



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
18 February 2016	
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DRAFT INTERNAL AUDIT ANNUAL PLAN 2016/17

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1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2016/17. The annual plan will provide coverage across the Council's services and deliver internal audit services for a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2016/17 and approve its adoption.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Audit Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the Council's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. Where

critical to the Council's operations these will be reported and rectified where possible and viable.

- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015, part 2 which sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

4. Financial Implications

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

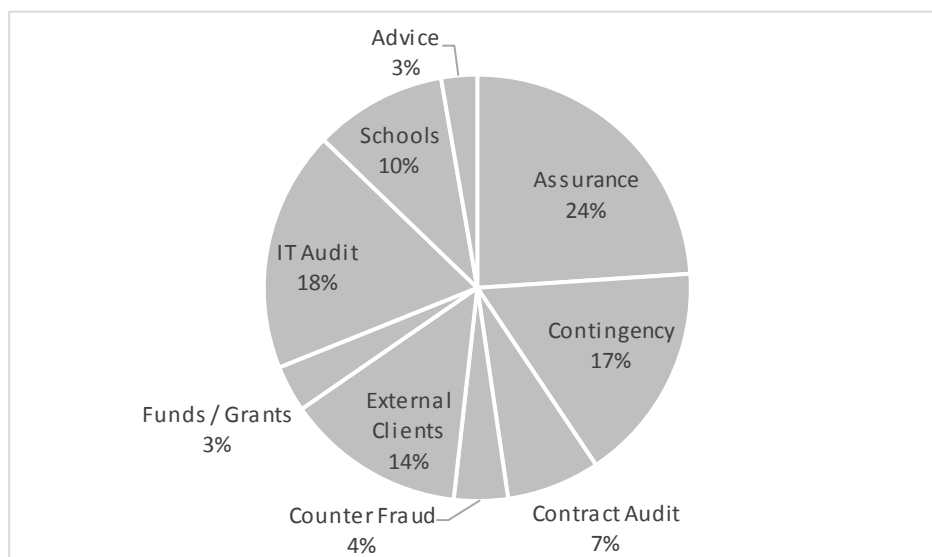
5. Background

- 5.1 The provision of a risk based Internal Audit Plan consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's internal controls, risk exposure and governance framework. The plan has been constructed to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion and assurance framework. In doing this it can be confirmed that the plan covers the following activities:
- Governance processes
 - Ethics
 - Information technology governance
 - Risk management and
 - Fraud management.
- 5.2 The audit risk assessment is reviewed annually with Directors, Area Commissioners, Heads of Service and the Section 151 Officer to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources and the transformation into a commissioning organisation.
- 5.3 When considering the risks affecting audit areas account has been taken of:
- changes to and the introduction of new services;
 - the redesign/transformation programme and business plans of the Council;
 - budget pressures and saving commitments;
 - previous audit findings;
 - opening and closure of establishments;

- comments from the external auditors on scope and coverage to ensure the work of Internal Audit does not duplicate that of the external auditor;
- Audit Committee terms of reference;
- increased partnership working or different delivery models for future service delivery;
- risks identified by the risk management process;
- budget deficits in relation to schools;
- large contracts likely to be undertaken; and
- assurances from services, internal governance and external parties.

5.4 Top risks facing councils continue to include pressures on finances and resources; technology; third party risk management; fraud and misconduct; crisis risk management; data security; achieving compliance with regulations; improving risk data aggregation and reporting. In addition, the Council’s strategic risks around the IT infrastructure, workforce planning, development and retention; financial sustainability and maintaining public confidence have also been considered when refining the plan.

5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,270 days for Shropshire Council audit work and 200 days of work for external clients. These days are broken down by type in the chart below.



Resources

5.6 The Internal Audit service has continued to see a rationalisation of resources at a time of significant increase in demand. The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. Whilst over time the Council will be reducing in size in terms of the services it delivers directly, the interim period will see the associated risks, and therefore areas requiring audit review, continue to increase. In addition, as a result of the changing control environment, areas reviewed are attracting lower assurance levels than previously. This has resulted in the need for an increased level of follow up audits, a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.

