INTERNAL AUDIT PLAN 2013/14 - PERFORMANCE REPORT

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1. Summary

This report proposes refinement of and revisions to the Internal Audit Plan which was presented as a draft in March 2013 amounting to 2,246 days. The new plan will provide 2,253 days across the Council's services and our external clients. We have secured the services of a trainee accountant which will reduce the levels of bought in audit. We continue to experience higher than expected special investigation and unplanned work necessitating revisions to the draft plan presented to Committee in March 2013, these changes have been discussed with and agreed by the Section 151 Officer.

This report provides members with details of the work undertaken by Internal Audit for the period 1st April to 31 August 2013 summarising progress against the Internal Audit Plan. Whilst it has been a challenging start to the year, 37% of the revised plan has been completed after five months which is in line with the target of 90% by year end.

Forty five good and reasonable assurances were made. Five unsatisfactory assurance opinions were delivered and a further ten limited assurance opinions issued. The 60 final reports contained 591 recommendations. Five fundamental recommendations have been identified.

2. Recommendations

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

a) The performance to date against the 2013/14 Audit Plan set out in this report.

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 a robust internal control environment can lead to poor performance, fraud, irregularity and inefficiency going undetected leading to financial loss and reputational damage.

3.2   Areas to be audited have been identified following a risk assessment process which has considered the Council's risk register information and involved discussions with managers around their key risks.

3.3   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.'

3.4   'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards, subject of a separate report on this agenda.

3.5   The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.

3.6   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   The draft 2013/14 audit plan was presented and approved by members at the 27 March Audit Committee with the caveat that some minor adjustments may be necessary before the plan was finalised. Since March the team has seconded a CIPFA trainee from Customer Care and Support Services to help provide audit cover for a number of maternity posts. The secondee will be delivering a number of audit days alongside the completion of their professional studies until July 2014.

5.2   Part of the internal audit plan has been provided by external providers through Staffordshire County Council's framework contract for internal audit.   Internal Audit representatives from Staffordshire County Council, Worcestershire County Council, Telford and Wrekin Council and Shropshire Council have recently completed a procurement exercise for the new Staffordshire County Council framework contract from August. Four companies have successfully being appointed to the framework and the contract is ready to use, subject to a few contractual issues, and work specific to Shropshire will be sought through a mini-tendering exercise. It was originally envisaged that we would buy in 280 days from external providers; this has been revised down to 154 days.

5.3   Performance reports are not normally provided to members until the next Committee meeting, but with the current level of change at the Council it is considered prudent to inform members of the activity to date. This report summarises the work of the Internal Audit team during the first five months of 2013/14. As reported previously, the team continues to experience a number of staff changes coupled with continuing high levels of investigation and unplanned work against a background of major changes and fluidity to Council services. This requires a more responsive approach to risk management and audit activity, culminating in necessary changes to the plan.

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.

5.5   In total 60 final reports have been issued in the first five months of 2013/14, the breakdown of which appears in the table below. In addition 28 audit reports have been issued in draft for which we are awaiting management comments. We have also issued four 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 August 2013/14

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Area Commissioners		2	2		4
Business Growth & Prosperity	1			1	2
Children's Safeguarding			1		1
Customer Care & Support Services	3		2		5
Finance, Governance & Assurance		2	1		3
Human Resources		1			1
Legal & Democratic	1				1
Learning & Skills	1	3	1		5
Programme Management, Systems & Transition	3		2	3	8
Social Care Operations	10	11	1		22
Social Care Efficiency & Improvement		2			2
Strategy, Research & Performance		1			1
Public Protection				1	1
Pensions Fund	3	1			4
Total for the period					
• **Numbers**	**22**	**23**	**10**	**5**	**60**
• **percentage**	**37%**	**38%**	**17%**	**8%**	**100**

