



Committee and Date

Audit Committee

18<sup>th</sup> September 2014

9:30 am

## INTERNAL AUDIT PLAN 2014/15 - PERFORMANCE REPORT

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk) Telephone: 01743 252027

### 1. Summary

- 1.1 This report proposes refinement of and revisions to the Internal Audit Plan which was presented as a draft in March 2014 amounting to 2,060 days. The new plan will provide 2,167 days across the Council's services and our external clients. Since March there have been a number of changes to the risks that the Council faces and as such the areas requiring assurances from Internal Audit, in addition team resources have experienced a period of long term sickness and successfully recruited to the two Auditor vacancies with employees starting mid-August and early September. These changes have necessitated revisions to the draft plan presented to Committee in March 2014 which have been discussed with and agreed by the Section 151 Officer.
- 1.2 This report provides members with details of the work undertaken by Internal Audit for the period 1<sup>st</sup> April to 17<sup>th</sup> August 2014 summarising progress against the Internal Audit Plan. Whilst it has been a challenging start to the year, 28% of the revised plan has been completed which is just below previous delivery records, but it is hoped to be in line with the target of 90% by year end.
- 1.3 Twenty five good and reasonable assurances, one unsatisfactory and 11 limited assurance opinions were issued. The 37 final reports contained 413 recommendations. One fundamental recommendation has been identified.

### 2. Recommendations

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

- a) The performance to date against the 2014/15 Audit Plan set out in this report.
- b) The adjustments required to the 2014/15 plan to take account of changing priorities set out in **Appendix A**.

## 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 a robust internal control environment can lead to poor performance, fraud, irregularity and inefficiency going undetected leading to financial loss and reputational damage.

- 3.2 Areas to be audited have been identified following a risk assessment process which has considered the Council's risk register information and involved discussions with managers around their key risks.
- 3.3 Provision of the Internal Audit Annual Plan satisfies 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.'
- 3.4 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.5 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2011.
- 3.6 There are no direct environmental, equalities or climate change consequences of this proposal.

#### **4. Financial Implications**

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

#### **5. Background**

- 5.1 The draft 2014/15 audit plan was presented and approved by members at the 27 March Audit Committee with the caveat that some minor adjustments may be necessary before the plan was finalised. Since March the team has experienced a period of long term sickness and successfully appointed two auditors.
- 5.2 Part of the internal audit plan is being provided by external providers through Staffordshire County Council's framework contract for internal audit. Four companies have successfully been appointed to the framework and following a mini-tendering exercise the team is purchasing both general and IT audit days from the external providers.
- 5.3 This report summarises the work of the Internal Audit team up to the 17<sup>th</sup> August 2014. As reported previously, the team has experienced a number of staff changes

coupled with continuing high levels of unplanned work against a background of major changes and fluidity to Council services. This requires a more responsive approach to risk management and audit activity, culminating in necessary changes to the plan.

### Audit Work and Findings

5.4 Audit assurance opinions are delivered 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 control.
<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.

5.5 In total 37 final reports to Shropshire Council have been issued in just under five months of 2014/15, the breakdown of which appears in the table below. Internal Audit have also issued five reports to our external clients and drawn up the financial statements and completed the audits of five school and other honorary and voluntary body accounts. In addition 16 audit reports have been issued in draft for which we are awaiting management comments.

