



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
24 November 2016	
09:30am	<u>Public</u>

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2016/17

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk

Telephone: 01743 257739

1. Summary

This report provides members with an update of work undertaken by Internal Audit in the two and a half months since the last report in September 2016 summarising progress against the Internal Audit Plan. Fifty three percent of the revised plan has been completed (**see Appendix A, Table 1**), marginally lower than previous delivery records, but the team is still on target to achieve 90% delivery by the year end.

One good and 12 reasonable assurances, eight limited and three unsatisfactory assurance opinions have been issued. The 24 final reports contained 247 recommendations, one of which was fundamental.

This report proposes minor revisions taking the overall audit plan from 1,761 days, as reported in September 2016, to 1,785 days. Changes to the planned activity reflect adjustments in both risks and resources. The changes have been discussed with, and agreed by, the Section 151 Officer.

The Council is undergoing significant change in its operational approach and is having to do so under ongoing financial constraint. An increase in risk taking has been inevitable, and continues to be reflected in a reduction in the level of assurance in the internal control environment. Of concern at this stage of the audit plan delivery, is the increased number of audit reviews attracting unsatisfactory assurances compared to previous years. Limited assurances are also being seen across all service areas. It is important therefore that this situation is kept under review and managed appropriately.

Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including sharing best practice and providing advice on system developments.

2. Recommendations

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

- a) The performance to date against the 2016/17 Audit Plan set out in this report.

- b) The adjustments required to the 2016/17 plan to take account of changing priorities set out in **Appendix B**.

REPORT

3. Risk assessment and opportunities appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures, and is closely aligned to strategic and operational risk registers. The Plan is delivered in an effective manner in which the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.
- 3.2 Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes and impacts on risks and controls.
- 3.3 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:
- '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'.
- 3.4 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 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 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls.
- 5.2 The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 5.3 The revised Internal Audit Plan was presented to, and approved by, members at the 15th September 2016 Audit Committee with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 30th October 2016 and includes minor revisions to the plan.
- 5.4 Part of the internal audit plan continues to be met by external providers.

Performance against the plan 2016/17

- 5.5 Revisions to the February 2016 plan provide for a total of 1,785 days following slight changes reflecting adjustments in risks and resources.
- 5.6 In total, 24 final reports have been issued in the period from 14th August 2016 to 30th October 2016. These are broken down by service area in **Appendix A, Table 2**.
- 5.7 One good and 12 reasonable assurances were made in the period accounting for 54% of the opinions delivered. This represents an increase in the higher levels of assurance compared to the previous year outturn of 50%. A corresponding decrease in limited (8) and unsatisfactory (3) opinions make up the remaining 46% of opinions issued in the period.
- 5.8 During this period, Commissioning, IT and financial processes in Adult Services continue to show lower assurance levels, the impact of which will be considered as part of Head of Audit's overall year-end opinion. The overall direction of travel throughout the Council is explored in more detail in section 5.17.
- 5.9 Twenty draft reports, awaiting management responses, will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of a school fund and the certification of three grant claims.
- 5.10 A summary of the planned audit reviews which resulted in unsatisfactory or limited assurance is included in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5**.

5.11 A total of 247 recommendations have been made in the 24 final audit reports issued to date; these are broken down by audit area and appear in **Appendix A, Table 6**.

5.12 One fundamental recommendation has been identified:

Hardware Replacement Programme

Management should define a hardware replacement strategy aligned to the overall IT Strategy which takes a long term view of hardware procurement, hardware replacement costs, licence fees and support staffing demands.

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, progress on fundamental, significant and requires attention recommendations are followed up after six months by seeking an update from management. Cases where fundamental recommendations are not implemented in a timely manner are escalated to directors and Audit Committee.

5.14 No recommendations have been rejected by management.

5.15 Performance to date is marginally lower than previous delivery records at 53% (58% 2015/16). The team is still currently targeting delivery of a minimum of 90% of the annual plan by year end. A small number of additional resources have been bought in which accounts for the slight increase in days to 1,785 days. In addition, recruitment processes have begun for a trainee auditor. It is hoped to coordinate the recruitment to this post with the return from maternity leave of a Principal Auditor to help provide suitable management support.

5.16 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at Appendix A, Table 1.

- Advice and recommendations have been made regarding a breach of regulations in relation to the use of radio licences. The control improvements are currently being addressed by the service area.
- Advice and guidance was provided on the key controls to be considered when implementing an online invoice processing module within an existing cloud based application.

