



## Committee and Date

Audit Committee

26 June 2014

10.00am

## **INTERNAL AUDIT ANNUAL REPORT 2013/14**

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### **1. Summary**

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2014. It reports on progress against the annual audit plan and contributes to the review of the effectiveness of the Internal Audit team as required by the Accounts and Audit Regulations 2011 6(3). It includes the Audit Service Manager's opinion on the internal controls, as required by the Public Sector Internal Audit Standards (PSIAS), which in turn contributes to the review of the effectiveness of the systems of internal control as required by the Accounts and Audit Regulations 2011 4(2).

Final performance has been good with 98% of revised plan days being delivered. This is in excess of the target to deliver 90% of the annual plan.

One hundred and twenty three good and reasonable assurances were made in the year, together with twenty four limited and seventeen unsatisfactory opinions. The 164 final reports contained 1,651 recommendations. Whilst the number of fundamental recommendations has risen significantly from one to 18; overall this represents 1% of the total number of recommendations made.

On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council's internal control environment due to the increase in terms of numbers and direction of travel of the internal audit assurances provided on the IT infrastructure systems. Council application systems reviewed in 2013-14 were in the main given a reasonable or higher level of assurance, supportive that material application systems are generally well embedded, well administered and controlled. However, the IT infrastructure on which they operate presents a clear risk to service continuity. The issues identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their positive responses to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, there has been no evidence of significant IT business failure or material errors that could result in a material misstatement in the Authority's accounts and reliance can still be placed upon them for that purpose.

The Internal Audit service has conformed with the Public Sector Internal Audit Standards and conducted a self-assessment as part of the quality assurance programme which has confirmed that the Council continues to operate an effective Internal Audit function as part of the internal

control process. There are no areas where the Internal Audit function is not complying with the Code and whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code.

## 2. Recommendations

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

- a) Performance against the Audit Plan for the year ended 31 March 2014.
- b) That the system of internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2013/14.
- c) The Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2013/14 on the basis of the work undertaken and management responses received.

## 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 robust internal control creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The next twelve months continues to see the need to deliver significant budget savings against the Council's development towards a commissioning authority, the delivery of services in ip & e and other delivery models, incorporating major changes to our services and processes that will impact on the internal control environment. The management of risk will be a key part to ensuring the continued delivery of our high quality services and the continued delivery of our Medium Term Financial Strategy incorporating significant saving programmes aligned to improved service delivery. Internal Audit will need to be resourced and skilled appropriately to continue to provide the appropriate level of advice and assurance on the effectiveness of the internal control environment during this period of high risk.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.4 There are no direct environmental, equalities or climate change consequences of this proposal.

- 3.5 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be very positive.

#### **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 This report is the culmination of the work of the Internal Audit team during 2013/14 and seeks to:

Provide an opinion on the adequacy of the governance arrangements;  
Inform the review of an effective Internal Audit by providing performance data against the plan and comparatively, where available, with other Internal Audit providers; and  
Provide a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme

These contribute to and inform the Annual Governance Statement by commenting on the nature and extent of significant risks.

- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Council to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2011, in that “a relevant body must undertake an adequate and effective internal audit of its accounting records and systems of internal control in accordance with the proper practices in relation to internal control”.
- 5.3 The Public Sector Internal Audit Standards define the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Standards has been achieved. This annual report provides information to support that assessment and that an effective Internal Audit is established at the Council, in accordance with the requirements of the 2011 Accounts and Audit Regulations. Internal Audit’s compliance with the Standards is detailed within the report on the effectiveness of internal audit, also on this agenda. This is the first full year the service will be reported upon against these standards.
- 5.4 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a contingency provision which is utilised during the year to respond to unforeseen work demands that may arise, i.e. special investigations, advice and the introduction of new high risk areas.

## **Annual Internal Audit Opinion from 2013/14 Internal Audit Work**

- 5.5 It is the responsibility of Shropshire Council to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards, to form an opinion on the Authority's overall control system. This opinion plays a key part in informing the Authority's Annual Governance Statement and enabling the Audit Committee to deliver their annual assurance statement to Council.
- 5.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Council's internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

The work undertaken on the fundamental financial systems has revealed three limited assurance opinions to date compared to five limited and one unsatisfactory opinion previously demonstrating improved direction of travel.

From other planned audit work undertaken during the year, weaknesses have been identified in the environmental control environment of the Council's IT which includes project management, system knowledge, asset management, hardware replacement, server consolidation and business continuity.

- 5.7 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

**On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council's internal control environment due to the increase in terms of numbers and direction of travel of the internal audit assurances provided on the IT infrastructure systems. Council application systems reviewed in 2013-14 were in the main given a reasonable or higher level of assurance, supportive that material application systems are generally well embedded, well administered and controlled. However, the IT infrastructure on which they operate presents a clear risk to service continuity. The issues identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their positive responses to address the matters raised. Whilst identifying these control weaknesses and highlighting them to management, there has been no evidence of significant IT business failure or material errors that could result in a material misstatement in the Authority's accounts and reliance can still be placed upon them for that purpose.**

### **Key Assurances provided during 2013/14**

- 5.8 Audit assurance opinions are awarded 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 controls.
<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.

