

## INTERNAL AUDIT PLAN 2013/14 - PERFORMANCE REPORT TO 31 OCTOBER 2013

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### 1. Summary

This report provides members with an update on the work completed by Internal Audit in the two months since the last report in September 2013 summarising progress against the Internal Audit Plan. Change and challenge continues unabated, 53% of the revised plan has been completed after seven months which is in line with the target of 90% by year end.

The trend towards a higher number of limited and unsatisfactory opinions issued this year compared to last has continued. In the last two months seventeen good and reasonable assurances were made, whilst four limited and four unsatisfactory assurance opinions were issued. The 25 final reports issued contained 314 recommendations including five fundamental recommendations. Management have responded positively to the audit reports and have agreed action plans to implement the recommendations made.

This report proposes minor revisions to the revised Internal Audit Plan presented in September 2013 amounting to 2,253 days. The new plan will provide 2,256 days across the Council's services and our external clients. We continue to experience higher than expected levels of unplanned work necessitating these revisions, these changes have been discussed with and agreed by the Section 151 Officer.

### 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 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.'
- 3.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards.
- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.5 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 revised 2013/14 audit plan was presented and approved by members at the 19<sup>th</sup> September Audit Committee with the caveat that further adjustments may be necessary, the opportunity has been taken to make a number of minor changes which have added three days in total. Our external providers have commenced work and are beginning to contribute to the team's performance which will show in the next performance report.

#### **Audit Work and Findings**

- 5.2 Audit assurance opinions are delivered on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

<b>Good</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
<b>Reasonable</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non

	compliance with some of the controls.
<b>Limited</b>	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
<b>Unsatisfactory</b>	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

5.3 In total 25 final reports have been issued in September and October 2013, the breakdown of which appears in the table below. In addition five audit reports have been issued in draft for which we are awaiting management comments. We have also issued seven final reports to our external clients and drawn up the financial statements and completed the audits of six school and other honorary and voluntary body accounts.

#### **Audit assurance opinions delivered in September and October 2013/14**

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Area Commissioners	5	1		1	7
Children's Safeguarding	1	1			2
Finance, Governance and Assurance			1		1
Human Resources				1	1
Learning & Skills		2	1		3
Programme Management, Systems and Transition		1	2	1	4
Social Care Operations	2	4			6
Public Protection				1	1
<b>Total for the period</b>	<b>8</b>	<b>9</b>	<b>4</b>	<b>4</b>	<b>25</b>
<b>Total to date</b>					
• <b>Numbers</b>	<b>30</b>	<b>32</b>	<b>14</b>	<b>9</b>	<b>85</b>
• <b>percentage</b>	<b>35%</b>	<b>38%</b>	<b>16%</b>	<b>11%</b>	<b>100</b>

5.4 Seventeen good and reasonable assurances were made in September and October. Four unsatisfactory opinions were given on Business Continuity/Server Consolidation; Fuel and Expenses VAT Recovery; Licensing and Pool Cars. Management have provided positive responses through agreed recommendation implementation action plans to address the issues identified, a number of significant issues are summarised in the table below:

<b>Business Continuity/Server Consolidation (Programme Management, Systems and</b>	Reorganisations, loss of key staff and technological weaknesses in the current plan render the IT service recovery plan out of date, particularly if we suffered a critical loss of the Shirehall data centre. Recommendations have been made to completely review the plan, identify critical systems and recovery timescales and commence periodic testing and a fundamental recommendation concerning the
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<b>Transition)</b>	future of the Disaster Recovery Site at Wem prior to any investment being made.
<b>Fuel and Expenses VAT recovery</b> <i>(Human Resources)</i>	<p>The Council is able to claim back VAT paid on employee's fuel and expense claims. In May 2013 anomalies were identified in the amount of VAT being recovered compared to previous years. Audit examination revealed that whilst VAT on manual claims had been recovered correctly; the parameter setting for VAT within the MyView travel and expenses module was incorrect. This has resulted in no VAT on travel or expenses being recovered from HMRC since MyView went live in March 2012; a fundamental recommendation to address the VAT parameter problem was issued and accepted. Allied to this is a problem with the software itself, which is still awaiting a working fix from the software supplier. The unclaimed VAT is estimated to be in the region of £100k per annum.</p> <p>Managers of the system were tasked with addressing the internal control issues to ensure the correct recovery of VAT in future. Internal Audit were asked to review how much of the 2012/13 VAT could be recovered based on VAT receipt evidence in place for existing claims as VAT receipts are now retained by claimants. Based on a large sample of claimant's records, a value of 60-67% was identified for recovery. A retrospective claim will be made when the IT issues have been fixed and the system is working correctly.</p>
<b>Licensing</b> <i>(Public Protection)</i>	Migration to a new system, poor data quality and a lack of suitable reports from the system resulted in an audit opinion that reliance cannot be placed on the accuracy of the information held. There are no procedures in place to reconcile income received to the cash receipting system or the ledger, which provides an opportunity for fraud or error to occur and remain undetected. Recommendations have been made to improve administrative processes, ensure that the correct charges are levied, recover licenses that are not renewed and ensure that refunds are only made when payment has been confirmed. Objectives, performance measures, and a risk register all need to be developed.
<b>Pool Cars</b> <i>(Area Commissioners)</i>	An audit of the pool car system revealed significant weaknesses in the system as a whole, particularly the absence of management information making it virtually impossible for managers to check for potential duplicates when authorising claims, resulting in an environment where the potential for fraud or error can occur and remain undetected. Several recommendations have been made around the schemes administration, amendments to the claim form, management information and financial viability. A fundamental recommendation was made concerning the continued viability of the pool car scheme, work should be undertaken to assess the cost effectiveness and value for money of providing the service. As a consequence, many of these control weaknesses remain to be addressed pending a decision on the future of the pool car scheme.

5.5 Four limited opinions were issued in the following areas:

- Database Access/ Admin/ Management
- SAMIS
- Rushbury Primary School
- Primary Cash Collection

5.6 The level of unsatisfactory and limited audit opinions is continuing at the levels reported in September, we have now issued 14 limited and nine unsatisfactory opinions in the first seven months compared to 12 limited and one unsatisfactory assurance reports issued last year. In addition, only one fundamental recommendation was made last year compared to ten to date in 2013/14, details of which are set out below.

5.7 Audit recommendations are an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority:

<b>Best Practice (BP)</b>	Proposed improvement, rather than addressing a risk.
<b>Requires Attention (RA)</b>	Addressing a minor control weakness or housekeeping issue.
<b>Significant (S)</b>	Addressing a significant control weakness where the system may be working but errors may go undetected.
<b>Fundamental (F)</b>	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.8 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.

5.9 A total of 314 recommendations have been made in the 25 final audit reports issued in September and October; these are broken down by area in the table below.

**Audit recommendations made in September and October 2013**

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Area Commissioners	9	61	26	1	97
Children's Safeguarding	1	3			4
Finance, Governance and Assurance	1	4	6		11
Human Resources		3	3	1	7

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Learning and Skills	33	52	7		92
Programme Management, Systems and Transition	1	8	22	3	34
Social Care Operations	6	24	4		34
Public Protection		21	14		35
<b>Total for the period</b>	<b>51</b>	<b>176</b>	<b>82</b>	<b>5</b>	<b>314</b>
<b>Total to date</b>					
• numbers	<b>155</b>	<b>504</b>	<b>236</b>	<b>10</b>	<b>905</b>
• percentage	<b>17%</b>	<b>56%</b>	<b>26%</b>	<b>1%</b>	<b>100%</b>

- 5.10 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 in the year to date. All rejected recommendations have been discussed with the managers concerned and the reasons for rejection accepted.
- 5.11 Five fundamental recommendations have been agreed with managers, three are discussed above under unsatisfactory opinions, the remaining two were issued in the Primary Cash Collection audit regarding the reconciliation of actual banked income to that recorded on the cooks returns to ensure any missed or short bankings are detected and followed up promptly; and that monthly variance reports between expected income and actual income should be produced, monitored and acted upon in a timely manner.

### Performance against the plan

- 5.12 Revised internal audit plan was presented to Audit Committee in September 2013. There have been further changes to the structure of the council and taking into account the audit work performed in the seven months, some minor variations to the plan have been made adding three days in total.
- 5.13 Our external providers have commenced work on their assignments which are programmed for completion over the next four months; this contribution to completion of the audit plan should begin to show in the next performance report. We expect to issue further work to external providers shortly.
- 5.14 Unplanned work is continuing at the same high levels previously reported, we had expected a fall in this area, however it has been necessary to increase the unplanned contingency by a further 20 days, this has been achieved through cuts to lower risk planned work and other chargeable non audit work which is running lower than originally anticipated in the first seven months. We will continue to closely monitor the situation, however with the rapidly evolving changes proposed over the next 12 months it is almost certain that we will have to revisit the plan as we concentrate on the areas of highest risk.