5.6   Forty five good and reasonable assurances were made in the first five months of the year. Five unsatisfactory opinions were given on the Payroll; CIVICA Environmental Health System Application Review; isupport HR Forms Processing; Printing Services and the Discovery Centre - Craven Arms. Members received details at the June Committee on the Payroll audit and the Discovery Centre - Craven Arms is the subject of a separate report on this agenda. In the remaining areas management have provided positive responses to address a number of significant issues in the areas outlined in the table below;

CIVICA Environmental Health System Application Review;	The system complies with all external legislation and policies. The application is secure. Users have received the required training. Parameter data is correct, updated in a timely manner and access is restricted. Output is secure, accurate and reaches the intended recipient in a timely manner. There are continuity processes in place to ensure system availability. Management/audit trails are in place. Clear procedures are in place for the authorisation of changes. System changes are applied by appropriately qualified staff.

	Interfaces with the system are secure, efficient and effective.
isupport HR Forms Processing	Management and standards meet corporate requirements. The viability of the project has been formally assessed and documented. Developments and procurements are in line with corporate requirements. Elements of the project are appropriately tested. Post implementation assessment has been undertaken. Appropriate security is applied within iSupport to appropriately restrict access to sensitive data. Access to the Payroll MyView inbox is restricted to only those required for legitimate business reasons. Management were advised to consider the risks identified in this report and the concerns raised by the Information Governance Officer and consider what action should be taken in the short and long term plans for the system.
Printing Services	Completion of declarations of interest and performance appraisals. Compliance with policies and procedures for the use of Shropshire Council IT equipment. Management of and decommissioning of redundant equipment. Management and administration of the Apple network within Print and Design. Appropriate use of IT assets to support homeworking arrangements.

5.7 Ten limited opinions were issued in the following areas:

- Housing Benefits (2012/13)
- Income collection (2012/13)
- Purchase Ledger (2012/13)
- Sales Ledger (2012/13)
- Housing Management (2012/13)
- Purchasing and Contract Arrangements (2012/13)
- St Georges Primary School (2012/13)
- 11 St Georges Street, Group Home (2012/13)
- Contract for Leisure Centres
- Northgate Revenues and Benefits Application.

5.8 The four fundamental systems audits were reported to Audit Committee in June 2013 as part of the 2012/13 year-end report. Work has begun on a health check for these and the Payroll system that was given an unsatisfactory assurance in 2012/13. This work will be completed in September and the Audit Service Manager will be giving a verbal update on the direction of travel in relation to these at the Audit Committee. The full audits will be completed later in the year as part of the routine fundamental systems audit reviews. In addition, management have provided assurances to implement control improvements in all areas listed.

5.9 In comparison, at the end of 2012/13 twelve limited assurance reports and one unsatisfactory one was reported compared to ten limited and five unsatisfactory within the first five months of 2013/14. In addition, only one fundamental recommendation was made last year compared to five in total to date in 2013/14, details of which are set out later in the report.

5.10 Audit recommendations are 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.

5.11 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 and detailed earlier. Any 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 591 recommendations have been made in the 60 final audit reports issued in the first five months of 2013/14; these are broken down by area in the table below.

Audit recommendations made in the period to 31 August 2013/14

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Area Commissioners	12	37	18		67
Business Growth and Prosperity	2	24	18		44
Children's Safeguarding		1	1	2	4
Customer Care and Support Services	2	25	12		39
Finance, Governance and Assurance	5	33	5	1	44
Human Resources	5	8	1		14
Legal and Democratic					0
Learning and Skills	34	67	3		104
Programme Management, Systems and Transition	4	45	64	2	115
Social Care Operations	38	58	17		113
Social Care Efficiency and Improvement		8	3		11
Strategy, Research and Performance		4			4

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Public Protection	1	10	9		20
Pensions Fund	1	8	3		12
Total for the period					
• numbers	**104**	**328**	**154**	**5**	**591**
• percentage	**18%**	**55%**	**26%**	**1%**	**100%**

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 three 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.

