



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 February 2017	
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DRAFT INTERNAL AUDIT ANNUAL PLAN 2017/18

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1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2017/18. The annual plan will provide coverage across all Council services and deliver internal audit services to 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 before the plan 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 2017/18 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. Risks

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

- 3.2 Areas to be audited within the plan have been considered taking into account 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 Costs associated with the proposed plan will be met from within the approved Internal Audit budget.

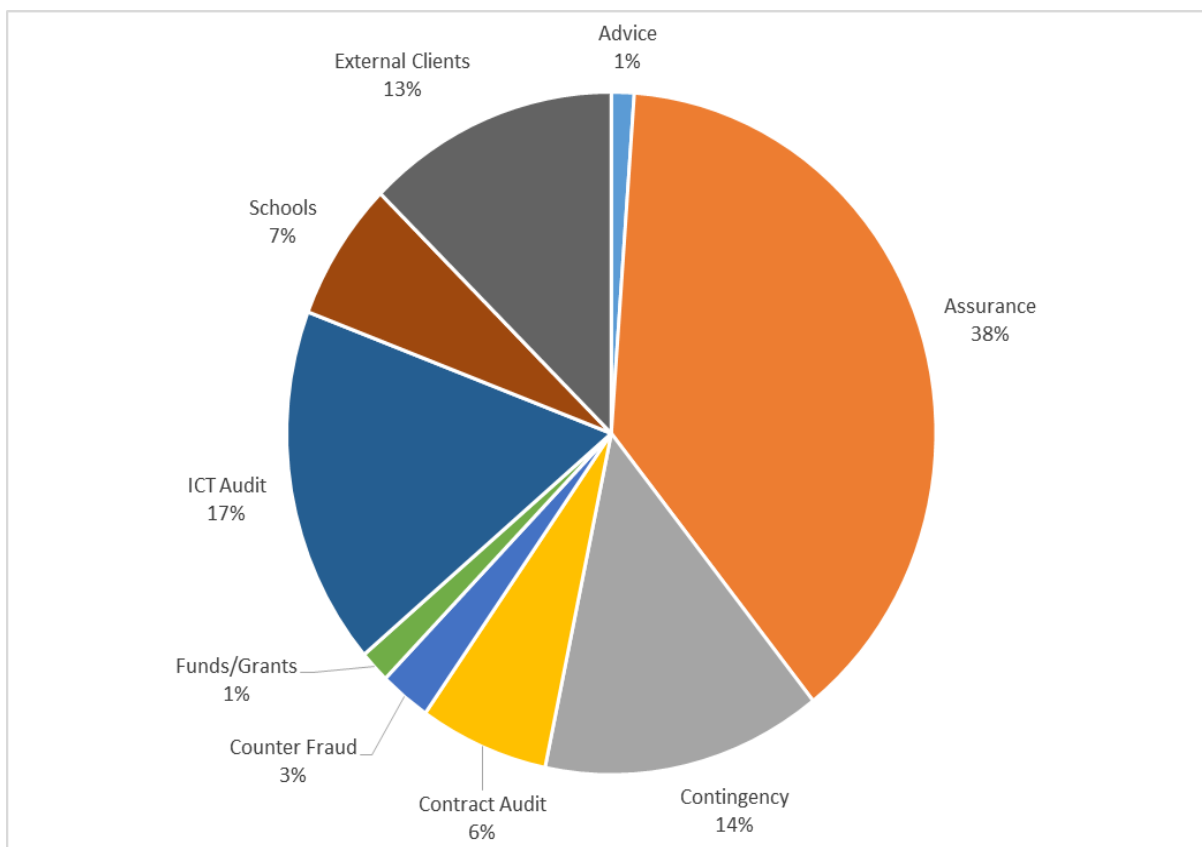
5. Background

- 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 devised to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion and assurance framework. In so doing 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 the Chief Executive, 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; and improving data aggregation and reporting. In addition, the Council’s strategic risks around the IT infrastructure; workforce planning, development, retention and managing stress; the clarity of a vision supported by financial sustainability and maintaining public confidence; commissioning, contracting and safeguarding children and adults have all been considered when refining the plan.