5.9 In total 164 final reports have been issued in 2013/14, these are broken down by service area in the table below. Fourteen draft reports have been issued which we were awaiting responses to at the year end, these will be included in 2014/15 figures.

#### **Final audit report assurance opinions issued in 2013/14**

<b>Service area</b>	<b>Good</b>	<b>Reasonable</b>	<b>Limited</b>	<b>Unsatisfactory</b>	<b>Total</b>
Adult Services	27	33	7	1	68
Business Growth and Prosperity	2	2	0	1	5
Business Performance Management	0	1	0	0	1
Care and Involvement	4	1	2	2	9
Children's Services	2	16	6	3	27
Commissioning	5	9	2	0	16
Democratic and Election Services	1	1	0	0	2
Finance, Governance and Assurance	5	4	3	0	12
Human Resources	0	2	0	1	3
Programme Management, Systems and Transition	4	4	4	7	19
Public Protection	0	0	0	2	2
<b>Total for 2013/14 numbers</b>	<b>50</b>	<b>73</b>	<b>24</b>	<b>17</b>	<b>164</b>
<b>percentage</b>	<b>30%</b>	<b>45%</b>	<b>15%</b>	<b>10%</b>	<b>100%</b>
<b>Percentage 2012/13</b>	<b>31%</b>	<b>56%</b>	<b>12%</b>	<b>1%</b>	<b>100%</b>

5.10 One hundred and twenty three good and reasonable assurances were made in the year amounting to 75% of the opinions delivered. This shows a 12% decline in the higher level of assurance compared to the previous year, offset by a 12% increase in limited and unsatisfactory opinions. Seventeen unsatisfactory opinions and twenty four limited assurance opinions were issued, 25% in total compared to 13% last year. In each case positive responses have been received by management and will be followed up next year to determine whether satisfactory improvements have been made.

5.11 Six limited assurance opinions have been issued since the third quarter Audit Committee report, these are listed below and the full list of audit reviews receiving limited opinions are detailed in **Appendix A**:

- 39 Riverdale Group Home 12/13
- 39 Riverdale Group Home
- Monkmoor Court Group Home
- Prees CE (Controlled) Primary School
- Welshampton C E Primary School
- Sales Ledger

5.12 Eight unsatisfactory opinions have been issued since the third quarter Audit Committee report, these are listed below and below and the full list of audit reviews receiving unsatisfactory opinions are detailed in **Appendix A**:

- Fairfield Group Home
- Cleobury Mortimer Primary School
- Oakmeadow CE Primary and Nursery School
- Children’s Direct Payments / Personalisation
- Asset Management Strategy
- Project Management-Adequacy of Arrangements
- Hardware Replacement Programme
- Physical and Environmental Controls

In all of these areas positive management responses have been received to implement the recommendations made which we will follow up in 2014/15.

5.13 Within the Audit Plan there are twelve reviews that are categorised as fundamental, high risk business critical systems. In addition, these reviews complement the work of our external auditors and help to avoid unnecessary duplication of work between the two audit services. Given their high risk and their importance to the business the areas are audited annually and have a strong influence in informing our Annual Governance Statement. The work of internal audit on key financial (fundamental) systems is required to cover transactions across the whole of the financial year. Therefore, it is not uncommon for draft reports to be in progress at the year end and therefore not included in the summary of final reports issued in the table above.

5.14 A summary of the level of assurance for each fundamental review area together with the number of recommendations made is shown in the table below.

**Audit opinion and recommendations made on fundamental systems 2013/14**

Fundamental system	Level of assurance given	Number of recommendations made			
		BP	RA	S	F
Housing Rents (draft issued after 31/03/14)	Reasonable	0	15	4	0
Purchase Ledger (in draft 31/3/14)	Limited	0	13	12	0
Sales Ledger	Limited	0	14	9	0
General Ledger (draft issued after 31/03/14)	Good	4	2	0	0
Income Collection	Good	0	9	0	0

Fundamental system	Level of assurance given	Number of recommendations made			
		BP	RA	S	F
Payroll System (in draft 31/3/14)	Limited	0	10	18	0
Council Tax (in draft 31/3/14)	Reasonable	0	5	4	0
NNDR Collection (in draft 31/3/14)	Reasonable	0	15	1	0
Housing Benefits (in draft 31/03/14)	Reasonable	0	3	3	0
Treasury Management	Good	0	1	0	0
Capital Accounting System	Good	0	1	0	0
Risk Management	Good	0	0	0	0

- 5.15 Of the 12 fundamental systems audits, five are assessed as good; four as reasonable and three have limited opinions. There has been a slight improvement on last year's position with Income and General Ledger improving from limited to good; Payroll from unsatisfactory to limited and Housing Benefits from limited to reasonable. Whilst Council tax has dropped from good to reasonable.
- 5.16 Purchase Ledger and Sales Ledger systems continue to receive a limited opinion for the third year running. Opinions have been limited since the initial transfer of these transactional systems to Shared Services.
- 5.17 Management have provided positive responses to address the issues identified and the main areas of weakness identified appear in the table below:

<b>Purchase Ledger</b>	There has been limited progress in respect of the implementation of previous recommendations. Internal control weaknesses agreed with management for action and improvement include the following areas: the review of outstanding credit notes; changes to supplier details requiring management review; authorised signatory records should be up to date and invoices only processed if signed by an authorised individual. In addition, further work is required on the identification and recovery of duplicate payments not covered by the "Twice2Much" project and informing managers of learning in order that the risk of future duplicate payments is further reduced; there is a need to restrict access to authoriser functions and remove access to inactive user accounts. Ensuring that CHAPs payments are checked for authorisation prior to processing.
<b>Sales Ledger</b>	There has been limited progress in respect of the implementation of previous recommendations. Internal control weaknesses agreed with management for action and improvement include: the need to comply with financial rules in respect of credit note authorisation and write off including keeping authorised signatory records up to date; reviewing the write-off process for items under £100 to ensure that Council income is collected in a low risk and economic manner; that officers identify and allocate unallocated income in a timely manner. Introducing a system to advise budget holders of non-payment; introducing formalised debt recovery procedures and policies; and a review of key performance indicators and controls to pursue aged debtors for recovery.

<b>Payroll</b>	<p>There has been good progress in respect of the implementation of previous recommendations. Internal control weaknesses agreed with management for action and improvement include: regular review of the spreadsheet held in respect of the transfer of personal and sensitive data; ensuring the operational risk register is maintained up to date at all times; regular review of the overpayments data to ensure that recoveries are appropriately controlled; authorised signatory records up to date. All service areas are notified of the procedures for using the “EMP” supplier prefix and the potential implications failure.</p> <p>In addition, the audit also reviewed the service provision in respect of an external client which identified specific controls for action and improvement including: full guidance notes and procedures notes in place on processing the external payroll; ensuring post holders have the appropriate skills or access to relevant training; processes are in place to identify employees on unpaid leave, half pay or similar arrangements to ensure payroll correct; controls should be in place to ensure all instructions logged and processed in a timely manner; alterations to the payroll are appropriately authorised; the format and content of management reports are agreed with the client. As a result of the weaknesses identified a recommendation has been raised to review the robustness of controls in respect of other external payroll clients.</p>
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5.18 Audit recommendations are also 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.

5.19 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 in above. Fundamental recommendations resulting from a control weakness in the Council’s control environment would be reported in detail to the Audit Committee.

5.20 A total of 1,651 recommendations have been made in the 164 final audit reports issued in the year; these are broken down by audit area in the table below together with the percentages for the previous year for comparison.



**Audit recommendations made in 2013/14**

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Commissioning	33	142	47	0	222
Public Protection	1	31	23	0	55
Business Growth and Prosperity	2	47	27	0	76
Business Performance Management	0	4	0	0	4
Programme Management, Systems and Transition	5	59	109	9	182
Finance, Governance and Assurance	8	74	22	1	105
Democratic and Election Services	3	8	2	0	13
Human Resources	5	13	5	1	24
Care and Involvement	4	36	36	1	77
Adult Services	82	189	61	0	332
Children's Services	102	334	119	6	561
<b>Total for year numbers</b>	<b>245</b>	<b>937</b>	<b>451</b>	<b>18</b>	<b>1,651</b>
<b>percentage</b>	<b>15%</b>	<b>57%</b>	<b>27%</b>	<b>1%</b>	<b>100%</b>
<b>Percentage 2012/13</b>	<b>23%</b>	<b>57%</b>	<b>20%</b>	<b>-</b>	<b>100%</b>

5.21 The percentage of significant recommendations has risen compared to last year with a corresponding fall in best practice recommendations. Whilst the number of fundamental recommendations has risen significantly from one to 18; overall this represents 1% of the total number of recommendations made. Fundamental recommendations were made on the following audits:

- Cleobury Mortimer Primary School
- Purchasing and Contract Arrangements 2012/13
- The Family Solutions Programme (Grant Funded)
- Pool Cars
- Fuel and Expenses VAT Recovery
- Income Collection 2012/13
- Project Management-Adequacy of Arrangements
- Hardware Replacement Programme
- Physical and Environmental Controls
- Business Continuity / Server Consolidation
- iSupport HR Forms Processing
- Primary Cash Collection 2012/13

5.22 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. There has been a slight fall in the percentage of recommendations rejected. A total of 13 recommendations equivalent to 0.8% of all recommendations made have been rejected

by management (compared to 0.9% in 2012/13). All rejected recommendations have been discussed with the managers concerned and the reasons for rejection accepted.