Direction of travel

5.17 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2016/17 to date	6%	42%	31%	21%	100%
2015/16	14%	35%	42%	9%	100%
2014/15	17%	47%	28%	8%	100%

2013/14	30%	45%	15%	10%	100%
2012/13	31%	56%	12%	1%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2016/17 to date	4%	47%	49%	0%	100%
2015/16	4%	54%	42%	0%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%
2012/13	23%	57%	20%	0%	100%

- 5.18 The number of lower level assurances, 52% at this point in the year are roughly comparable with the outturn for 2015/16 of 51%. Representing a significant decrease in assurance from 2012/13 and 2013/14 results and a continuing decrease compared to 2014/15. However, the level of unsatisfactory assurances at the lower level are significantly higher at 21% in the current year to date, compared to 9% in 2015/16, reflecting the increase in the percentage of significant recommendations being raised from 42% in 2015/16 to 49% in the year to date.
- 5.19 **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This demonstrates, at a point in time, issues around control areas such as IT systems, financial administration in Adult Services and Schools. This needs to be considered in the context of reduced Internal Audit resources that are increasingly focused on the higher level risk areas in terms of delivering the Council's business objectives.

Performance measures

- 5.20 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</p> <p>Draft Internal Audit Risk Based Plan 2016/17 - Audit Committee 18 February 2016 Internal Audit Performance and Revised Annual Audit Plan 2016/17, 15 September 2016 Public Sector Internal Audit Standards (PSIAS) Audit Management system Accounts and Audit Regulations 2015</p>
<p>Cabinet Member (Portfolio Holder) Malcom Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee</p>
<p>Local Member: All</p>
<p>Appendices</p> <p>Appendix A Table 1: Summary of actual audit days delivered against plan 1st April 2016 to the 30th October 2016</p>

Table 2: Final audit report assurance opinions issued in the period 14th August 2016 to 30th October 2016

Table 3: Unsatisfactory and limited assurance opinions in the period 14th August 2016 to the 30th October 2016

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Audit recommendations made in the period 14th August 2016 to the 30th October 2016

Appendix B - Audit plan by service 1st April 2016 to 30th October 2016

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April to 30^h October 2016

	Original Plan	August Revision	November Revision	Revised Plan Days	30 October Actual	% of Plan Achieved
Chief Executive	444	3	13	460	193.2	42%
Adult Services	140	19	13	172	102.0	59%
Commissioning	102	2	4	108	78.0	72%
Children's Services	232	-26	-2	204	135.9	67%
Public Health	67	13	-6	74	42.3	57%
S151 Planned Audit	985	11	22	1,018	551.4	54%
Contingencies and other chargeable work	532	-12	-4	516	289.0	56%
Total S151 Audit	1,517	-1	18	1,534	840.4	55%
External Clients	200	45	6	251	113.7	45%
Total	1,717	44	24	1,785	954.1	53%

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2: Final audit report assurance opinions issued in the period from 14th August 2016 to 30th October 2016.

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	4	4	1	9
Adult Services	0	3	3	1	7
Commissioning	0	2	1	0	3
Children's Services: Schools	0	1	0	1	2
Children's Services: Other	1	1	0	0	2
Public Health	0	1	0	0	1
Resources and Support					
Commercial Services	0	0	0	0	0
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	0	0	0	0	0
Human Resources	0	0	0	0	0
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	1	12	8	3	24
➤ Percentage	4%	50%	33%	13%	100%
% for 2015/16	14%	35%	42%	9%	100%
% for 2014/15	17%	47%	28%	8%	100%
% for 2013/14	30%	45%	15%	10%	100%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 14th August 2016 to 30th October 2016 listed by service area

Unsatisfactory assurance

Chief Executive

Hardware Replacement Programme

Adult Services

Appointeeships/Court of Protection and Deputyships

Children's Services: Schools

Criffins CE (Controlled) Primary School

Limited assurance

Chief Executive

Social Media

Remote Support

Business Continuity and Disaster Recovery

Physical and Environmental Controls

Adult Services

Maesbury Metals Trading Account

Individual Service Funds

Personal Budgets 2016/17

Commissioning

Galaxy – Libraries System

Table 4: Audit assurance opinions: 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 controls.
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.

Table 5: Audit recommendation categories: 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.