### Audit assurance opinions delivered to August 2014/15

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	4	5	2	0	11
Commissioning	0	3	0	0	3
Children's Services	2	5	5	0	12
Public Health	0	0	0	0	0
Commercial Services	0	0	0	0	0
Customer Involvement	0	1	1	1	3
Finance, Governance and Assurance	1	3	1	0	5
Human Resources	0	0	1	0	1

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Legal, Strategy and Democratic	0	1	1	0	2
<b>Total for the period</b>					
• <b>Numbers</b>	<b>7</b>	<b>18</b>	<b>11</b>	<b>1</b>	<b>37</b>
• <b>percentage</b>	<b>19%</b>	<b>48%</b>	<b>30%</b>	<b>3%</b>	<b>100</b>
<b>Total 2013/14</b>	<b>30%</b>	<b>45%</b>	<b>15%</b>	<b>10%</b>	<b>100</b>
<b>Total 2012/13</b>	<b>31%</b>	<b>56%</b>	<b>12%</b>	<b>1%</b>	<b>100</b>

5.6 Twenty five good and reasonable assurances were made up to the 17<sup>th</sup> August 2014. One unsatisfactory opinion was given on Lotus Notes Decommissioning, following which managers have agreed to implement robust project management processes at a Council wide level (i.e. not just Lotus decommissioning) to ensure there is a structured approach to systems decommissioning; identify the resources required, the time scales involved, prioritisation of systems and tasks, risks and contingencies.

5.7 Eleven limited opinions were issued in the following areas:

**Adult Services**

- Abbots Wood Comforts Fund (2013/14)
- CM2000 Electronic Homecare Monitoring – Application Review

**Children’s Services**

- Leaving Care Team Imprest Account
- Onny CE Primary School & Little Pippins Nursery (2013/14)
- St Martins All Through School (2013/14)
- Trinity (Ford) CE Primary School (2013/14)
- Woodlands School

**Customer Involvement**

- Patch Management

**Finance, Governance and Assurance**

- Purchase Ledger (2013/14)

**Human Resources**

- Payroll System (2013/14)

**Legal, Strategy and Democratic**

- Contract Audit (2013/14).

5.8 Audit recommendations are 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.

5.9 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 and detailed earlier. Any fundamental recommendations resulting from a control weakness in the Council's control environment would be reported in detail to the Audit Committee.

5.10 A total of 413 recommendations have been made in the 37 final audit reports issued by the 17<sup>th</sup> August 2014; these are broken down by area in the table below.

**Audit recommendations made in the period to 31 August 2014/15**

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Adult Services	2	34	24	0	60
Commissioning	0	20	5	0	25
Children's Services	4	125	72	0	201
Public Health	0	0	0	0	0
Commercial Services	0	0	0	0	0
Customer Involvement	0	5	15	1	21
Finance, Governance and Assurance	5	39	19	0	63
Human Resources	0	10	18	0	28
Legal, Strategy and Democratic	0	4	11	0	15
<b>Total for the period</b>					
• <b>numbers</b>	<b>11</b>	<b>237</b>	<b>164</b>	<b>1</b>	<b>413</b>
• <b>percentage</b>	<b>3%</b>	<b>57%</b>	<b>40%</b>	<b>0</b>	<b>100</b>
Total 2013/14	15%	57%	27%	1%	100
Total 2012/13	23%	57%	20%	0%	100

5.11 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. No recommendations have been rejected by management.

5.12 One fundamental recommendation has been agreed with managers as part of the Lotus Notes Decommissioning audit which is detailed in paragraph 5.6 of this report.

**Performance against the plan**

5.13 The draft internal audit plan was presented to Audit Committee in March 2014 with the caveat that some adjustments may be necessary which would be agreed by the Section 151 Officer and reported back to committee. There have been several changes to audit resources and areas to be audited since the original plan was

drafted, the opportunity has been taken to revisit the plan in the light of these changes and the audit work performed in the first part of the year.

5.14 Since March 2014, internal resources have been reduced following the long term illness of one of our auditors and we have managed to recruit successfully to two auditor posts, both posts will be in place for the start of September. As support, a number of additional audits have been purchased from our external contractors to deliver reviews in specialist areas. Unplanned work is a little above average and special investigation work is showing reduced demand in the early months. In a number of potential investigation cases, the team has been able to provide data and information to other officers to review potential situations therefore minimising audits input. Transformation work is running higher than previous years but no adjustment has been made at this time, projects include the transfer of services to external providers, new electronic systems and establishing controls as processes are designed. We will continue to closely monitor the situation and it is probable that we will have to revisit these contingencies later in the year to make further revisions to the plan to accommodate additional unforeseen work.