- 5.23 The work undertaken on the fundamental financial systems has revealed three limited assurance opinions compared to five limited and one unsatisfactory opinion previously. This demonstrates a decrease in terms of numbers and an improvement in the direction of travel of the principle financial systems receiving such assurances.
- 5.24 Given the significance of the IT infrastructure controls in supporting the Council's fundamental, including financial systems, I consider these issues sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their positive responses to address the issues identified. Whilst identifying these control weaknesses and highlighting them to management, there has been no evidence of significant IT business failure or material errors that could result in a material misstatement in the Authority's accounts and reliance can still be placed upon them for that purpose. These issues are reflected in the Annual Governance Statement as a specific action for improvement and plans have already been adopted to manage the outstanding concerns.

### Audit Performance

- 5.25 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, benchmarking the service against others in the sector and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee's delivery of its responsibilities and direct from customers as they provide responses to surveys sent out after each audit.

### Performance against the plan

- 5.26 The team has achieved 98% of the revised plan (86% of the original plan) which is in excess of the target to deliver 90% of the plan at the year end. Performance to the end of 2013/14 is summarised by Service Area in the following table. **Appendix B** provides a more detailed summary.

### Summary of actual audit days delivered against plan 2013/14

	Original Plan	January Revised	March Actual	% of Original Complete	% of Revised Complete
Chief Executive	16	18	14.1	88%	78%
Commissioning	205	229	219.9	107%	96%
Resources and Support	635	525	490.1	77%	93%
Adult Services	204	173	168.4	83%	97%
Public Health	28	8	0.1	0%	1%
Children's Services	242	212	247.2	102%	117%
<b>Shropshire Council Planned Work</b>	<b>1,330</b>	<b>1,165</b>	<b>1,139.8</b>	<b>86%</b>	<b>98%</b>
Contingencies & Other Chargeable Work	672	817	807.4	120%	99%

	Original Plan	January Revised	March Actual	% of Original Complete	% of Revised Complete
<b>Total for Shropshire</b>	<b>2,002</b>	<b>1,982</b>	<b>1,947.2</b>	<b>97%</b>	<b>98%</b>
External Clients	244	236	240.0	98%	102%
<b>Total Chargeable</b>	<b>2,246</b>	<b>2,218</b>	<b>2,187.2</b>	<b>97%</b>	<b>99%</b>

5.27 Members will recall that it was necessary to revise the plan three times in the year due to resourcing changes as follows:

**September** Adjustment to the level of resources available due to securing trainee accountant on a twelve month secondment. Increase in the fraud and unplanned contingency resulted in cuts to lower risk planned work and transformation work which was running far lower than originally anticipated in the first four months.

**December** Changes to the plan to reflect increased levels of special investigation and transformational work.

**February** Continuing high levels of special investigation work coupled with initial effects of the Voluntary Redundancy programme necessitated further changes to the plan resulting in a reduction of 38 days in total. Changes to the plan to reflect increased levels of special investigation work.

Special investigation work has dominated the year, fraud work and other management investigations have taken 321 days, nearly 50% more than the original allocation. In 2012/13 456 days were spent on investigation work, nearly three times the original allocation. Time spent on special investigations has reduced the amount of time that could be delivered on counter fraud work, but limited activity has been delivered including a review of additional hours worked and checks of qualifications on the appointment of new staff. No major issues were identified and learning from the exercises was fed into the payroll audit.

5.28 We continue to make a significant investment and valuable contribution to the transformation agenda, giving advice and assurance on the implementation of a number of key projects such ip&e.

5.29 We have completed all the work for our external clients.

## Reporting

5.30 All Internal Audit work is reviewed by an audit senior to ensure it complies with Internal Audit's standards and that recommendations made are practical and supported by the work undertaken before any audit reports are issued. This is seen as a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.

5.31 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

## Compliance with Public Sector Internal Audit Standards (PSIAS)

5.32 We conduct an annual self-assessment of our compliance against the Public Sector Internal Audit Standards. An external assessment is required within five years of April 2013 and is presently proposed for nearer 2017 given the amount of change the Council and Internal Audit service may go through in the interim. The self-assessment forms part of another report on this agenda: Annual review of the effectiveness of Internal Audit 2013/14.

## Benchmarking

5.33 Benchmarking is an important method for comparing performance across councils providing similar services. Internal Audit has been a member of the CIPFA Audit Benchmarking Club since its inception. The information it provides is invaluable in helping us to check our performance against our peers and best in class.

5.34 The exercise is conducted annually and provides data comparisons in respect of costs, audit coverage, staffing, and performance over time and compares Shropshire's data with its quartile equivalents for the tier of authority.

5.35 With any benchmarking data some caution with interpretation should be exercised, the CIPFA Benchmarking Club is well established and has been considerably refined and improved since its inception so it is recognised as being a reliable set of comparative performance indicators.

5.36 The draft benchmarking data for 2014 is available the key results of which are included in the following table. The final report will be circulated to all members on its receipt.

