

<u>Committee and Date</u> Audit Committee 27 March 2014 10.00 am

<u>Item</u> 11 <u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2014/15

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1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2014/15. 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 2014/15 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 required to place reliance upon is an important responsibility. In devising this plan Members should be assured that the plan 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 that are critical to the Council's operations which 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 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.'

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:

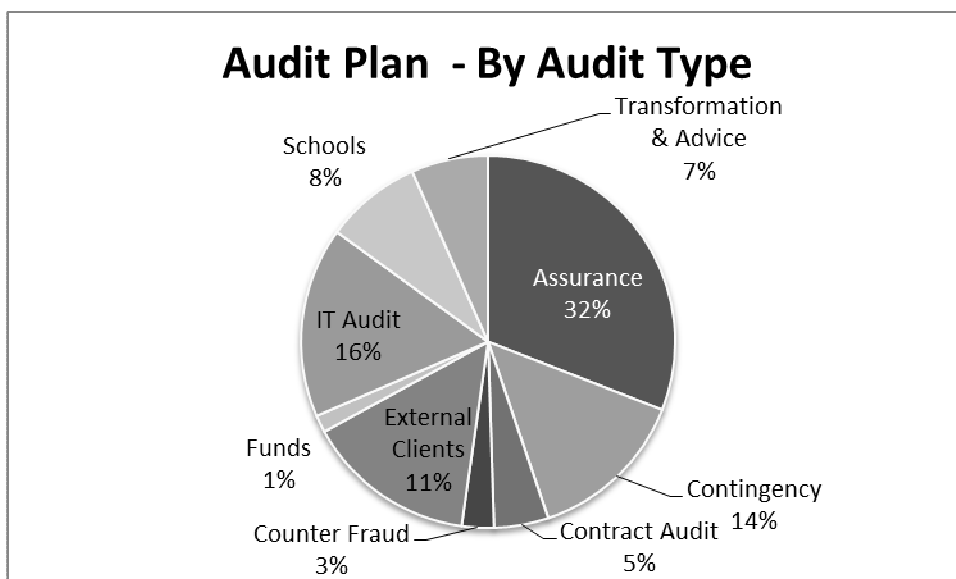
- Governance processes
- Ethics
- Information technology governance
- Risk management and
- Fraud management.

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. Internal audit resources are therefore targeted across Council services to support project teams through this change helping to maximise the effectiveness of internal controls. Where projects are in their early stages a "transformation" contingency is provided to respond to new areas of work and redesign of services. In addition, a separate IT risk based assessment is used to inform specialist, technical reviews incorporating knowledge based information of material, existing systems and new areas.

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 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;
 - large contracts to be undertaken.
- 5.4 Top risks facing councils continue to include pressures on finances and resources; changes in demands and demography and the impact of welfare reforms. These have been considered when refining the plan.
- 5.5 **Appendix A** provides the summarised audit plan and identifies a planned day requirement of 1,795 days. These days are broken down by type in the chart below.



Resources

- 5.6 The Internal Audit service has seen a rationalisation of resources since Unitary Council status in 2009. This continues seeing team resources reduce further from 14.9 full time equivalents (FTE) in the current year to 11.9 FTE in 2014/15 and a further 0.5FTE reduction in March 2015, Appendix C. Whilst the team will retain skills in areas of finance, information technology, contracts, establishment, systems, counter fraud, investigations, governance and project management some of these will need further development given the loss of experienced resources. To supplement the internal teams' resources and respond to skill needs during this period of change, additional internal audit reviews continue to be purchased from external suppliers from the framework contract. The team will continue to seek a mixed approach to its provision going forward in 2014/15 providing flexibility to respond to any

potential budget reductions and to cover temporary absences, including the two vacancies and two continuing maternity leaves that will impact on next year's resources. The team continues to report directly to the Head of Finance, Governance and Assurance, the Section 151 Officer.