5.14 Five fundamental recommendations have been agreed with managers:

Two were made in the iSupport HR forms processing audit for which the detailed control issues appear earlier in this report both for completion in May;

Two in Children's safeguarding, purchasing and contract arrangements; the first requiring documents for providers for whom the Council is Lead Authority to be verified on the West Midlands Database on an annual basis to ensure they are up to date and valid, with staff being appropriately trained in order to undertake this verification process, implementation planned for September. The second, that the variation order for a block contract with a key provider, to extend services for a further two years, be progressed and formally agreed by both parties. With the extended contract being subject to careful monitoring due to the present financial status of the company and a contingency plan considered in the event of the company's failure. This had an implementation date of July and management have confirmed that this recommendation has been fully acted upon.

One in Income collection, that reconciliations need to be completed in line with the year-end timetable for production of the Council's accounts and reconciliations for the new financial year need to be completed in a timely manner in line with the agreed timescales, implemented in May and subject to Internal Audit review as part of the financial systems health check process, mentioned earlier in this report.

Performance against the plan

5.15 The draft internal audit plan was presented to Audit Committee in March 2013 with the caveat that some adjustments may be necessary which would be agreed by the Section 151 Officer and reported back to committee. There have been several changes both in the structure of the council and the resources available since the original plan was drafted, the opportunity has been taken to revisit the plan in the light of these changes and the audit work performed in the first third of the year.

5.16 As previously mentioned, we have secured the services of an accounting trainee on a twelve month secondment; as a result the money available to purchase external

provision has been reduced, resulting in a small number of additional days. The higher cost of bought in audit is offset by the increase in professional training time for the trainee, so the number of days available is almost the same. Special investigation work and unplanned work, continues at the same levels experienced last year. It has been necessary to increase the fraud and unplanned contingency by 40 days and 51 days respectively, this has been achieved through cuts to lower risk planned work and transformation work which is running far lower than originally anticipated in the first four months. We will continue to closely monitor the situation and it is probable that we will have to revisit these contingencies later in the year to make further revisions to the plan to accommodate additional unforeseen work.

5.17 The team has achieved 37% of the revised plan after five months which is in line with the target to deliver 90% at the year end. Performance up to the end of August 2013 is summarised in the following table. **Appendix A** provides a more detailed summary by Directorate and Service.

Summary of audit days delivered and revisions to the audit plan, August 2013

	Original Plan	August Revision	Revised Plan	Days Worked	% of Revised Complete
Chief Executive	16	2	18	7.7	43%
Commissioning	205	23	228	92.1	40%
Resources and Support	635	-60	575	134.8	23%
Adult Services	204	-2	202	63.6	31%
Public Health	28	-5	23	0	0%
Children's Services	242	-20	222	68.7	31%
S151 Planned Audit	**1,330**	**-62**	**1,268**	**366.9**	**40%**
Contingencies and other chargeable work	672	69	741	380.6	51%
Total S151 Audit	**2,002**	**7**	**2,009**	**747.5**	**37%**
Honorary and Voluntary Funds	40	0	40	22.6	57%
External Clients	204	0	204	56.3	28%
Total	**2,246**	**7**	**2,253**	**826.4**	**37%**

5.18 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.

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 2013/14 - Audit Committee 27 March 2013
Public Sector Internal Audit Standards 2013
Accounts and Audit Regulations 2011.

Cabinet Member (Portfolio Holder)
Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member: All