- 5.7 The team has 9.4 full time equivalents and has retained a rich mix of skills in finance, information technology, contract management, governance, job evaluation, establishments, systems, counter fraud, investigations and project management (**Appendix B**). This represents a post less than last year. Skills continue to be developed across the wider team and to help supplement the internal resources and respond to demand during this period of change, additional audit reviews are purchased from external contractors using the Staffordshire framework contract. The plan provides for this mixed provision to continue going forward into 2016/17, these resources will also support the team through a further period of planned maternity leave. In addition to this, consideration is being given to seeking a fixed term resource for the team to be funded from the vacancy within the present team structure if the funding remains available, this resource is not included in the proposed plan. Employment to such a post would hopefully reduce the amount of management time spent on contract management, given the continuing work pressures identified by the risk analysis, and therefore provide a better value for money solution to the resourcing challenges the team faces.
- 5.8 The Audit Plan for 2016/17 based on a risk analysis identified just under 2,000 days to review all high risk areas. Areas requiring review attracting a lower risk have not been considered in this year's planning process. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate meetings - officer and members, responding to legislation, s151 officer work requests, training etc.) are restricted to 1,470 days of which 200 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,270 days.
- 5.9 In order to match the review areas to resources, it has been necessary to take out a number of reviews identified as high priority, details of which appear as **Appendix C**. These include the transformation contingency; a number of schools which have not been independently audited for five years; some IT audit areas; key projects; processes and contracts. The lack of a transformation contingency will mean that as work is identified throughout the year, those high risks perceived as being of 'lower value' may need to be considered for exclusion from the plan to enable new emerging areas to be reviewed. It was felt prudent at this time however to demonstrate any activity as it happens in order to provide a transparent audit trail. Equally, if contingencies for fraud, unplanned audits and advice are not required in full, reviews may be able to be brought back into the plan.
- 5.10 In preparing the plan for 2016/17 the key items to note are:
- The plan for the first time does not include time for all fundamental system audit reviews. A decision has been taken to review these on a cyclical basis after considering the risk profile of each area. Those of a good or reasonable assurance level are not included in the plan this year. The exception is the Payroll system which is of a high material value to the Council's operations and as such, even though its internal control environment is currently rated as good/ reasonable, will be reviewed every year.
 - A separate risk based analysis of the IT audit areas has been conducted and assessments for applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a

significant part of the internal audit plan reflecting the Council's continuing reliance on technology and the developmental requirements as services are redesigned.

- The fraud contingency is being maintained at 200 days to reflect the current activity levels being experienced and, with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- Internal Audit aims to review primary schools at least every five years and secondary schools every three. It is no longer possible to achieve full audit reviews within the time frame and if schools were prioritised over other business areas the resources used would be disproportional to those used elsewhere given the Council's strategic risks. Secondary schools will be reviewed every four years and an alternative approach is being taken with primary schools. When looking to prioritise schools in the plan any deficit position, previous assurance ratings (especially unsatisfactory or limited) concerns of the education service, submission and responses to the schools financial value statements and the date of the last audit are all considered. In this way Audit Services prioritise any slippage in this area with a view to managing associated risks. The plan is currently based on this methodology. In addition, a new approach is to be trialled this year. Primary schools will be asked to complete a self-assessment on a rolling basis. This data will be used on top of that already gathered to identify which schools are prioritised for internal audit review which will be a percentage of the number due for a full audit. The protocol for this is to be drafted and agreed with the Section 151 Officer and it is hoped to use this approach for the 2016/17 year. Further details of any plan changes as a result will be brought to the attention of Members.
- In considering how Internal Audit could support schools in improving their control environment, the plan continues to allow a small amount of time for auditors to work with governors, head teachers and administrators in understanding the level of controls required and how they can be improved and implemented, thereby aiming to prevent any control erosion which would lead to increased risks.
- Days are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue, Shropshire Pension Fund, West Mercia Energy and Oswestry Town Council. In addition, discussions are planned with the Chief Executive, Director of Commissioning and Section 151 Officer to firm up proposals to review any areas of significant risk which are being transferred to other delivery models. Time has been included in the proposed plan to cover known activities that are currently under review.
- Procurement and commissioning continue to be areas of growth and as such there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council.
- Discussions with senior managers have identified a number of areas considered low risk from an internal controls/ materiality perspective where managers are receiving a mix of assurances from their systems, personnel and/ or third parties on which

they can place reliance. These areas are identified in **Appendix D** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly to Committee on these areas if required.

- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is required for the benefit of the Council, external clients and the auditors.

5.11 A copy of the draft plan for Shropshire Council and those of our external clients will be forwarded to the appropriate external auditors inviting their comments on coverage and to maximise any shared learning from each other's work.