5.7 In preparing the plan for 2014/15 and in recognition of the reduced resource availability the key items to note this year are:

- Days continue to be included in the plan to cover the fundamental systems audit work on which reliance may be placed by the external auditors as they assess the Council's final accounts. A number of these areas have been impacted upon following structural changes to the council and assurance will be required to ensure that internal controls are still maintained appropriately.
- A contingency of 100 days is allocated to transformation projects, where projects are known they are included as specific areas in the plan. The remainder of these projects are yet to be clearly identified and scoped but will include:
 - procurement and commissioning initiatives;
 - reviewing different delivery models (shared services, ip&e, outsourcing, trusts and partnerships);
 - project assurance;
 - advising on changes to processes and internal controls as a result of structural change, staffing reductions and process reengineering;
 - Government/legislative changes to systems and
 - IT developments supporting transformation.
- Given the on-going changes to services and processes to deliver efficiencies and therefore cost savings, it is envisaged that these will impact on internal controls, i.e. the reduced workforce may impact on separation of duties and the economic climate may encourage potential frauds. The counter fraud and investigation contingency therefore remains at 200 days. This is reflective of the demands in this area seen over the last three years and in addition to National Fraud Initiative and other pieces of work conducted in various reviews that help to counter fraud activity. Twenty five days are also allocated to Counter Fraud work.
- Schools will be in their third year of the Schools Financial Value Standard (SFVS), under which they are expected to conduct an annual assessment by the 31 March 2014. Copies of the statements are provided to Internal Audit to determine if the statement appears reasonable based on previous audit testing. Where appropriate Audit Services may undertake a more in depth assessment of the answers given and this might include an audit and/or discussion with the Head Teacher and/ or governors. In all cases, the contents of these statements are taken into account in planning our future programme of school audits. A review of the specific risks in relation to schools looks at the SFVS statements, planned income and expenditure, any surplus or deficit and the date and assurance from the last audit in

determining the priority for audit reviews. The current plan aims to allow for a review of primary schools every five years and secondary schools every three. Time is also allocated this year to review and report upon the Council's exit strategy for schools transferring to Academy status.

- Days are allocated to provide Internal Audit Services to our external clients: Shropshire Fire and Rescue, Just Credit Union, Shropshire Pension Fund, West Mercia Energy and Oswestry Town Council. In addition ip&e have also shown an interest in purchasing some internal audit support and time has been allocated for audit based risk assessment plans to be worked on to address this.
- Increased time on ICT audits is planned, with support for the IT Auditor from other trained team members and external providers, to reflect the changes in IT applications and the consideration of replacement systems and new technology.
- With planned initiatives in the area of procurement and commissioning, the area of contract auditing continues to be invested in with planned work on financial evaluation of companies tendering for work, procurement cards, key supply contracts and service level agreements. In addition exit reviews are planned where services are moving to new delivery models 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 party's on which they can place reliance. These areas are identified in **Appendix B** 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 knowledge requires further development, to the benefit of the Council, external clients and the auditors.

5.8 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.

5.9 Whilst every effort has been made to include all key audit areas required in the plan, if other items are identified from discussions with our colleagues from the Audit Commission, 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

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

Local Member n/a

Appendices

Appendix A – 2014/15 Summary of Draft Internal Audit Plan by Service

Appendix B – 2014/15 Audit areas where managers will seek and provide any necessary assurance

Appendix C - 2014 IA structure

2014/15 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
CHIEF EXECUTIVE	
Governance	18
ADULT SERVICES	
Social Care Operations	
Provider Services - Comforts Funds	8
Provider Services - Establishments	6
Provider Services - Group Homes	8
Provider Services - Trading Accounts	2
Development Support	8
Long Term Support	81
Total Adult Services	113
COMMISSIONING	
Waste Services	10
Business & Enterprise	10
Highways & Transport	14
Development Management	9
Visitor Economy	5
Environmental Health	5
Housing Services	51
Total Commissioning	104
CHILDREN'S SERVICES	
Children's Placement and Joint Adoption	27
Business Support	22
Children's Placement and Joint Adoption	15
Education Improvements	31
Primary/Special Schools	115
Secondary Schools	35
Total Children's Services	245
PUBLIC HEALTH	30
RESOURCES AND SUPPORT	
Commercial Services	
Estates & Facilities	5
Property Services	25
Shire Services	8
	<u>38</u>
Customer Involvement	
Benefits	30
Customer Services	12
ICT Implementation & Architecture	45
ICT Operations	128
	<u>215</u>

	Days
Finance Governance & Assurance	
Financial Advice (S.151)	132
Financial Management	73
Procurement	40
Revenues	40
Risk Management	5
Treasury	16
	<u>306</u>
Human Resources	
Payroll and HR	57
Legal, Strategy and Democratic	
Democratic Services	2
Election Services	4
Information Governance	4
Legal Services	10
	<u>20</u>
Total Resources and Support	<u>636</u>
CONTINGENCIES	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	200
Liquidations Contingency	1
Transformation Projects	100
Unplanned Audit Contingency	48
Other non-audit chargeable work	260
Total Contingencies	<u>649</u>
Total Shropshire Council	<u>1,795</u>
External Clients	265
Total Audit Plan	<u><u>2,060</u></u>

