

INTERNAL AUDIT PLAN 2014/15 – SEVEN MONTH REPORT

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1. Summary

- 1.1 This report provides members with an update of the work undertaken by Internal Audit in the two and a half months since the last report in September 2014 and summarises progress against the 2014/15 Internal Audit Plan.
- 1.2 Whilst it has been a challenging year, 56% of the revised plan has been completed which is in line with previous delivery records to achieve the target of 90% by year end.
- 1.3 The trend towards a higher number of limited and unsatisfactory opinions issued this year compared to last has continued. This reflects the changing environment that the Council is working in and its increased appetite for risk, which needs to be offset against knowledge and management of those risks to ensure value for money. In the period 18th August to 31st October 2014, 25 good and reasonable assurances were made, eight limited and two unsatisfactory assurance opinions. The 35 final reports contained 347 recommendations with two fundamental recommendations identified.
- 1.4 This report proposes minor revisions to the revised Internal Audit Plan presented in September 2014 amounting to 2,167 days. The new plan will provide 2,147 days across the Council's services and our external clients. Increases in annual leave for staff over the Christmas period and higher levels of unplanned and advisory work necessitate these revisions; these changes have been discussed with and agreed by the Section 151 Officer.

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 B**.

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 revised 2014/15 audit plan was presented and approved by members at the 18th September Audit Committee with the caveat that further adjustments may be necessary.
- 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 31st October 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:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

5.5 In total 35 final reports have been issued to Shropshire Council in the period 18th August to 31st October 2014, the breakdown of which appears in the table below together with the year to date and previous year totals. In addition 18 audit reports have been issued in draft for which we are awaiting management comments. We have also issued ten reports to our external clients and drawn up the financial statements and completed the audits of two school and other honorary and voluntary body accounts.

Audit assurance opinions delivered to 31st October 2014

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Adult Services	4	7	2	0	13
Commissioning	0	1	0	0	1
Children's Services	1	1	2	1	5
Public Health	0	1	0	0	1
Commercial Services	1	0	0	0	1
Customer Involvement	0	5	4	1	10
Finance, Governance and Assurance	2	2	0	0	4

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Total for the period 18/08-31/10/14	8	17	8	2	35
Total 2014/15 to date					
• Numbers	15	35	19	3	72
• Percentage	21%	49%	26%	4%	100
Total 2013/14	30%	45%	15%	10%	100
Total 2012/13	31%	56%	12%	1%	100

5.6 Twenty five good and reasonable assurances were made in the 18th August to 31st October 2014.

5.7 Two unsatisfactory opinions were given in the following areas:

Children's Services: Burford CE Primary School

Customer Involvement: Disposal of I.T. equipment

Management have provided positive responses through agreed recommendation implementation action plans to address the issues identified, a number of significant issues are summarised in the table below: In addition, a follow up audit on the disposal of IT equipment has been requested and will be delivered in quarter four of the IT audit plan.

Burford CE Primary School	<p>There is a lack of internal control in many of the control objectives reviewed. Improvements are required in relation to:</p> <ul style="list-style-type: none"> • The delegation of financial limits • Recording Finance Committee meetings • Reporting budget monitoring to Governors • Purchasing processes around seeking quotations, raising orders and paying invoices promptly. • Accounting for the imprest and bank reconciliations. • Simplifying the payroll process and ensuring appropriate authorisations • The school fund: ensuring it is audited and maintaining a complete set of records • Banking income promptly and insuring for cash in transit to the appropriate limit • Appointing a Senior Information Risk Owner and reviewing user accounts to the school's computer network.
Disposal of I.T. equipment	<p>Formal responsibility and procedures for the disposal of IT equipment had not been documented or publicised. Management reviews of contract documentation including disposal processes, inventory management are to be conducted.</p> <p>IT equipment identified for disposal is to be held in an appropriate location prior to being collected and clearly marked for disposal.</p>

5.8 Eight limited opinions were issued in the following areas:

Adult Services

- 207 Crowmere Road Group Home
- 9 Sefton Place Group Home

Children’s Services

- Shifnal Primary School
- Wistanstow CE Primary School

Customer Involvement

- Customer Service Points
- Helpdesk Procedures
- I.T. Business Support
- Project Management (PMO) Adequacy of Arrangements

5.9 Details of limited and unsatisfactory opinions issued in the period 1st April to 17th August 2014 are shown at **Appendix A**.