5.12 Whilst every effort has been made to include all key audit areas required in the plan, if other items are identified from discussions with colleagues from External Audit, or as knowledge becomes available from other sources, these will be agreed with the Section 151 Officer and reported to a future Audit Committee.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Audit universe and resources analysis
 Public Sector Internal Audit Standards 2013
 CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition
 Accounts and Audit Regulations 2015
 KPMG Key risk management issues for 2016

Cabinet Member (Portfolio Holder) Malcolm Pate (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

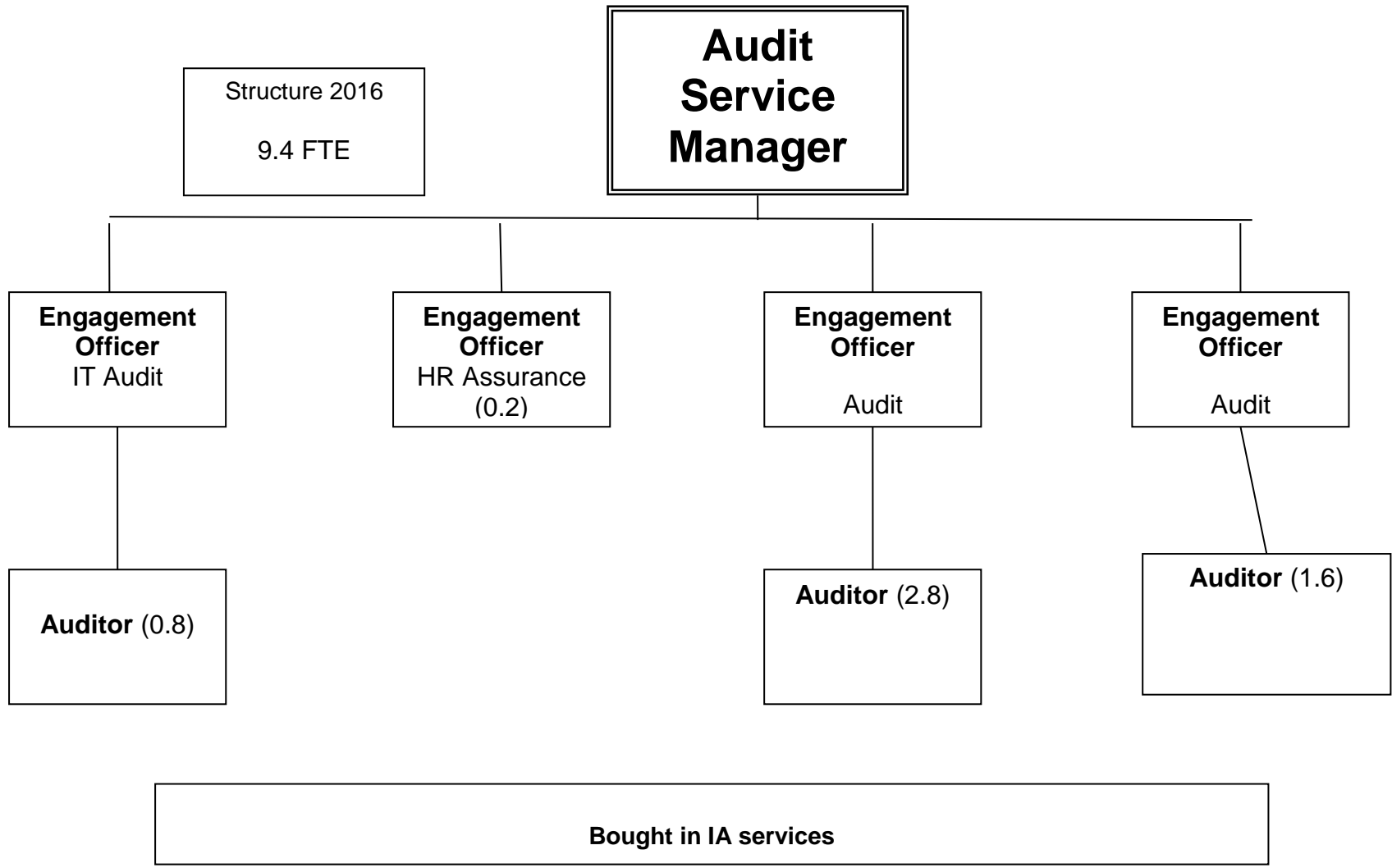
Local Member n/a

Appendices

Appendix A: Summary of Draft Internal Audit Plan by Service
 Appendix B: IA structure
 Appendix C: High risk areas not to be audited
 Appendix D: Audit areas where managers will seek and provide any necessary assurance