Key Indicator	Shropshire		Unitary Average	
	Days per Auditor	Cost per Day	Days per Auditor	Cost per Day
<b>Actual 2011/12</b>	174	£274	171	£313
<b>Actual 2012/13</b>	170	£290	174	£317
<b>Draft Actual 2013/14</b>	170	£331	180	£304
<b>Estimate 2014/15</b>	187	£332	183	£305

5.37 The number of available days is static to last years and is slightly lower (6%) than the average of other unitary authorities, whilst our cost per day for last year is nine per cent higher. Both of these factors can be attributed to a number of issues that occurred last year:

- Two additional days leave was given to all staff over the Christmas break which took 30 days out of the plan on top of the 30 days leave already provided as extra over this period;
- Sickness was high, down to an individual case;
- Time was spent on managing the performance of an employee and as a result, audits took longer as well;
- Overheads are increasing as there are less staff to spread the residual costs over which have not reduced e.g. accommodation;
- The team continued to invest in training to ensure that our staff remain up to date to deliver a high level of service against the future challenges and associated risks the authority is facing. Three staff completed their CIPFA, CIMA and MIIA qualifications.
- The team buys in extra resources from contractors following a procurement exercise, the benefits of which are to supplement its delivery and remain flexible in these changing times however, there is an overhead associated with this in respect of increased management of the contract and review times on audits.
- Only 38 authorities have taken place in the exercise this year, there were fifty last year and therefore the sample that we are compared to is different.

5.38 In 2013/14 audit coverage on IT, schools and establishments showed a slightly higher than average application of resources. This is not unexpected and reflects the present risks of the Council. In addition, a number of authorities have lost significantly more schools to academy status compared to Shropshire where the schools are moving at a slower rate. Our counter fraud and investigation remains over twice the unitary average but is no surprise given the number of cases undertaken last year. It is pleasing to note that we achieved a 27% level of prosecution/sanction outcome from our investigations compared to the unitary average of 29%.

### Quality Assurance/Customer Feedback Survey

5.39 A customer feedback survey form is sent out with the majority of audits completed. These provide feedback on the quality of the service and play a key part in ensuring audit work meets our client expectations and the quality of audit work is maintained. The percentages of excellent and good responses for the last four years are detailed in the table below.

#### Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2010/11	2011/12	2012/13	2013/14	Direction of Travel
Pre-audit arrangements	93%	98%	97%	96%	↓
Post-audit briefing	94%	96%	99%	93%	↓
Audit coverage/scope of the audit	99%	100%	99%	95%	↓
Timeliness of production of report	84%	95%	94%	90%	↓
Accuracy and clarity of report	88%	99%	96%	94%	↓
Practicality of recommendations	84%	93%	84%	82%	↓
Professionalism of approach	99%	100%	99%	97%	↓

Communication skills	97%	99%	99%	97%	↓
Timeliness, competence, manner	99%	100%	97%	91%	↓
Number of forms returned	92	84	96	77	

- 5.40 Whilst results this year demonstrate a slightly negative direction of travel, the overall percentages remain high. The practicality of recommendations continues to score in the low eighties, increasingly client as are finding that resources are limiting their choices and delivery of recommendations which is reflected in this score. All recommendations are discussed and agreed by managers who have the opportunity to inform on their practicality and manage this against the risks the business is willing to accept. This does not mean that the team are complacent; auditors will still work to improve on both their own skills and the experience for the customer. The information is used both to inform the team of improvements required and at annual performance reviews to identify future development focus relating to individual skills or competences and overall we will strive to maintain and build upon these levels of satisfaction.
- 5.41 During the last year a number of compliments and comments have been received in respect of the audit service from both questionnaires and directly, these appear in **Appendix C**. The vast majority of comments have been very positive reflecting the hard work the team devote to establishing a good professional relationship with our clients. All critical comments are followed up with the author to identify where lessons can be learnt and improvements made.

### Review of the effectiveness of Internal Audit work by the Audit Committee

- 5.42 The Council has a well-established Audit Committee, which operates in accordance with best practice. Its terms of reference and associated working practices are aligned with those suggested by CIPFA and are reviewed annually. Its members receive regular training on the role of the committee and how they can best support this, as well as the roles of internal and external audit. It undertakes an annual self-assessment exercise and seeks to improve the way in which it operates and has most recently done this in February 2014.
- 5.43 The Committee provides an Annual Assurance Report to Council to summarise its work and opinion on internal controls. This report is also located on this agenda.
- 5.44 The Council's Audit Committee considers external and internal audit reports and the Committee requests management responses to any significant issues reported, including reporting the progress made in implementing audit recommendations. Senior officers have attended the Audit Committee to provide management responses in relation to a number of reports. Examples of audit work and remedial action that have been scrutinised by the Audit Committee include reports on council tax and national non domestic rates, benefit overpayments, current aged debtors, duplicate payments, Shropshire Hills Discovery Centre and ip&e programme management and governance.

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

Draft Internal Annual Audit Plan 2013/14 - Audit Committee 27 March 2013

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

Internal Audit Plan 2013/14 – Performance Report - Audit Committee 5 December 2013

Internal Audit Plan 2013/14 – Third Quarter Report - Audit Committee 13 February 2014

Public Sector Internal Audit Standards (PSIAS).

Accounts and Audit Regulations 2011.

Various internal documents supporting self-assessment against the PSIAS.

Audit Management system.