Appendices: A: Audit Plan by Group and Service

AUDIT PLAN BY GROUP AND SERVICE – PERFORMANCE REPORT TO AUGUST 2013/14

	Original Plan	Aug Revision	Aug Revised	Actuals End Aug	% of Revised Complete
CHIEF EXECUTIVE					
Governance	**16**	**2**	**18**	**7.7**	**43%**
COMMISSIONING					
Director of Commissioning					
Leisure	41	-1	40	20.4	51%
Area Commissioner South					
Highways and Transport	31		31	1.9	6%
Passenger Transport	4	3	7	7.1	101%
	35	3	38	9.0	24%
Public Protection					
Environmental Health	14		14	8.6	61%
Licensing	10	6	16	16.1	101%
	24	6	30	24.7	82%
Business Growth and Prosperity					
Enterprise and Business	22		22	4.5	20%
Old Market Hall, Shrewsbury	4		4		0%
Visitor Economy	5	10	15	11.5	77%
Housing Services	48	5	53	14.9	28%
Planning and Corporate Policy	12		12	6.9	58%
Development Management	14		14	0.2	1%
	105	15	120	38.0	32%
COMMISSIONING	**205**	**23**	**228**	**92.1**	**40%**
RESOURCES AND SUPPORT					
Business Performance Management	8	-1	7	7	100%
Programme Management, Systems and Transition					
Shared Services - Management	10	2	12	11.9	99%
Shared Services - ICT Implementation and Architecture	38	-3	35	2.7	8%
Shared Services - ICT Operations	72	-16	56	21.8	39%
Shared Services - Finance	40		40	5.2	13%
Shared Services - Human Resources	32		32	4.3	13%
Shared Services - Shire Services	30	-13	17	0.9	5%
	222	-30	192	46.8	24%

	Original Plan	Aug Revision	Aug Revised	Actuals End Aug	% of Revised Complete
Finance, Governance and Assurance					
Risk Management	5		5		0%
Financial Advice (S.151)					
Financial Advice (S.151)	65	-6	59	21.5	36%
Financial Management	65	-10	55	4.0	7%
Treasury and Exchequer	45		45	2.4	5%
Procurement	44	-5	39	22.9	59%
	224	-21	203	50.8	25%
Democratic and Election Services					
Democratic and Election Services	11	-2	9	3.5	39%
Information Governance	9	-5	4		0%
	20	-7	13	3.5	27%
Human Resources					
Payroll and Human Resources	24	-5	19	0.7	4%
Customer Care and Support					
Benefits	32	4	36	12.5	35%
Customer Services	9		9	0.1	1%
Revenues Manager	45		45	8.2	18%
Estates and Facilities	51		51	5.2	10%
	137	4	141	26.0	18%
RESOURCES AND SUPPORT	**635**	**-60**	**575**	**134.8**	**23%**
ADULT SERVICES					
Long Term Support	104	-1	103	9.5	9%
Provider Services - Comforts Funds	30		30	19.5	65%
Provider Services - Group Homes	57		57	22.2	39%
Provider Services - Trading Accounts	13	-1	12	12.4	103%
ADULT SERVICES	**204**	**-2**	**202**	**63.6**	**31%**
PUBLIC HEALTH	**28**	**-5**	**23**	**0**	**0%**
CHILDREN'S SERVICES					
Business Support	18	-10	8	1.3	16%
Primary /Special Schools	126	8	134	52.6	39%
Secondary Schools	37		37	0.1	0%
Lifelong Learning	15	-13	2	0.1	5%
Children's Placement Services & Joint Adoption	46	-5	41	14.6	36%
CHILDREN'S SERVICES	**242**	**-20**	**222**	**68.7**	**31%**

Contingencies & Other Chargeable work

Fraud Contingency	218	40	258	158	61%
Transformation Projects	100	-50	50	11.7	23%
Advisory Contingency	20		20	9.3	47%
Unplanned Work	49	51	100	69.9	70%
Other non-audit Chargeable Work	285	28	313	131.7	42%
Contingencies & Other Chargeable work	**672**	**69**	**741**	**380.6**	**51%**
Total for Shropshire	**2002**	**7**	**2009**	**747.5**	**37%**
External Clients					
Honorary and Voluntary Funds	40		40	22.6	57%
Just Credit Union	15		15	0.2	1%
Shropshire Fire and Rescue	52		52	18.4	35%
Pension Fund	52		52	4.8	9%
Oswestry Town Council	29		29	23.1	80%
STandRH (ALMO)	30		30	1.1	4%
West Mercia Energy	26		26	8.7	33%
Total External Clients	**244**	**0**	**244**	**78.9**	**32%**
Total Chargeable	**2246**	**7**	**2253**	**826.4**	**37%**