5.10 The level of unsatisfactory and limited audit opinions is continuing at the levels reported in September, we have now issued 19 limited and three unsatisfactory opinions in the first seven months compared to 14 limited and 9 unsatisfactory assurance reports issued last year. In addition, five fundamental recommendations were made last year compared to three to date in 2014/15, details of which are set out below. The trend towards a higher number of limited and unsatisfactory opinions issued compared to last year has continued.

5.11 Audit recommendations are an indicator of the effectiveness of the Council’s internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

5.12 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.

5.13 A total of 347 recommendations have been made in the 35 final audit reports issued in the period 18th August to 31st October 2014; these are broken down by area in the table below, together with the year to date and previous year totals.

Audit recommendations made in the period to 31st October 2014

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Adult Services	9	49	14	0	72
Commissioning	3	2	0	0	5
Children's Services	8	91	60	0	159
Public Health	0	2	4	0	6
Customer Involvement	9	30	44	2	85
Finance, Governance and Assurance	3	15	2	0	20
Total for the period 18/08-31/10/14	32	189	124	2	347
Total for 2014/15 to date					
• Numbers	43	426	288	3	760
• Percentage	6%	56%	38%	0%	100
Total 2013/14	15%	57%	27%	1%	100
Total 2012/13	23%	57%	20%	0%	100

5.14 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.

5.15 Two fundamental recommendations have been agreed with managers as part of the Disposal of I.T. equipment audit, a summary of which appears in the table under paragraph 5.7 of this report.

Performance against the plan

5.16 The revised internal audit plan was presented to Audit Committee in September 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 are a number of minor changes to audit resources: increases in annual leave for staff over the Christmas period and slightly higher levels of unplanned and advisory work, 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.

5.17 The team has achieved 56% of the revised plan by the 31st October 2014 which is in line with previous delivery records to achieve the target of 90% by year end. Performance to date is summarised in the following table. **Appendix B** provides a more detailed summary by Directorate and Service.

Summary of audit days delivered and revisions to the audit plan 31st October 2014

	Original Plan	August Revision	November Revision	Revised Plan	Days Worked	% of Revised Complete
Chief Executive	18	0	5	23	11.2	49%
Adult Services	113	8	11	132	103.7	79%
Commissioning	104	16	0	120	47.9	40%
Children's Services	245	42	-1	286	168.2	59%
Public Health	30	-5	0	25	14.4	58%
Resources and Support	636	35	-29	642	248.4	39%
S151 Planned Audit	1,146	96	-14	1,228	593.8	48%
Contingencies and other chargeable work	649	9	12	670	447.2	67%
Total S151 Audit	1,795	105	-2	1,898	1,041.0	55%
External Clients	265	2	-18	249	158.3	64%
Total	2,060	107	-20	2,147	1,199.3	56%

5.18 Work for our external clients is progressing as scheduled and plans are on target for full delivery.

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
 Internal Audit Plan 2014/15 Performance Report - Audit Committee 18 September 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: Limited Assurance Opinions 1st April to 17th August 2014
 Appendix B: Audit Plan by Group and Service

Limited Assurance Opinions 1st April to 17th August 2014

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 and 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).