2016/17 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
CHIEF EXECUTIVE	
Governance	38
IT	176
Finance Governance and Assurance	166
Human Resources	43
Legal, Democratic and Strategic Planning	21
Total Chief Executive	444
ADULT SERVICES	
Social Care Operations	135
Social Care Efficiency and Improvement	5
Total Adult Services	140
COMMISSIONING	
Area Commissioner North	19
Area Commissioner South	20
Head of Business Growth and Prosperity	19
Head of Public Protection	19
Procurement	25
Total Commissioning	102
CHILDREN'S SERVICES	
Safeguarding	58
Learning and Skills	164
Learning Employment and Training	10
Total Children's Services	232
PUBLIC HEALTH	
Public Health	27
Commercial Services	40
Total Public Health	67
CONTINGENCIES	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	200
Unplanned Audit Contingency	45
Other non-audit chargeable work	247
Total Contingencies	532
Total Shropshire Council	1,517
External Clients	200
Total Audit Plan	1,717



2016/17 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

Chief Executive	Director of Commissioning	Director of Children's Services
University Leasing Arrangements Medium Term Financial Strategy AUDIS - Direct Debit Income System Application Comino Document Management System Application Cash Offices - Regularity Audits Mobile Working HR Policies Redundancy Process CR Human Resources / Workforce Planning CASPAR Database Access / Admin / Management Digital Mailroom Project Internet Controls Networks and Connectivity Voice Over IP Wireless Networking	Waste - Bulky Waste CONFIRM-Highways Management System Highways Maintenance - Ringway Contract Quarry Swimming Pool Sports Development Community Car Scheme Public Transport - Concession Fares School Planning & Transport Arrangements TOMS-ITU Voluntary Car Scheme Funding & Programmes Building Control Section 106 Agreements Growth Point Investment and Infrastructure - Business Parks Theatre Severn Theatre Ticketing & Online Booking Application Parking - Cash Collection Parking - Enforcement and issue of NPOs & Fixed Penalty Notices Key Supply Contracts Procurement Arrangements Procurement Cards	Section 11 agreements Albrighton Primary School Belvidere Primary School Broseley CE Primary School Bryn Offa CE (Controlled) Primary School Buntingsdale Infant School Castlefields Primary School Coleham Primary School Crowmoor Primary School Ellesmere Primary School Greenacres Primary School Greenfields Primary School Harlescott Junior School Highley Primary School Ifton Heath Primary Market Drayton Infant and Nursery School Market Drayton Junior School Martin Wilson School Meole Brace C E Infant School Oakmeadow CE Primary and Nursery School St Andrew's CE Primary School, Shifnal St George's Junior School, Shrewsbury St John's Catholic Primary School St Laurence CE Primary School, Ludlow St Mary's CE Primary School, Shawbury St Peter's CE (Controlled) Primary School St Thomas & St Anne's C E Primary School, Hanwood Stoke-on-Tern Primary School Sundorne Infant School The Meadows Primary School, Trinity C E Primary School Weston Lullingfields CE (Controlled) Primary School Whitchurch C E Infant School Woodfield Primary School Woore Primary School

2016/17 Audit areas of high priority for which no provision is made in this year's Internal Audit plan – management assurances may be sought by the Committee

		Worfield Endowed C E Primary School
<p>Director of Adult Services</p> <p>Adult Protection & Safeguarding IBS Housing System Application Review People to People PFI PayMech Purchasing Adult Domiciliary Care Purchasing Adult Residential & Nursing Care Purchasing Mental Health Domiciliary Care Purchasing Mental Health Residential & Nursing Care</p>	<p>Director of Public Health</p> <p>Property Sales and Acquisitions Management of Council Controlled Property Property Repair and Maintenance Saffron Menu Planning (Shire Services) External Catering Contracts Credit Union Client Customer Service Points Public Health Contracts Public Health Projects Registrars Service</p>	<p>Contingency's</p> <p>Transformation Contingency</p>