5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,547 days for Shropshire Council audit work and 223 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 continues to 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 9.7 full time equivalents (one of which is a fixed term contract due to end in August) 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**). There are presently two vacancies being recruited to, an auditor and a trainee shared with Financial Services. 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 time will be purchased from external contractors. Procurement considerations are presently under way to identify the best way of sourcing this work looking forward, given that the Staffordshire framework contract used to date is coming to the end of its term. The plan provides for this mixed provision to continue going forward into 2017/18.
- 5.8 The Audit Plan for 2017/18 based on a risk analysis identified approximately 3,000 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.) amount to 1,770 days of which 223 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,547 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 a number of schools, some of which have not been independently audited for five years; some IT audit areas; key projects; processes and contracts. Whilst there are contingencies for fraud, unplanned audits and advice, if not required in full this time can be re-allocated and reviews may be able to be brought back into the plan.
- 5.10 In preparing the plan for 2017/18 the key items to note are:
- The plan for the second year 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. The exception is the Payroll system which is of a high material value to the Council's operations and, as such, will be reviewed every year.

- A separate risk based analysis of the IT audit areas has been conducted and assessments of 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 digital transformation requirements as services are redesigned.
- The fraud contingency is being maintained at 200 days; 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 through either a direct audit, or a self-assessment process. Secondary schools will be audited every four years. It is no longer possible to achieve full audit reviews within the time frame for all primary schools. If prioritised over other business areas, the resources would be disproportional to those used elsewhere given the Council's strategic risks. 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 and assurance from the last audit/ self-assessment are all taken into consideration. Using this approach enables Audit Services to prioritise any slippage with a view to managing associated risks.
- 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, Oswestry Town Council and Honorary and Voluntary funds. In addition, discussions are planned with the Chief Executive, Director of Place and Enterprise 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. A number of these will be met from the unplanned contingency as the specific business areas and timings become known.
- 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 (first line of assurance) 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 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
CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition
Accounts and Audit Regulations 2015