Unsatisfactory Assurance Opinions 1st April to 17th August 2014

Customer Involvement: Lotus Notes Decommissioning

APPENDIX B

AUDIT PLAN BY GROUP AND SERVICE – PERFORMANCE REPORT TO 31st OCTOBER 2014

	Original Plan Days	Aug. Revision	Nov. Revision	Revised Plan Days	Oct 31 st Actual	% of Revised Complete
CHIEF EXECUTIVE						
Governance	18	0	5	23	11.2	49%
ADULT SERVICES						
Provider Services - Comforts Funds	8	0	6	14	14.0	100%
Provider Services - Establishments	6	0	1	7	6.7	96%
Provider Services - Group Homes	8	1	2	11	11.2	102%
Provider Services - Trading Accounts	2	3	0	5	4.8	96%
Development Support	8	0	0	8	0.0	0%
Long Term Support	81	4	2	87	67.0	77%
ADULT SERVICES	113	8	11	132	103.7	79%
COMMISSIONING						
Waste Services	10	0	3	13	12.6	97%
Business and Enterprise	10	0	-5	5	0.0	0%
Highways and Transport	14	16	0	30	10.9	36%
Development Management	9	6	0	15	10.6	71%
Visitor Economy	5	0	-5	0	0.0	0%
Environmental Health	5	0	3	8	0.0	0%
Housing Services	51	-6	4	49	13.8	28%
COMMISSIONING	104	16	0	120	47.9	40%
CHILDREN'S SERVICES						
Assessment and Looked After Children	0	10	3	13	11.6	89%
Children's Placement and Joint Adoption	27	-5	0	22	7.0	32%
Business Support	22	0	-10	12	1.3	11%
Children's Placement and Joint Adoption	15	0	0	15	0.0	0%
Education Improvements	31	14	-10	35	24.2	69%
Primary/Special Schools	115	5	12	132	94.1	71%
Secondary Schools	35	18	4	57	30.0	53%
CHILDREN'S SERVICES	245	42	-1	286	168.2	59%
PUBLIC HEALTH	30	-5	0	25	14.4	58%

RESOURCES AND SUPPORT
Commercial Services

Estates and Facilities	5	0	0	5	5.3	106%
Property Services	25	1	0	26	1.5	6%
Shire Services	8	0	0	8	0.4	5%
	38	1	0	39	7.2	18%

Customer Involvement

Benefits	30	-7	1	24	7.3	30%
Customer Services	12	1	1	14	10.0	71%
ICT Implementation and Architecture	45	5	-6	44	14.0	32%
ICT Operations	128	12	4	144	89.3	62%
	215	11	0	226	120.6	53%

Finance Governance and Assurance

Finance Transactions	63	0	-6	57	7.9	14%
Financial Advice (S.151)	69	-10	3	62	25.0	40%
Financial Management	73	24	-18	79	31.2	39%
Procurement	40	0	-10	30	14.3	48%
Revenues	40	0	0	40	0.9	2%
Risk Management and Business Continuity	5	0	0	5	0.0	0%
Treasury	16	0	0	16	8.4	53%
	306	14	-31	289	87.7	30%

Human Resources

Payroll and Human Resources	57	8	2	67	30.0	45%
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Legal, Strategy and Democratic

Democratic Services	2	0	0	2	0.0	0%
Election Services	4	0	0	4	0.1	3%
Information Governance	4	1	0	5	2.6	52%
Legal Services	10	0	0	10	0.2	2%
	20	1	0	21	2.9	14%

RESOURCES AND SUPPORT	636	35	-29	642	248.4	39%
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Total Shropshire Council Planned Work	1,146	96	-14	1,228	593.8	48%
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CONTINGENCIES

Advisory Contingency	40	0	-5	35	13.1	37%
Fraud Contingency	200	0	0	200	123.1	62%
Transformation Projects	100	0	0	100	81.8	82%
Unplanned Audit Contingency	49	0	0	49	39.1	80%
Other non-audit Chargeable Work	260	9	17	286	190.1	66%

CONTINGENCIES	649	9	12	670	447.2	67%
Total for Shropshire	1,795	105	-2	1,898	1,041.0	55%
EXTERNAL CLIENTS	265	2	-18	249	158.3	64%
Total Chargeable	2,060	107	-20	2,147	1,199.3	56%