**Cabinet Member (Portfolio Holder)**

Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee

**Local Member:** All

**Appendices**

**Appendix A** – Limited Audit Opinions issued in 2013/14 and unsatisfactory Audit Opinions issued in 2013/14

**Appendix B** - Audit plan by group and service – annual report 2013/14

**Appendix C** - Summary of compliments and comments 2013/14

**LIMITED AUDIT AND UNSATISFACTORY OPINIONS ISSUED IN 2013/14**

**LIMITED**

Housing Benefits 2012/13  
Income Collection 2012/13  
Purchase Ledger 2012/13  
Sales Ledger 2012/13  
Housing Management 2012/13  
Purchasing & Contract Arrangements 2012/13  
St Georges Primary School 2012/13  
11 St Georges Street, Shrewsbury Group Home 2012/13  
Contract for Leisure Centres  
Northgate - Revenues and Benefits Application  
Database Access/ Admin/ Management  
SAMIS  
Rushbury Primary School  
Primary Cash Collection 2012/13  
The Family Solutions Programme (Grant Funded)  
Patchworks Comforts Fund  
Copperfield Drive Group Home 2012/13  
Oak Farm Ditton Priors Trading Account  
39 Riverdale Group Home 12/13  
39 Riverdale Group Home  
Monkmoor Court Group Home  
Prees CE (Controlled) Primary School  
Sales Ledger  
Welshampton C E Primary School

**UNSATISFACTORY**

Payroll System 2012/13  
CIVICA Environmental Health System Application Review  
iSupport HR Forms Processing  
Printing Services  
Discovery Centre- Craven Arms  
Business Continuity / Server Consolidation  
Fuel and Expenses VAT Recovery  
Licensing  
Pool Cars  
Fairfield Group Home  
Cleobury Mortimer Primary School  
Oakmeadow CE Primary and Nursery School  
Children's Direct Payments / Personalisation  
Asset Management Strategy  
Project Management-Adequacy of Arrangements  
Hardware Replacement Programme  
Physical and Environmental Controls



## AUDIT PLAN BY GROUP AND SERVICE – ANNUAL REPORT 2013/14

	Original Plan	January Revised	March Actual	% of Original Complete	% of Revised Complete
<b>CHIEF EXECUTIVE</b>					
<b>Governance</b>	16	18	14.1	88%	78%
<b>COMMISSIONING</b>					
<b>Director of Commissioning</b>					
Leisure	41	31	31.2	76%	101%
<b>Area Commissioner Central</b>					
Housing Services	48	67	71.3	149%	106%
<b>Area Commissioner South</b>					
Highways and Transport	31	35	28.2	91%	81%
Passenger Transport	4	7	7.2	180%	103%
	35	42	35.4	101%	84%
<b>Public Protection</b>					
Environmental Health	14	10	9.7	69%	97%
Licensing	10	16	16.4	164%	103%
	24	26	26.1	109%	100%
<b>Business Growth and Prosperity</b>					
Enterprise and Business	22	16	10.5	48%	66%
Old Market Hall, Shrewsbury	4	5	5.0	125%	100%
Visitor Economy	5	14	11.5	230%	82%
Planning and Corporate Policy	12	18	18.4	153%	102%
Development Management	14	10	10.5	75%	105%
	57	63	55.9	98%	89%

<b>COMMISSIONING</b>	<b>205</b>	<b>229</b>	<b>219.9</b>	<b>107%</b>	<b>96%</b>
<b>RESOURCES AND SUPPORT</b>					
<b>Business Performance Management</b>	8	7	7.0	88%	100%
<b>Programme Management, Systems and Transition</b>					
Shared Services - Management	10	16	16.3	163%	102%
Shared Services - ICT Implementation and Architecture	38	39	31.9	84%	82%
Shared Services - ICT Operations	72	57	51.8	72%	91%
Shared Services - Finance	40	40	38.4	96%	96%
Shared Services - Human Resources	32	25	29.1	91%	116%
Shared Services - Shire Services	30	14	6.4	21%	46%
	222	191	173.9	78%	91%
<b>Finance, Governance and Assurance</b>					
Risk Management	5	5	4.7	94%	94%
Financial Advice (S.151)	65	41	40.3	62%	98%
Financial Management	65	58	27.3	42%	47%
Treasury and Exchequer	45	46	39.9	89%	87%
Procurement	44	43	52.6	120%	122%
	224	193	164.8	74%	85%
<b>Democratic and Election Services</b>					
Democratic and Election Services	11	11	26.2	238%	238%
Information Governance	9	12	14.0	156%	117%
	20	23	40.2	201%	175%
<b>Human Resources</b>					
Payroll and Human Resources	24	23	13.9	58%	60%
<b>Care and Involvement</b>					
Benefits	32	33	33.0	103%	100%
Customer Services	9	0	0.1	1%	
Revenues Manager	45	35	34.9	78%	100%
Estates and Facilities	51	20	22.3	44%	112%
	137	88	90.3	66%	103%