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

Local Member n/a

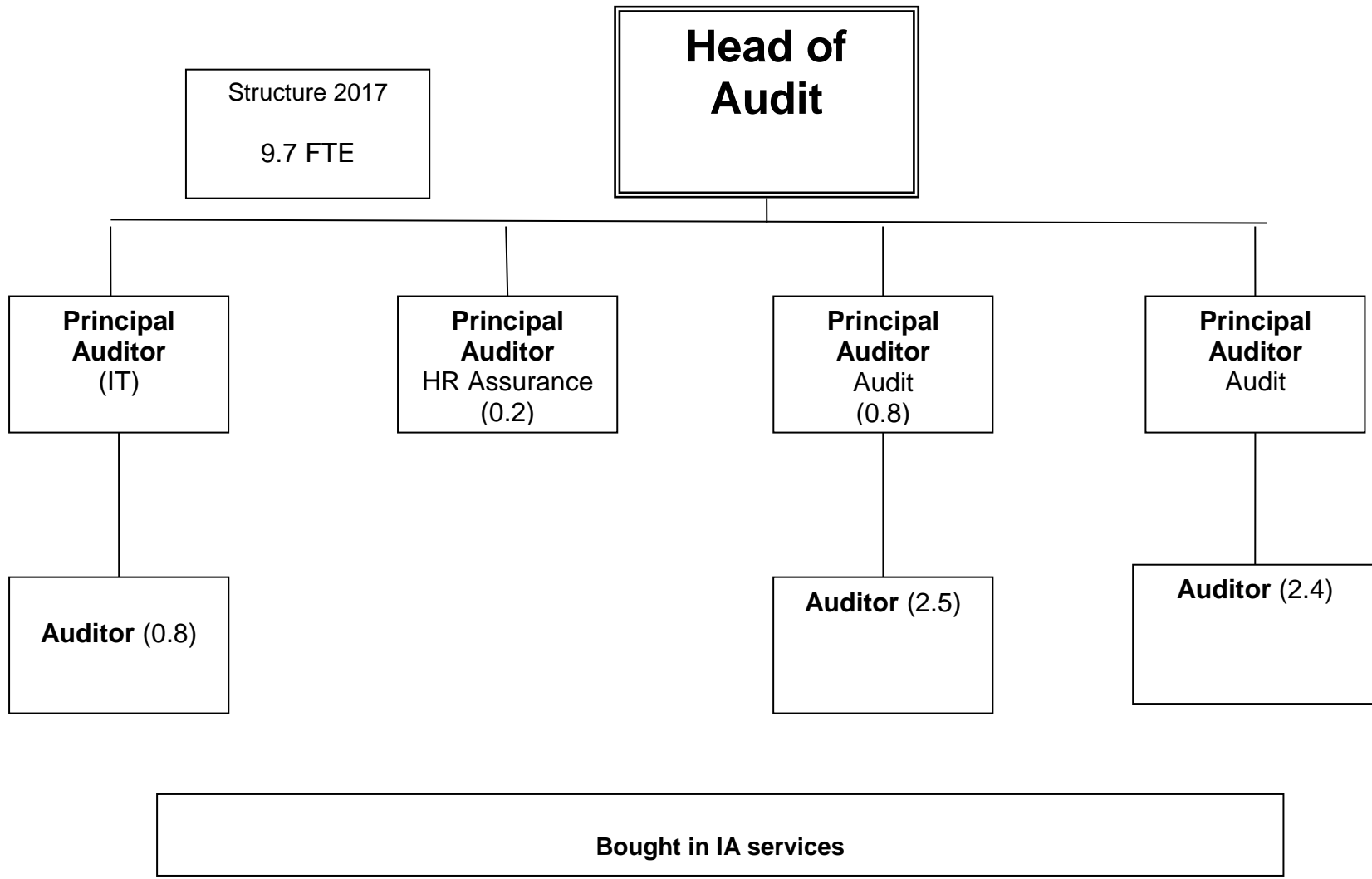
Appendices

Appendix A: Summary of Draft Internal Audit Plan by Service
Appendix B: IA structure
Appendix C: 2017/18 Audit areas of high priority for which no provision is made in this year's Internal Audit plan
Appendix D: 2017/18 Deminimus Audit areas where managers will seek and provide any necessary assurance

APPENDIX A

2017/18 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
CHIEF EXECUTIVE	
Governance	18
ICT	190
Finance Governance and Assurance	204
Human Resources	119
Legal, Democratic and Strategic Planning	21
Total Chief Executive	552
ADULT SERVICES	
Social Care Operations	141
Social Care Efficiency and Improvement	15
Total Adult Services	156
COMMISSIONING	
Infrastructure and Communities	134
Business Enterprise and Commercial Services	30
Economic Growth	53
Places and Enterprise	10
Procurement	30
Total Commissioning	257
CHILDREN'S SERVICES	
Safeguarding	35
Education, Improvement and Efficiency	150
Total Children's Services	185
PUBLIC HEALTH	
Public Health	47
Public Protection	58
Bereavement	5
Total Public Health	110
CONTINGENCIES	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	200
Unplanned Audit Contingency	47
Other non-audit chargeable work	276
Total Contingencies	563
Total Shropshire Council	1823
External Clients	223
Total Audit Plan	2046