5.15 The team has achieved 28% of the revised plan by the 17<sup>th</sup> August 2014 which is just below previous delivery records, but it is hoped to be in line with the target to deliver 90% by year end. Performance to date is summarised in the following table. **Appendix A** provides a more detailed summary by Directorate and Service.

**Summary of audit days delivered and revisions to the audit plan 17 August 2014**

	Original Plan	August Revision	Revised Plan	Days Worked	% of Revised Complete
Chief Executive	18	0	18	11.2	62%
Adult Services	113	8	121	37.5	31%
Commissioning	104	16	120	10.5	9%
Children's Services	245	42	287	89.6	31%
Public Health	30	-5	25	6.5	26%
Resources and Support	636	35	671	100.8	15%
<b>S151 Planned Audit</b>	<b>1,146</b>	<b>96</b>	<b>1,242</b>	<b>256.1</b>	<b>21%</b>
Contingencies and other chargeable work	649	9	658	269.0	41%
<b>Total S151 Audit</b>	<b>1,795</b>	<b>105</b>	<b>1,900</b>	<b>525.1</b>	<b>28%</b>
External Clients	265	2	267	79.2	30%
<b>Total</b>	<b>2,060</b>	<b>107</b>	<b>2,167</b>	<b>604.3</b>	<b>28%</b>

5.16 Work for our external clients is progressing as scheduled and should be largely complete by Christmas leaving the remaining quarter to concentrate on Shropshire Council's audit plan.

5.17

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

Draft Internal Audit Annual Plan 2014/15 - Audit Committee 27 March 2014  
 Public Sector Internal Audit Standards 2013  
 Accounts and Audit Regulations 2011.

**Cabinet Member (Portfolio Holder)**

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

**Local Member:** All

**Appendices:** A: Audit Plan by Group and Service

## APPENDIX A

## AUDIT PLAN BY GROUP AND SERVICE – PERFORMANCE REPORT TO AUGUST 2014/15

	Original Plan Days	August Revision	Revised Plan Days	Aug 17 Actual	% of Revised Complete
<b>CHIEF EXECUTIVE</b>					
<b>Governance</b>	<b>18</b>	<b>0</b>	<b>18</b>	<b>11.2</b>	<b>62%</b>
<b>ADULT SERVICES</b>					
Provider Services - Comforts Funds	8	0	8	2.9	36%
Provider Services - Establishments	6	0	6	6.3	105%
Provider Services - Group Homes	8	1	9	6.4	71%
Provider Services - Trading Accounts	2	3	5	4.8	96%
Development Support	8	0	8	0.0	0%
Long Term Support	81	4	85	17.1	20%
<b>ADULT SERVICES</b>	<b>113</b>	<b>8</b>	<b>121</b>	<b>37.5</b>	<b>31%</b>
<b>COMMISSIONING</b>					
Waste Services	10	0	10	0.1	1%
Business & Enterprise	10	0	10	0.0	0%
Highways & Transport	14	16	30	0.6	2%
Development Management	9	6	15	0.3	2%
Visitor Economy	5	0	5	0.0	0%
Environmental Health	5	0	5	0.0	0%
Housing Services	51	-6	45	9.5	21%
<b>COMMISSIONING</b>	<b>104</b>	<b>16</b>	<b>120</b>	<b>10.5</b>	<b>9%</b>
<b>CHILDREN'S SERVICES</b>					
Assessment & Looked After Children Children's Placement and Joint Adoption	0	10	10	4.4	44%
Business Support Children's Placement and Joint Adoption	27	-5	22	2.5	11%
Education Improvements Primary/Special Schools	22	0	22	1.3	6%
Secondary Schools	15	0	15	0.0	0%
Primary/Special Schools	31	14	45	9.5	21%
Secondary Schools	115	5	120	46.4	39%
Secondary Schools	35	18	53	25.5	48%
<b>CHILDREN'S SERVICES</b>	<b>245</b>	<b>42</b>	<b>287</b>	<b>89.6</b>	<b>31%</b>
<b>PUBLIC HEALTH</b>	<b>30</b>	<b>-5</b>	<b>25</b>	<b>6.5</b>	<b>26%</b>
<b>RESOURCES AND SUPPORT</b>					
<b>Commercial Services</b>					
Estates & Facilities	5	0	5	4.5	90%
Property Services	25	1	26	0.6	2%
Shire Services	8	0	8	0.4	5%



