained unchanged.
- February** The trainee left and we were unable to buy in as much external provision as originally planned resulting in a net reduction of 168 days (note the 3rd quarter report wrongly stated a reduction of 153 days).
- 5.29 Special investigation work has dominated the year, fraud work and other management investigations have taken 455 days, nearly three times the original allocation. This reduced the amount of time that could be delivered on counter fraud work, but limited activity included:
- The launch of a Whistleblowing process specific to Housing Tenancy Fraud, following which a number of reports have been received and a couple of investigations are underway. Housing Tenancy frauds are being delivered together with resources in Public Protection to ensure all aspects, including the benefit fraud elements are covered appropriately.
 - Joint working with Public Protection and Human Resource colleagues is now established to review benefit claimants, in a consistent manner, who are also employees of the Council. Cases are risk assessed to establish if an internal investigation is required.
 - An exercise has been completed reviewing travel and subsistence claims the learning from which was that managers should be reminded of their responsibility in authorising travel claims and that across the Council, a review be undertaken of local travel and subsistence arrangements to ensure consistency of approach and appropriate authorisation.
- 5.30 We continue to make a significant investment and valuable contribution to the transformation agenda, giving advice and assurance on the implementation of a number of key projects such as ip&e and Leisure outsourcing.
- 5.31 We have completed virtually all the work for our external clients some minor slippage has been agreed with our clients and has now been completed.

Reporting

- 5.32 All Internal Audit work is reviewed by an audit senior to ensure it complies with Internal Audit's standards and that recommendations made are practical and supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.
- 5.33 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is

issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Compliance with CIPFA Code of Internal Audit Practice

5.34 We conduct an annual self-assessment of our compliance against CIPFA'S code of Internal Audit Practice. The last independent external assessment was carried out by the Audit Commission in 2010. Our assessment, overseen by the corporate Head of Finance and Commerce, confirms that we are 99% compliant with the code. The 1% non-compliance relates to some minor non audit work that, in the External Auditor's view, does not distract from the core business of providing a quality Internal Audit Service. The review forms part of another report on this agenda: Annual review of the effectiveness of Internal Audit 2012/13.

Benchmarking

5.35 Benchmarking is an important method for comparing performance across councils providing similar services. Internal Audit has been a member of the CIPFA Audit Benchmarking Club since its inception. The information it provides is invaluable in helping us to check our performance against our peers and best in class.

5.36 The exercise is conducted annually and provides data comparisons in respect of costs, audit coverage, staffing, and performance over time and compares Shropshire's data with its quartile equivalents for the tier of authority.

5.37 With any benchmarking data some caution with interpretation should be exercised, the CIPFA Benchmarking Club is well established and has been considerably refined and improved since its inception so it is recognised as being a reliable set of comparative performance indicators. The data identifies Shropshire as performing well with its unitary peers, particularly in cost per day and days of audit delivered per auditor.

5.38 The draft benchmarking data for 2013 is available the key results of which are included in the following table. The final report will be circulated to all members on its receipt.

Key Indicator	Shropshire		Unitary Average	
	Days per Auditor	Cost per Day	Days per Auditor	Cost per Day
Actual 2010/11	165	£270	172	£316
Actual 2011/12	174	£274	175	£299
Actual 2012/13	170	£290	173	£321
Estimate 2013/14	174	£315	182	£324

- 5.39 The number of available days last year has reduced slightly but is still close to the average of other unitary authorities, whilst our cost per day continues to be below average for staff and associated overhead costs. Similar figures are demonstrated in the 2013/14 estimates and in both years this is set against a back drop of investing in training to ensure that our staff remain up to date to deliver a high level of service against the future challenges and associated risk the authority is facing.
- 5.40 In 2012/13 work on financial systems and IT systems showed a slightly higher than average application of resources, which, given the number of limited opinions and additional work arising from the problems we identified, is only to be expected. Our counter fraud and investigation work is over twice the unitary average but is no surprise given the levels of investigation work undertaken last year. It is pleasing to note that we achieved a 43% level of prosecution/sanction outcome from our investigations compared to the unitary average of 29%.

Quality Assurance/Customer Feedback Survey

- 5.41 A customer feedback survey form is sent out with the majority of audits completed. These provide feedback on the quality of the service and play a key part in ensuring audit work meets our client expectations and the quality of audit work is maintained. The percentages of excellent and good responses for the last four years are detailed in the table below.