5.15 The team has achieved 53% of the revised plan after seven months which is in line with the target to deliver 90% at the year end. Performance up to the end of October 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, November 2013**

	Original Plan	Aug Revised	Nov Revision	Revised Plan	Days Worked	% of Revised Complete
Chief Executive	16	18	0	18	7.7	43%
Commissioning	205	228	-11	217	127.0	59%
Resources and Support	635	575	5	580	174.3	30%
Adult Services	204	202	19	221	93.5	42%
Public Health	28	23	0	23	0	0%
Children's Services	242	222	-13	209	109.3	52%
<b>S151 Planned Audit</b>	<b>1,330</b>	<b>1,268</b>	<b>0</b>	<b>1,268</b>	<b>511.8</b>	<b>40%</b>
Contingencies and other chargeable work	672	741	3	744	561.1	75%
<b>Total S151 Audit</b>	<b>2,002</b>	<b>2,009</b>	<b>3</b>	<b>2,012</b>	<b>1,072.9</b>	<b>53%</b>
Honorary and Voluntary Funds	40	40	0	40	26.1	65%
External Clients	204	204	0	204	87.4	43%
<b>Total</b>	<b>2,246</b>	<b>2,253</b>	<b>3</b>	<b>2,256</b>	<b>1,186.4</b>	<b>53%</b>

5.16 Work for our external clients is progressing well and will be completed by the year end.

**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  
 Internal Audit Plan 2013/14 - Performance Report - Audit Committee 19th September 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

## APPENDIX A

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

	Original Plan	Aug Revised	Nov Revision	Nov Revised	Oct Actual	% of Original	% of Revised
<b>CHIEF EXECUTIVE</b>							
<b>Governance</b>	16	18	0	18	7.7	48%	43%
<b>COMMISSIONING</b>							
<b>Director of Commissioning</b>							
Leisure	41	40	-9	31	31.2	76%	101%
<b>Area Commissioner South</b>							
Highways and Transport	31	31	-1	30	8.8	28%	29%
Passenger Transport	4	7		7	7.1	178%	101%
	35	38	-1	37	15.9	45%	43%
<b>Public Protection</b>							
Environmental Health	14	14	-4	10	9.7	69%	97%
Licensing	10	16		16	16.4	164%	103%
	24	30	-4	26	26.1	109%	100%
<b>Business Growth and Prosperity</b>							
Enterprise and Business	22	22		22	5.8	26%	26%
Old Market Hall, Shrewsbury	4	4		4	3.3	83%	83%
Visitor Economy	5	15	-3	12	11.5	230%	96%
Housing Services	48	53		53	15.1	31%	28%
Planning and Corporate Policy	12	12	6	18	17.5	146%	97%
Development Management	14	14		14	0.6	4%	4%
	105	120	3	123	53.8	51%	44%
<b>COMMISSIONING</b>	<b>205</b>	<b>228</b>	<b>-11</b>	<b>217</b>	<b>127.0</b>	<b>62%</b>	<b>59%</b>
<b>RESOURCES AND SUPPORT</b>							
<b>Business Performance Management</b>	8	7		7	7.0	88%	100%
<b>Programme Management, Systems and Transition</b>							
Shared Services - Management	10	12	2	14	13.1	131%	94%
Shared Services - ICT Implementation and Architecture	38	35		35	2.9	8%	8%
Shared Services - ICT Operations	72	56	1	57	30.1	42%	53%
Shared Services - Finance	40	40		40	6.0	15%	15%
Shared Services - Human Resources	32	32	1	33	7.8	24%	24%
Shared Services - Shire Services	30	17		17	0.9	3%	5%
	222	192	4	196	60.8	27%	31%