Table 6: Audit recommendations made in the period from the 14th August 2016 to 30th October 2016

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	22	23	1	46
Adult Services	1	34	35	0	70
Commissioning	3	6	29	0	38
Children's Services: Schools	9	27	42	0	78
Children's Services: Other	0	5	3	0	8
Public Health	0	1	1	0	2
Resources and Support					
Commercial Services	0	0	0	0	0
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	0	0	0	0	0
Human Resources	0	0	5	0	5
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	13	95	138	1	247
➤ Percentage	5%	39%	56%	0%	100%
% for 2015/16	4%	54%	42%	0%	100%
% for 2014/15	6%	53%	40%	1%	100%
% for 2013/14	15%	57%	27%	1%	100%

APPENDIX B

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL TO 30th OCTOBER 2016

	Original Plan Days	August Revision	November Revision	Revised Plan Days	30 Oct 2016 Actuals	% of Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	38	-8	0	30	10.6	35%
IT	176	6	5	187	77.2	41%
Finance Governance & Assurance						
Finance Transactions	39	9	0	48	11.0	23%
Finance and S151 Officer	60	-3	0	57	35.1	62%
Financial Management	18	0	0	18	10.2	57%
Benefits	34	0	0	34	0.4	1%
Risk Management and Business Continuity	13	0	0	13	6.8	52%
Treasury	2	0	0	2	0.0	0%
	166	6	0	172	63.5	37%
Human Resources	43	3	7	53	24.0	45%
Legal, Democratic & Strategic Planning						
Elections	8	0	1	9	8.8	98%
Legal Services	13	-4	0	9	9.1	101%
	21	-4	1	18	17.9	99%
CHIEF EXECUTIVE	444	3	13	460	193.2	42%
ADULT SERVICES						
Social Care Operations						
Long Term Support	79	6	5	90	66.0	73%
Provider Services - Establishments	20	1	0	21	0.0	0%
Provider Services - Comforts Funds	6	4	1	11	8.3	75%
Provider Services - Trading						
Accounts	10	5	5	20	15.5	78%
Housing Services	20	-5	1	16	5.6	35%
	135	11	12	158	95.4	60%
Social Care Efficiency and Improvement						
Development Support	5	8	1	14	6.6	47%
ADULT SERVICES	140	19	13	172	102.0	59%

COMMISSIONING

Library Services	5	3	0	8	8.8	110%
Waste & Bereavement	14	-4	2	12	11.0	92%
Highways	20	8	6	34	24.8	73%
Business & Enterprise	5	0	-5	0	0.2	0%
Development Management	14	0	1	15	14.2	95%
Community Safety	15	-5	0	10	0.1	1%
Environmental Protection and Prevention	4	0	0	4	0.0	0%
Procurement and Contract Management	25	0	0	25	18.9	76%
COMMISSIONING	102	2	4	108	78.0	72%

CHILDREN'S SERVICES
Safeguarding

Safeguarding	20	0	-11	9	3.6	40%
Children's Placement and Joint Adoption	38	-2	1	37	14.5	39%
	58	-2	-10	46	18.1	39%

Learning and Skills

Business Support	2	0	-2	0	0.0	0%
Education Improvements	14	3	0	17	7.9	46%
Primary/Special Schools	128	-31	9	106	75.6	71%
Secondary Schools	20	4	2	26	25.9	100%
	164	-24	9	149	109.4	73%

Learning Employment and Training

	10	0	-1	9	8.4	93%
--	-----------	----------	-----------	----------	------------	------------

CHILDREN'S SERVICES

	232	-26	-2	204	135.9	67%
--	------------	------------	-----------	------------	--------------	------------

PUBLIC HEALTH

Public Health	22	13	1	36	23.2	64%
Customer Services	5	0	1	6	6.3	105%
Shire Services	17	0	-1	16	12.0	75%
Property Services	23	0	-7	16	0.8	5%
PUBLIC HEALTH	67	13	-6	74	42.3	57%

Total Shropshire Council Planned Work

	985	11	22	1,018	551.4	54%
--	------------	-----------	-----------	--------------	--------------	------------

CONTINGENCIES

Advisory Contingency	40	0	-8	32	11.7	37%
Fraud Contingency	200	-20	-20	160	70.9	44%
Unplanned Audit Contingency	45	0	0	45	38.9	87%
Other non audit Chargeable Work	247	8	24	279	167.4	60%

CONTINGENCIES	532	-12	-4	516	289.0	56%
Total for Shropshire	1,517	-1	18	1,534	840.4	55%
EXTERNAL CLIENTS	200	45	6	251	113.7	45%
Total Chargeable	1,717	44	24	1,785	954.1	53%