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2009/10	2010/11	2011/12	2012/13	Direction of Travel
Pre-audit arrangements	94%	93%	98%	97%	↓
Post-audit briefing	91%	94%	96%	99%	↑
Audit coverage/scope of the audit	100%	99%	100%	99%	↓
Timeliness of production of report	78%	84%	95%	94%	↓
Accuracy and clarity of report	97%	88%	99%	96%	↓
Practicality of recommendations	94%	84%	93%	84%	↓
Professionalism of approach	99%	99%	100%	99%	↓
Communication skills	96%	97%	99%	99%	-
Timeliness, competence, manner	94%	99%	100%	97%	↓
Number of forms returned	69	92	84	96	

- 5.42 Whilst results this year demonstrate a slightly negative direction of travel, the overall percentages remain high and only one manager responded negatively to the question whether they considered audit to be a positive support to their service. This may be due to the increased pressures customers find themselves under in respect of resources, both at the time of delivering the audits and required to implement improvements to controls. This does not mean that the team are complacent; auditors will still work to improve on both their own skills and the experience for the customer. The information is used both to inform the team of improvements required and at annual performance reviews to identify future

development focus relating to individual skills or competences and overall we will strive to maintain and build upon these levels of satisfaction.

- 5.43 During the last year a number of compliments and comments have been received in respect of the audit service from both questionnaires and directly, these appear in **Appendix B**. The vast majority of comments have been very positive reflecting the hard work the team devote to establishing a good professional relationship with our clients. All critical comments are followed up with the author to identify where lessons can be learnt and improvements made.

Review of the effectiveness of Internal Audit work by the Audit Committee

- 5.44 The Council has a well-established Audit Committee, which operates in accordance with best practice. Its terms of reference and associated working practices are aligned with those suggested by CIPFA and are reviewed annually. Its members receive regular training on the role of the committee and how they can best support this, as well as the roles of internal and external audit. It undertakes an annual self-assessment exercise and seeks to improve the way in which it operates and has most recently done this in December 2012.
- 5.45 The Committee provides an Annual Assurance Report to Council to summarise its work and opinion on internal controls. This report is also located on this agenda.
- 5.46 The Council's Audit Committee considers external and internal audit reports and the Committee requests management responses to any significant issues reported, including reporting the progress made in implementing audit recommendations. Senior officers have attended the Audit Committee to provide management responses in relation to a number of reports. Examples of audit work and remedial action that have been scrutinised by the Audit Committee include reports on council tax and national non domestic rates, benefit overpayments, Shropshire Hills Discovery Centre, ip&e programme management and governance, benefit fraud investigations and Shared services.

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 2012/13 - Audit Committee 22 March 2012

Internal Audit Plan 2012/13 - Half Year Report - Audit Committee 7 December 2012

Internal Audit Plan 2012/13 – Third Quarter Report - Audit Committee 14 February 2013

Code of Practice for Internal Auditors in Local Government 2006 –published December 2006.

Public Sector Internal Audit Standards (PSIAS)

Accounts and Audit Regulations 2011.

Various internal documents supporting the review of the CIPFA Code of Practice checklist.

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 – annual report 2012/13

Appendix B - Summary of compliments and comments 2012/13

AUDIT PLAN BY GROUP AND SERVICE – ANNUAL REPORT 2012/13

Service area	Original Plan	Jan Revised	March Actual	% of Original Complete	% Jan Revised Complete
CHIEF EXECUTIVE					
Area Directors					
Leisure Services	10	10	10.3	103%	103%
Community Action	5		0.1	2%	
	15	10	10.4	69%	104%
Business Improvement					
Performance & Design	20	12	7.4	37%	62%
ICT Implementation & Architecture	26	8	8.5	33%	106%
ICT Operations	92	56	46.1	50%	82%
Risk Management	16	12	9.5	59%	79%
	154	88	71.5	46%	81%
Finance & Commerce					
Financial Advice (S.151)	121	85	94.9	78%	112%
Financial Management	81	71	53.7	66%	76%
Treasury & Exchequer	85	89	83.7	98%	94%
	287	245	232.3	81%	95%
Legal & Democratic					
Democratic & Election Services	9	4	0.6	7%	15%
Legal Services Places	5			0%	
	14	4	0.6	4%	15%
Organisation Development					
HR Services	53	27	30.6	58%	113%
HR Systems & Programme Mgt	13	8	11.3	87%	141%
Strategic HR Business Partner	15			0%	
	81	35	41.9	52%	120%
Strategic Planning					
Infrastructure & Growth	5			0%	
Partnership	10			0%	
Planning & Corporate Policy	23	27	20.3	88%	75%
	38	27	20.3	53%	75%
CHIEF EXECUTIVE	589	409	377.0	64%	92%
PEOPLE					
Assessment & Eligibility					
Developmental Support	5			0%	
Long Term Support	24	5	5.3	22%	106%
Provider Services	246	285	303.1	123%	106%
	275	290	308.4	112%	106%