	Original Plan	Aug Revised	Nov Revision	Nov Revised	Oct Actual	% of Original	% of Revised
<b>Finance, Governance and Assurance</b>							
Risk Management	5	5		5	0.2	4%	4%
<b>Financial Advice (S.151)</b>							
Financial Advice (S.151)	65	59		59	23.6	36%	40%
Financial Management	65	55		55	11.0	17%	20%
Treasury and Exchequer	45	45		45	9.5	21%	21%
Procurement	44	39	5	44	28.3	64%	64%
	219	198	5	203	72.4	33%	36%
<b>Democratic and Election Services</b>							
Democratic and Election Services	11	9		9	4.3	39%	48%
Information Governance	9	4		4	0.1	1%	3%
	20	13	0	13	4.4	22%	34%
<b>Human Resources</b>							
Payroll and Human Resources	24	19	0	19	1.6	7%	8%
<b>Customer Care and Support Services</b>							
Benefits	32	36		36	13.1	41%	36%
Customer Services	9	9		9	0.1	1%	1%
Revenues Manager	45	45		45	8.3	18%	18%
Estates and Facilities	51	51	-4	47	6.4	13%	14%
	137	141	-4	137	27.9	20%	20%
<b>RESOURCES AND SUPPORT</b>	<b>635</b>	<b>575</b>	<b>5</b>	<b>580</b>	<b>174.3</b>	<b>27%</b>	<b>30%</b>
<b>ADULT SERVICES</b>							
Long Term Support	104	103	4	107	20.7	20%	19%
Provider Services - Comforts Funds	30	30	8	38	28.1	94%	74%
Provider Services - Group Homes	57	57	7	64	32.3	57%	50%
Provider Services - Trading Accounts	13	12	0	12	12.4	95%	103%
<b>ADULT SERVICES</b>	<b>204</b>	<b>202</b>	<b>19</b>	<b>221</b>	<b>93.5</b>	<b>46%</b>	<b>42%</b>
<b>PUBLIC HEALTH</b>	<b>28</b>	<b>23</b>	<b>0</b>	<b>23</b>	<b>0.0</b>	<b>0%</b>	<b>0%</b>
<b>CHILDREN'S SERVICES</b>							
Business Support	18	8		8	2.1	12%	26%
Primary /Special Schools	126	134	-13	121	69.2	55%	57%
Secondary Schools	37	37		37	12.6	34%	34%
Lifelong Learning	15	2		2	0.1	1%	5%
Children's Placement Services and Joint Adoption	46	41		41	25.3	55%	62%
<b>CHILDREN'S SERVICES</b>	<b>242</b>	<b>222</b>	<b>-13</b>	<b>209</b>	<b>109.3</b>	<b>45%</b>	<b>52%</b>

	Original Plan	Aug Revised	Nov Revision	Nov Revised	Oct Actual	% of Original	% of Revised
<b>Contingencies &amp; Other Chargeable Work</b>							
Fraud Contingency	218	258		258	216.2	99%	84%
Transformation Projects	100	50		50	32.4	32%	65%
Advisory Contingency	20	20		20	11.9	60%	60%
Unplanned Work	49	100	20	120	108.2	221%	90%
Other non-audit Chargeable Work	285	313	-17	296	192.4	68%	65%
<b>Contingencies &amp; Other Chargeable Work</b>	<b>672</b>	<b>741</b>	<b>3</b>	<b>744</b>	<b>561.1</b>	<b>83%</b>	<b>75%</b>
<b>Total for Shropshire</b>	<b>2,002</b>	<b>2,009</b>	<b>3</b>	<b>2,012</b>	<b>1072.9</b>	<b>54%</b>	<b>53%</b>
<b>External Clients</b>							
Honorary and Voluntary Funds	40	40		40	26.1	65%	65%
Just Credit Union	15	15		15	0.2	1%	1%
Shropshire Fire and Rescue	52	52		52	29.7	57%	57%
Pension Fund	52	52		52	14.3	28%	28%
Oswestry Town Council	29	29		29	25.3	87%	87%
STandRH (ALMO)	30	30		30	3.2	11%	11%
West Mercia Energy	26	26		26	14.7	57%	57%
<b>Total External Clients</b>	<b>244</b>	<b>244</b>	<b>0</b>	<b>244</b>	<b>113.5</b>	<b>47%</b>	<b>47%</b>
<b>Total Chargeable</b>	<b>2,246</b>	<b>2,253</b>	<b>3</b>	<b>2,256</b>	<b>1186.4</b>	<b>53%</b>	<b>53%</b>