2016/17 Deminimus Audit areas where managers will seek and provide any necessary assurance		
Chief Executive	Director of Adult Services	Director of Children's Services
Benefits Administration Grant Inventories Management Localisation of Council Tax Benefits System Job Evaluation Asbestos Health & Safety Legionella ARIS Microwave Link to Jupiter House Register of Electors Security Management/Staff Guidance Regulation of Investigatory Powers Act (RIPA)	Occupational Therapy Supporting People Personal Allowances Shropshire Partners in Care (SPIC) Abbots Wood Comforts Fund Albert Road Day Centre Comforts Fund Aquamira Comforts Fund Avalon Comforts Fund Helena Lane / Friars Walk Day Centre Comforts Fund Wayfarers Comforts Fund Abbots Wood Day Opportunities Albert Road Day Opportunities Avalon Court Day Opportunities Helena Lane Day Centre Wayfarers Day Opportunities	Ludlow Training Centre Positive Activities Projects - Youth Service Shropshire Youth - Central Administration Social Care & Health Training The Gateway Education & Arts Centre Whitchurch Training Centre Chelmaren Comforts Fund Haven Brook Comfort Fund Shropshire Children's Trust Multi Agency Teams School Census Education Welfare Service Schools Advisory Service - Administration Shrewsbury Training & Development Centre Shropshire Music Service Standards Fund Surestart

2016/17 Deminimus Audit areas where managers will seek and provide any necessary assurance

Director of Public Health

Fishing and Sporting Rights
 Shirehall Lettings
 SLA's & Invoicing Arrangements
 Smallholdings Estate
 Carbon Management Plan
 Furniture Design Group & County Furniture Group
 Cleaning DSO General Systems
 Cleaning equipment maintenance
 Internal Catering arrangements
 Post Opening Procedures
 Shirehall Restaurant
 Coroners

Director of Commissioning

Performance Management & PI's
 Performance Plus Online Register
 Albrighton Library
 Bayston Hill Library
 Bishops Castle Library
 Bridgnorth Library
 Broseley Library
 Church Stretton Library
 Cleobury Mortimer Library
 Craven Arms Library
 Ellesmere Library
 Gobowen Library
 Highley Library
 Libraries General
 Library Fines & Charges
 Library HQ
 Library Procurement through WM Consortium
 Library Stock Management & Control
 Ludlow Library
 Market Drayton Library
 Much Wenlock Library
 Oswestry Library
 Pontesbury Library
 Schools Library service
 Shawbury Library
 Shifnal Library
 The Lantern
 Wem Library
 Whitchurch Library
 Bio Digester
 Waste - Statistics & Administration
 Arts Developments & Grants
 Community Working
 Flood Risk Management Arrangements
 Highways Development Control
 Highways Land Search Arrangements
 Land Drainage
 NRSWA - Road Openings & S278

Director of Commissioning (cont.)

Local Bus Network
 Passenger Transport Efficiency Operations
 Public Transport - Publicity
 Special Transport/ Routing Arrangements
 Surplus Seats
 Traffic Management & Regulation
 Economic Development General
 Enterprise and Business Grants
 Pump House
 Tourism
 Datawright Planning Development
 Lone Working Arrangements
 One App Online Planning Portal Application
 PLUMS - Planning Policy Control
 Public access mapping server/e-planning
 Ecology & Biodiversity
 Historic Environment & Listed Buildings
 SMR - Sites & Monuments Record
 Sustainability
 Tree Safety
 Countryside Access General
 North Shropshire Countryside Rangers
 Parks & Countryside Sites General
 Severn Valley Park
 AONB (Areas of outstanding natural beauty)
 Craven Arms
 Community Strategy
 Acton Scott Working Farm Museum
 Arts Festivals & Events
 Culture & Leisure Business Development
 Culture & Leisure Grants
 Culture & Leisure Marketing and Performance
 Ludlow Museum & Resource Centre
 Museum on the Move
 Museums & Audience Development Grant
 Arrangements
 Records Management
 Recruitment & Management of Volunteers

2016/17 Deminimus Audit areas where managers will seek and provide any necessary assurance

	<p>Bishops Castle SpArC Centre - Joint Use Idsall Sports Centre - Joint Use Joint Use Leisure Facilities Lakelands Sports Centre Ellesmere - Joint Use Much Wenlock Sports Centre - Joint Use Rhyn Park School Sports Centre Roman Road Sports Centre - Joint Use Community Transport Initiatives (SCOTI, OCTI etc.)</p>	<p>Shropshire Archives Fair Trading & Education Domestic Abuse Management & Control of CCTV Operations Road Safety Contaminated Land Environmental Enforcement & Byelaws Pest Control Street Scene - Dog Wardens Animal Health & Welfare</p>
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