	Original Plan Days	August Revision	Revised Plan Days	Aug 17 Actual	% of Revised Complete
	<b>38</b>	<b>1</b>	<b>39</b>	<b>5.5</b>	<b>14%</b>
<b>Customer Involvement</b>					
Benefits	30	-7	23	1.7	7%
Customer Services	12	1	13	9.0	69%
ICT Implementation & Architecture	45	5	50	1.3	3%
ICT Operations	128	12	140	22.8	16%
	<b>215</b>	<b>11</b>	<b>226</b>	<b>34.8</b>	<b>15%</b>
<b>Finance Governance &amp; Assurance</b>					
Finance Transactions	63	0	63	0.5	1%
Financial Advice (S.151)	69	-10	59	8.7	15%
Financial Management	73	24	97	17.0	18%
Procurement	40	0	40	11.9	30%
Revenues	40	0	40	0.9	2%
Risk Management and Business Continuity	5	0	5	0.0	0%
Treasury	16	0	16	0.7	4%
	<b>306</b>	<b>14</b>	<b>320</b>	<b>39.7</b>	<b>12%</b>
<b>Human Resources</b>					
Payroll and Human Resources	<b>57</b>	<b>8</b>	<b>65</b>	<b>18.1</b>	<b>28%</b>
<b>Legal, Strategy and Democratic</b>					
Democratic Services	2	0	2	0.0	0%
Election Services	4	0	4	0.0	0%
Information Governance	4	1	5	2.6	52%
Legal Services	10	0	10	0.1	1%
	<b>20</b>	<b>1</b>	<b>21</b>	<b>2.7</b>	<b>13%</b>
<b>RESOURCES AND SUPPORT</b>	<b>636</b>	<b>35</b>	<b>671</b>	<b>100.8</b>	<b>15%</b>
<b>Total Shropshire Council Planned Work</b>	<b>1,146</b>	<b>96</b>	<b>1,242</b>	<b>256.1</b>	<b>21%</b>
<b>CONTINGENCIES</b>					
Advisory Contingency	40	0	40	7.2	18%
Fraud Contingency	200	0	200	66.6	33%
Transformation Projects	100	0	100	58.7	59%
Unplanned Audit Contingency	49	0	49	28.2	58%
Other non audit Chargeable Work	260	9	269	108.3	40%
<b>CONTINGENCIES</b>	<b>649</b>	<b>9</b>	<b>658</b>	<b>269.0</b>	<b>41%</b>
<b>Total for Shropshire</b>	<b>1,795</b>	<b>105</b>	<b>1,900</b>	<b>525.1</b>	<b>28%</b>

	<b>Original Plan Days</b>	<b>August Revision</b>	<b>Revised Plan Days</b>	<b>Aug 17 Actual</b>	<b>% of Revised Complete</b>
<b>EXTERNAL CLIENTS</b>	<b>265</b>	<b>2</b>	<b>267</b>	<b>79.2</b>	<b>30%</b>
<b>Total Chargeable</b>	<b>2,060</b>	<b>107</b>	<b>2,167</b>	<b>604.3</b>	<b>28%</b>