<b>RESOURCES AND SUPPORT</b>	<b>635</b>	<b>525</b>	<b>490.1</b>	<b>77%</b>	<b>93%</b>
<b>ADULT SERVICES</b>					
<b>Operations</b>					
Long Term Support	104	58	31.1	30%	54%
Comforts Funds	30	38	45.0	150%	118%
Group Homes	57	65	79.8	140%	123%
Trading Accounts	13	12	12.5	96%	104%
<b>ADULT SERVICES</b>	<b>204</b>	<b>173</b>	<b>168.4</b>	<b>83%</b>	<b>97%</b>
<b>PUBLIC HEALTH</b>	<b>28</b>	<b>8</b>	<b>0.1</b>	<b>0%</b>	<b>1%</b>
<b>CHILDREN'S SERVICES</b>					
<b>Learning and Skills</b>					
Business Support	18	7	7.9	44%	113%
Primary /Special Schools	126	127	153.4	122%	121%
Secondary Schools	37	30	34.3	93%	114%
Lifelong Learning	15	1	0.5	3%	50%
	196	165	196.1	100%	119%
<b>Children's Safeguarding</b>					
Children's Placement Services and Joint Adoption	46	47	51.1	111%	109%
<b>CHILDREN'S SERVICES</b>	<b>242</b>	<b>212</b>	<b>247.2</b>	<b>102%</b>	<b>117%</b>
<b>Shropshire Council Planned Work</b>	<b>1,330</b>	<b>1,165</b>	<b>1,139.8</b>	<b>86%</b>	<b>98%</b>
<b>Contingencies &amp; Other Chargeable Work</b>					
Fraud Contingency	218	320	320.9	147%	100%
Transformation Projects	100	50	45.1	45%	90%
Advisory Contingency	20	20	18.5	93%	93%
Unplanned Work	49	115	101.6	207%	88%
Other non-audit Chargeable Work	285	312	321.3	113%	103%
<b>Contingencies &amp; Other Chargeable Work</b>	<b>672</b>	<b>817</b>	<b>807.4</b>	<b>120%</b>	<b>99%</b>
<b>Total for Shropshire</b>	<b>2,002</b>	<b>1,982</b>	<b>1,947.2</b>	<b>97%</b>	<b>98%</b>
<b>Total External Clients</b>	<b>244</b>	<b>236</b>	<b>240.0</b>	<b>98%</b>	<b>102%</b>
<b>Total Chargeable</b>	<b>2,246</b>	<b>2,218</b>	<b>2,187.2</b>	<b>97%</b>	<b>99%</b>

## Summary of compliments and comments 2013/14

1. "Auditor was willing to arrange timing to coincide with a period where workload enabled things to be discussed properly. Audit was being undertaken during a period of considerable change for partnership governance. Auditor was therefore very practical in reviewing areas that would enable outcomes to be used in future arrangements and avoided areas that were not likely to continue operating."
2. "Was not aware of audit taking place on that day. Was arranged by a 3<sup>rd</sup> party. Would recommend confirmation with the manager before appointment is confirmed. However, adapted on the day and got it done."
3. "I fully appreciate that there were a number of difficulties experienced within the Audit Team during the course of the audit. This has impacted on the ratings I have felt able to provide on this occasion. I do however appreciate that the circumstances were difficult to manage and that these were exceptional circumstances."
4. "A pre-audit checklist would be useful to ensure appropriate preparation coupled with unannounced visits to monitor compliance. The level of support audit provides will be dependent on the frequency of visits and any changing requirements linked to service redesign."
5. "The audits you conduct are always helpful to the service, as they form an action plan which helps us to improve our practice".
6. "I believe that the audit report was delayed because of absence. We have created our own action plan and are covering the recommendations methodically. During the audit your staff would have become aware of areas that our administration staff are not confident with. They would also have become aware of systems that could be more organised to help with time and efficiency. Not all of these were covered in the audit report as they cover general office management. Your team may be aware of good practice in other schools or training that is available. Recommendations for support / training / someone who can come in and help staff update the office would be helpful. The examples sent to us were very useful."
7. "I am pleased that we have incorporated this important piece of work."
8. "The audit was conducted in a very professional, efficient and friendly manner with total consideration for the daily work of the school. All areas of the audit were relevant and the team took time to engage with staff to fully understand systems, working practices etc. The report findings were accurate and the recommendations were both meaningful and welcome. Areas contained within the report with which the school sought clarification, were resolved quickly and amicably. In conclusion, a very valuable exercise and suffice to say that Audit are and will continue to be made welcome."
9. "Whilst here, the Auditor was very friendly and made us feel at ease in the beginning. However, we were offered no guidelines as to how we should answer the points raised and rather than being shown, a complaint was made to a Senior Manager that 'the Manager here was naive and didn't have a handle on some of the processes at all'. We

totally agree with the latter as the manager was new, had only been in post a couple of months and was trying to solve 92 points on an audit which arose from the time of the previous manager and there was no cross over between the two. The current manager had never seen an audit before and was unsure how to reply in the correct 'wording' that was acceptable by audit. The manager would have been pleased to have had this advice given to her directly, and, perhaps going forward, it might be an idea to have a guide to show how to reply. If such a guide already exists no one was made aware of it. The manager and other members of staff involved all felt that, as the process progressed that the relationship was almost adversarial. It was felt that we were trying to be 'caught out' rather than supported."