Appendix B

2014/15 Audit areas where managers will seek and provide any necessary assurance		
Director of Children's Services	Area Commissioners	Head of Economic Growth and Prosperity
Leaving Care Multi Agency Teams Social Care and Health Training County Training - future delivery County Training IT Arrangements Education Welfare Service Idsall School Ludlow Training Centre Schools Advisory Service - Administration Shrewsbury Training and Development Centre Shropshire Children's Trust Shropshire Music Service Standards Fund The Gateway Education and Arts Centre Wellington Hair Dressing Salon Whitchurch Training Centre	Albrighton Library Bayston Hill Library Bishops Castle Library Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Craven Arms Library Ellesmere Library Galaxy - Libraries System Gobowen Library Highley Library Libraries General Library Fines and Charges Library HQ Library Procurement through WM Consortium Library Stock Management and Control Ludlow Library Market Drayton Library Much Wenlock Library Oswestry Library Pontesbury Library Schools Library service Shawbury Library Shifnal Library Wem Library Whitchurch Library Community Strategy Lone Working Arrangements Bio Digester Positive Activities Projects - Youth Service – administration The Lantern	AONB - Craven Arms Arts Developments and Grants Arts Festivals and Events Countryside Access General Culture and Leisure Business Development Culture and Leisure Grants Culture and Leisure Marketing and Performance Datawright Planning Development Ecology and Biodiversity Economic Development General Enterprise and Business Grants allocated Historic Environment and Listed Buildings Ludlow Museum and Resource Centre Museums and Audience Development Grant Arrangements North Shropshire Countryside Rangers One App Online Planning Portal Application Parks and Countryside Sites General PLUMS - Planning Policy Control Public access mapping server/e-planning Pump House Records Management Recruitment and Management of Volunteers Severn Valley Park Shropshire Archives SMR - Sites and Monuments Record Sustainability Tourism Tree Safety

2014/15 Audit areas where managers will seek and provide any necessary assurance		
	Waste - Policy and Management Arrangements Waste - Statistics and Administration Community Transport Initiatives (SCOTI, OCTI etc.) Flood Risk Management Arrangements Highways Development Control Highways Land Search Arrangements Land Drainage Leisure Catering and Vending Operations Local Bus Network Passenger Transport Efficiency Operations Public Transport - Publicity Road Safety Special Transport/ Routing Arrangements Sports Development Street Scene - Dog Wardens Surplus Seats Traffic Management and Regulation	
Head of Commercial Services Asbestos Fishing and Sporting Rights Furniture Design Group and County Furniture Group Internal Catering arrangements Legionella Post Opening Procedures Shirehall Lettings Shirehall Restaurant SLA's and Invoicing Arrangements - estates Smallholdings Estate Travellers Site at Craven Arms Travellers Site at Cross Houses Travellers Site at Manor Lane, Prees Travellers Site at Park Hall	Head of Public Protection Animal Health and Welfare Contaminated Land Domestic Abuse Environmental Enforcement and Byelaws Fair Trading and Education Health and Safety Incase Fraud Management system Management and Control of CCTV Operations Pest Control Regulation of Investigatory Powers Act (RIPA)	Director of Adult Services Avalon Court Day Opportunities CMHT Bridgnorth CMHT Ludlow CMHT Market Drayton CMHT North Shrewsbury CMHT Oswestry CMHT South Shrewsbury Friars Walk Day Opportunities at Helena Lane Helena Lane Day Centre Innage Lane Day Opportunities Oak Farm Ditton Priors Occupational Therapy People to People Shropshire Partners in Care (SPIC) Substance Misuse Team The Meres Day Centre Wayfarers Day Opportunities

2014/15 Audit areas where managers will seek and provide any necessary assurance		
Director of Commissioning Community Working My place grant money contract review Shropshire Youth - Central Administration The Old Mortuary (Boxing Ring)	Director of Public Health Coroners Public Health - Joint Commissioning Strategy and Operational Public Health Joint Commission Team	Head of Governance, Finance and Assurance Inventories Management
Head of Human Resources Diversity Arrangements Flexi/ Annualised Time System Grading of PO Posts - Moderation Job evaluation governance	Head of Legal, Strategy and Democratic Advanced Case Management System (AIM) Application Code of Conduct - Gifts and Hospitality Register of Electors Performance Management and PI's Performance Plus Online Register	Head of Service Support, Marketing and Engagement ISO 27001 IT Security Mobile Phone Billing Arrangements Printing