2017/18 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 Place and Enterprise	Director of Children's Services
<p>Ethics Local Joint Committee (LJC) University</p>	<p>Project Management Arrangements STEP Process Asset Management Strategy Estate Management External Catering Contracts Corporate Landlord Property Maintenance Select Lists Property Sales and Acquisitions SLA's & Invoicing Arrangements Smallholdings Estate Arcview GIS Application Funding & Programmes IDOX Planning, Building Control & Gazetteer Management System Investment and Infrastructure - Business Parks Partnerships Section 106 Agreements Community Car Scheme Highways Maintenance - Central Area Highways Maintenance - Northern Area Highways Maintenance - Roads & Bridges Highways Maintenance - Southern Area Highways Other Major Contracts Highways Specialist Contracts Local Transport Plan (LTP) Mouchel Parkman Contract Passenger Transport Procurement Arrangements School Planning & Transport Arrangements Section 38 Road Adoption Shrewsbury Museum Sports Development Street Lighting TOMS-ITU Voluntary Car Scheme Waste - Bulky Waste e-Procurement Procurement Arrangements Procurement Cards Procurement Strategy School Based Procurement Social Enterprises</p>	<p>Adoption Process including allowances Chelmaren Comforts Fund Haven Brook Comfort Fund Residential Care - Out County Placements Respite Care Safeguarding Support Service - Administration & Monitoring Section 11 Agreements Section 17 Payments Children Academy Exit Process Albrighton Primary School Belvidere Primary School Belvidere School - A Technology College Bishops Castle Community College Bishop's Castle Primary School Bomere Heath CE (Controlled) Primary School Bryn Offa CE (Controlled) Primary School Buntingsdale Infant School Castlefields Primary School Cheswardine Primary School Education Welfare Service Greenacres Primary School Hadnall C E (Controlled) Primary School Highley Primary School Hinstock Primary School Hodnet Primary School Hope CE Primary School John Wilkinson Primary School Market Drayton Infant and Nursery School Market Drayton Junior School Meole Brace C E Infant School Monitoring of Schools Deficit/Surplus Budgets Myddle CE Primary School Norton-in-Hales CE (Voluntary Controlled) Primary School Oakmeadow CE Primary and Nursery School Out of County Education / Placements Secondary General Shifnal Primary School SIMS - Schools Use & Control Arrangements Software Licensing - Schools St Andrew's CE Primary School, Shifnal St John the Baptist CE Primary School St John's Catholic Primary School St Laurence CE Primary School, Ludlow St Lawrence CE Primary School, Church Stretton St Mary's Bluecoat C E Primary School</p>
<p>Finance, Governance and Assurance</p>		
<p>AUDIS - Direct Debit Income System Application Bankline Benefit Options Team Business (Business) Continuity and Disaster Recovery - non IT Budget Management and Control - Corporate Civica Icon Income Management Application Comino Document Management System Application Financial Rules Housing Benefits Income Collection Management of Consultants Northgate - Revenues & Benefits Application Online Bankline Recharges - Internal Market Sales Ledger-Periodic Income SAMIS Application</p>		
<p>Human Resources</p>		
<p>Application Development Management Arrangements Bacstel-IP BT Contract Monitoring CALM CASPAR Communications Credit Union Client Customer First Points Customer Service Points Database Access / Admin / Management Design Team e-Forms & search engine Encryption End User Computing - Mgt Arrangements Escrow Arrangements Hardware Inventories Hipath Server Security Home and Flexible Working Arrangements Host Operator Processing System (HOPS) Human Resources / Workforce Planning</p>		

2017/18 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

<p>ILLY Substance Misuse Application Incase Fraud Management system Internet Controls Intranet and Website ISO 27001 IT Security Isupport Legacy Operating Systems Mail room Maytas 5 Microsoft Lync Mobile Working HR Policies Networks and Connectivity Oracle Privileged User Security PSN (public sector network) Redundancy Process CR SCCM (System Centre Configuration Manager) System Development Methodology Telecommunications - Call Monitoring Telephones - Usage & Income Tell Us Once Processes UNIX ViceVersa Pro (Backup for Digital Images) Virtual Desktop Voice Over IP Web Self-Serve CRM Application Website Management</p> <p>Legal and Democratic</p> <p>Code of Conduct - Gifts & Hospitality IT Security Management Review Members Allowances Modern.Gov Monitoring Use of Facilities Security Management & Cyber response</p>		<p>St Mary's CE (Aided) Primary School, Bucknell St Peter's CE (Controlled) Primary School Stoke-on-Tern Primary School Surestart The Meadows Primary School, Thomas Adams School Trefonen C E (Controlled) Primary School West Felton C E (Controlled) Primary School Wistanstow C E Primary School Woodlands School Woore Primary School</p>
<p>Director of Adult Services</p> <p>Abbots Wood Comforts Fund Adult Placements Albert Road Day Centre Comforts Fund Aquamira Comforts Fund Avalon Comforts Fund Care Bill / Better Care Fund Counter Fraud Work Housing Tenancy Direct Payments Prepaid Cards Four Rivers Nursing Home Four Rivers Nursing Home Comforts Fund Greenacres Rural Unit Comforts Fund</p>	<p>Director of Public Health</p> <p>Drug and Alcohol Misuse Contract Registrars Booking System Zipporah Application Review of funding/cross over & supporting processes School Nursing Service ShropDoc Services Trading Standards</p>	