10. "I was sorry that I was unable to spend more time with Louise. We had staff shortages which meant I was busy doing hands on work. In hindsight it may have been better for me to have cancelled the audit. Please pass on my apologies. Louise was very understanding."
11. "Louise was very approachable and helpful to myself and colleagues. Due to staff changes we were unsure of the systems to put in place to manage the tuck shop, Louise was very patient and gave us some advice, she clarified information for us and made us feel at ease."
12. "The audit took place when we had been very short staffed in the office for a couple of months. As a result I was covering both SBM and administrator roles, with invariably some slippage. Overall I am confident that most of these issues are now rectified."
13. "I was not able to attend this audit due to other commitments; it would be much more helpful if we were given more notice. I do not think it is a good idea to ask your questions over the phone after an audit, in the future I will ask for the audit to be postponed until I can attend at least part of it."
14. "A pleasure to work with Emily. She is so polite, has a great deal of common sense and a good understanding of leisure which makes the process a lots more tolerable."
15. "We thank Shelley Hudson for her work in auditing our financial processes and practice at school. We are keen to develop good practice and take note of the recommendations. We particularly appreciate the fact that she came into school to go through the report with us personally and to explain (translate) the terms and phrases used in the report. She was very clear and informative about the significance behind the recommendations. Thank You."
16. "I think audit staff should be given more time to gain good background info on the service they are auditing. If decision making had had a full audit this would have been beneficial, as it feeds into our government return. Please thank Shelley for her patience and understanding some of the stresses of our service."
17. "I think the whole process requires an overhaul given the amounts of change that has happened in the last 12 months to make the audit more relevant and meaningful. I did feel a little frustrated this time around in that I used the process by offering up concerns/controls where I felt that had been weakened as a mechanism to help support processes and resources within my team. To lose a significant amount of experience and resources during the 12 months, you can expect to weaken controls, but then once

identified as part of the report, there was little support at a senior level in acknowledging that we had been proactive in a way that was designed to protect the authority.”

18. “Please note the reasonable mark in the timeliness of the audit to your business process – this is because spring and early to mid-summer terms are our busiest terms, so the availability of SFOs would be limited, however, Shelley conducted the audit with apparently minimal disruption to the team.”
19. “I have not scored feedback on the report as the auditor had little time left at the end of the day to feedback and any feedback given was rushed.”
20. “Auditors understanding of the current situation regarding the subject of the audit (monitoring of leisure management contract) due to the fact we are only part way through the first year of contract. Recommendations relevant to improving contract monitoring and timescales for implementation reasonable and achievable.”
21. Emily was involved in the initial POVA level 2 briefing, where she brought with her all the raw data / audit findings as well as a summary of suspicious transactions. She was able to explain the information in such a way as to make it easy for the lay person to understand. At the level 2 she was asked to prepare a statement, which she did in good time. We met a few weeks prior to the interview in order to finalise the statement and for Emily to brief me in the audit process. Again she did this effectively using simple language and worked examples. As a result I understood the process sufficiently to create an interview plan, which I sent to Emily for preparation. Within hours she had replied to me and pointed out a number of challenges on a specific topic area that I had missed. She arrived in good time for the interview at Monkmoor police station. We prepared the interview topics /challenges together and highlighted the individual pieces of evidence in readiness for any lines of defence, if required. Although understandably nervous, Emily assisted me in conducting a well-structured, professional and ultimately very successful PACE interview. She followed the structure of the interview plan, did not interrupt or over-elaborate and swept up each topic area as needed. It is fair to say that the weight of well-prepared evidence contributed in the defendant’s willingness to admit a number of unlawful withdrawals. In summary working with Emily for the first time was a pleasure, she is professional, knowledgeable and thorough.
22. I have been very appreciative of the support and help Barry has provided me over recent weeks. Your support in this area is in many ways much more use to me than work on the finance areas where I am much more comfortable and where we have more cover.
23. Kathy was really helpful in completing this report and mediating between us and the external auditors.”
24. “We had understood the scope of this audit to be about contracting / purchasing but it encompassed some other areas which we had not fully discussed in the early part of the process and this led to misunderstandings: the understanding of the first auditor<sup>1</sup>, as regards the issues and social care seemed weak. At a time of significant changes to processes, .... the audit was of very little value. Dealing with internal audit was wholly preferable.”

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<sup>1</sup> Audit provided by a contractor, the issue was addressed and rectified with the provider.

25. Disappointed by the lack of knowledge of the auditor on the area being audited. Spent quite a lot of time explaining the basics. She was very polite but appeared to have little knowledge of the service area and so additional time was taken up explaining things, I think this also limited what she looked at and the risks identified. Disappointed by the report, the only recommendation made in the report (re contracts etc.) were based on the risks identified directly to the Auditor by ourselves (and the reasons for these were also explained at the time). I would have appreciated a far more independent / in depth audit that scrutinised what we do and identified risks we were not aware of.”