Service area	Original Plan	Jan Revised	March Actual	% of Original Complete	% Jan Revised Complete
Learning & Skills					
Business Support	24	8	11.6	48%	145%
Education Improvements	257	94	79.7	31%	85%
Lifelong Learning	10	8		0%	0%
	291	110	91.3	31%	83%
Public Protection & Enforcement					
Community Welfare	5			0%	
Environmental Enforcement	20	17	12.1	61%	71%
Environmental Health	28		0.5	2%	
	53	17	12.6	24%	74%
Safeguarding					
Assessment & Looked After Children Children's Placement Services & Joint Adoption	8			0%	
Support Services	45	27	12.4	28%	46%
	5			0%	
	58	27	12.4	21%	46%
PEOPLE	677	444	424.7	63%	96%
PLACES					
Business Growth & Prosperity					
Enterprise & Business	31	4	2.9	9%	73%
Theatre Severn	12	15	15.3	128%	102%
Visitor Economy	29	37	37.8	130%	102%
	72	56	56.0	78%	100%
Commissioning/Procurement					
Procurement	73	38	33.1	45%	87%
Contracts	5	5		0%	0%
	78	43	33.1	42%	77%
Customer Care & Involvement					
Benefits	45	27	29.1	65%	108%
Customer Services	8	8	10.9	136%	136%
Revenues	40	55	57.1	143%	104%
	93	90	97.1	104%	108%
Environment					
Development Management	30	10	10.6	35%	106%
Highways & Transport	38	27	26.3	69%	97%
Waste Service Manager	15			0%	
	83	37	36.9	44%	100%

Service area	Original Plan	Jan Revised	March Actual	% of Original Complete	% Jan Revised Complete
Facilities Management					
Estates & Facilities	20	5		0%	0%
Passenger Transport	17	10	9.8	58%	98%
Property Services	45	25	16.0	36%	64%
Shire Services	41	7	10.3	25%	147%
	123	47	36.1	29%	77%
PLACES	449	273	259.2	58%	95%
HEALTH & CARE					
Care & Well-Being					
Housing Landlord Services	5	5	3.6	72%	72%
Health & Social Care Integration	12	6	5.8	48%	97%
Housing Health & Well-Being	8	8	6.9	86%	86%
Housing Landlord Services	63	64	55.6	88%	87%
HEALTH & CARE	88	83	71.9	82%	87%
Contingencies & Chargeable					
Transformation Projects	150	100	105.7	70%	106%
Fraud Contingency	165	400	455.5	276%	114%
Unplanned Work	50	65	71.2	142%	110%
Advice	30	10	12.4	41%	124%
Other non-audit Chargeable Work	362	298	333.8	92%	112%
Contingencies & Chargeable	757	873	978.6	129%	112%
Total for Shropshire	2,560	2,082	2,111.4	82%	101%
External Clients					
Honorary and Voluntary Funds	40	37	37.4	94%	101%
Just Credit Union	15	15	16.9	113%	113%
Shropshire Fire and Rescue	53	53	51.0	96%	96%
Pension Fund	81	77	70.7	87%	92%
Oswestry Town Council	29	29	32.2	111%	111%
West Mercia Energy		24	29.5		123%
External Clients	218	235	237.7	109%	101%
Total Audit Plan	2,778	2,317	2,349.1	85%	101%

Summary of compliments and comments 2012/13

1. "Many thanks again for your help in explaining and helping our understanding of the process".
2. "Timescale between end of audit and completion of report was quite long".
3. "Many thanks for a useful audit".
4. "Auditor was friendly and approachable, some of the requirements are difficult to obtain due to their nature but I shall do my best to achieve them".
5. "Audit Team were very professional and gave solid advice when asked during audit. They tried to make the experience as easy as possible. Follow up advice after the report was very useful".
6. "Recommendations can be a bit technical but are better than in the past, thanks for your help and support".
7. "Pleased with audit, thank you".
8. "Thank you for your input and help us move forward and I am sure that new admin staff will find it very positive, we will look forward to improving our systems".
9. "Both members of the team were sufficient and discreet given the nature of the provision – none intrusive to service users".
10. "I would like to thank both auditors for their support during our audit review".
11. "I understand why you have exception reporting, but some recognition of things going well would be good; overall rating is easy to understand though".
12. Find the experience focuses on the negative and no formal recognition of progress made on previous audits".
13. "As a service manager I very much appreciate the support audit services have/do provide in respect of responding to my questions and checking on control measures. The highly competent and professional way that actual issues have been dealt with and the occasional questions they ask of us. We have established audit controls and measures as part of our service monitoring right across the service with all staff and find audit most helpful in assisting continuous improvement – Thanks".
14. "The audit was undertaken in a very professional and thorough manner. The auditor was always pleasant in her dealings with all staff and clear in her communications with us. The findings of the report were helpful and helped us to focus on the key issues".
15. "Audit operates in an efficient manner and the scope and content of reports/findings is generally well received. In the current climate of resource restriction, some acknowledgment of the time constraints placed upon us would be beneficial. Tend to agree with findings but often do not have sufficient time to implement immediately."
16. "I am very happy once more with the work performed by internal audit".