2017/18 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

<p>Helena Lane / Friars Walk Day Centre Comforts Fund Homepoint Contract Housing Capital Client Housing Client ALMO / STAR Housing Rents Client Side IBS Housing System Application Review Maesbury Metals Comforts Fund Patchworks Comforts Fund Personal Budgets / Care Assessments SEN Hubs e.g. Kettlemere Centre START The Meres Day Centre Comforts Fund Total Mobile (Mobile Solution for Housing Officers) Wayfarers Comforts Fund Youth Activities / Community Hubs and Commissioning</p>		
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2017/18 Deminimus Audit areas where managers will seek and provide any necessary assurance		
<p>Chief Executive</p> <p>Finance, Governance and Assurance</p> <p>Inventories Management Localisation of Council Tax Benefits System On-line payments</p> <p>Human Resources</p> <p>ARIS Helpdesk Procedures Insurance of IT Facilities IT Business Support IT Change Management Microsoft Dynamics CRM Application Microwave Link to Jupiter House Quality Control Software Inventories / Licensing Wide area network</p> <p>Legal and Democratic Services</p> <p>Register of Electors</p>	<p>Director of Adult Services</p> <p>Greenacres Rural Unit Greenacres Rural Unit Trading Account Homepoint IT System Supporting People</p>	<p>Director of Children's Services</p> <p>Positive Activities Projects - Youth Service Shropshire Youth - Central Administration Social Care & Health Training The Gateway Education & Arts Centre Whitchurch Training Centre School Census Schools Advisory Service - Administration Schoolsnet - IT Application Shrewsbury Training & Development Centre Standards Fund</p>

2017/18 Deminimus Audit areas where managers will seek and provide any necessary assurance

Director of Public Health	Director of Place and Enterprise	Director of Place and Enterprise
<p>Animal Health & Welfare Fair Trading & Education Regulation of Investigatory Powers Act (RIPA) Road Safety Street Scene - Dog Wardens</p>	<p>Performance Plus Online Register Carbon Management Plan Cleaning DSO General Systems Cleaning equipment maintenance Fishing and Sporting Rights Furniture Design Group & County Furniture Group Internal Catering arrangements Pump House Rating Arrangements SMR - Sites & Monuments Record Sustainability AONB (Areas of Outstanding Natural Beauty) - Craven Arms Datawright Planning Development Ecology & Biodiversity Historic Environment & Listed Buildings One App Online Planning Portal Application PLUMS - Planning Policy Control Public access mapping server/e-planning Tree Safety Acton Scott Working Farm Museum Albrighton Library Arts Festivals & Events Bayston Hill Library Bio Digester Bishops Castle Library Bishops Castle Sparc Centre - Joint Use Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Community Transport Initiatives (SCOTI, OCTI etc.) Community Working Countryside Access General Craven Arms Library Culture & Leisure Business Development</p>	<p>Culture & Leisure Grants Culture & Leisure Marketing and Performance Ellesmere Library Flood Risk Management Arrangements Gobowen Library Highley Library Highways Development Control Highways Land Search Land Drainage Library Fines & Charges Library HQ Library Procurement through WM Consortium Library Stock Management & Control Local Bus Network Ludlow Library Ludlow Museum & Resource Centre Market Drayton Library Much Wenlock Library Museum on the Move North Shropshire Countryside Rangers NRSWA - Road Openings & S278 Oswestry Library Parks & Countryside Sites General Passenger Transport Efficiency Operations Pontesbury Library Public Transport - Publicity Records Management Recruitment & Management of Volunteers Rhyn Park School Sports Centre Schools Library service Severn Valley Park Shifnal Library Shropshire Archives Surplus Seats The Lantern Waste - Statistics & Administration Wem Library Whitchurch Library</p>