



Committee and Date

Audit Committee

23rd February 2015

9:30 am

INTERNAL AUDIT PLAN 2014/15 – TEN 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 three months since the last report in November 2014 and summarises progress against the 2014/15 Internal Audit Plan.
- 1.2 Whilst it has been a challenging year, 84% of the revised plan has been completed which is in line with the target of 90% by year end.
- 1.3 The trend of higher numbers of limited and unsatisfactory opinions compared to last year continues. This reflects the changing environment that the Council is working in and its acceptance of an increased level of risk, which needs to be offset against knowledge and management of those risks to ensure value for money. In the period 1st November 2014 to 31st January 2015, 26 good and reasonable assurances were made, 13 limited and seven unsatisfactory assurance opinions. The 46 final reports contained 366 recommendations with three fundamental recommendations identified.
- 1.4 This report proposes minor revisions to the revised Internal Audit Plan presented in November 2014 to reflect changing priorities in respect of areas to be audited, and in the detailed scope of planned audits which have required further analysis. An example of this is the increase in areas attracting limited or unsatisfactory assurances, which result in additional work in undertaking the audit, writing the report, debriefing managers and any planned follow up work.

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 examines, evaluates and reports objectively 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 27th November Audit Committee with the caveat that further adjustments may be necessary.
- 5.2 Part of the internal audit plan is being delivered 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 now purchasing both general and IT audit days from external providers.

- 5.3 This report summarises the work of the Internal Audit team up to the 31st January 2015. As reported previously, the team has experienced increased levels of 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.
- 5.4 There has been an increase to both the fraud and the transformation budgets due to work on complex investigations, some around corporate complaints others requiring surveillance; an increased number of commissioned services requiring exit audits; and new projects, such as the University. Audits in new areas of governance and commissioning have also taken longer than planned and learning from these will be used to inform the scope of future reviews. These demands have resulted in an additional 50 and 30 days needed respectively in these contingency budgets.
- 5.5 The changes in staff and loss of posts at a senior level has resulted in additional training and time required to develop the service, support IT systems and modify software to enable improved electronic working and reporting. There have been a number of changes to legislation in relation to fraud, risk and social care that have required additional staff development, in addition to induction training of new staff. Training of staff in areas new to them has also increased the length of time taken on some audits. This is however an integral part of succession planning.
- 5.6 Part of the audit plan being provided by external providers has created an additional management overhead, overseeing the work and managing a number of performance issues. Learning from this will be used to inform any future decision on the purchasing of internal audit days from external providers.
- 5.7 In respect of non-chargeable time, the team have replaced equipment to deliver their work in an increased mobile environment to become more receptive to their customers. In so doing they have experienced computer network problems and therefore recorded increased down time. The team continue to work with IT services to address these issues. Increased non chargeable time also reflects higher levels of sickness than originally anticipated, plus unplanned special leave.
- 5.8 Exercises on refreshing business continuity and disaster recovery plans together with revising the risk registers have been undertaken which will increase the resilience of the service and provide clarity of the teams' role in the event of an issue. These have contributed to an increase in chargeable time required.

Audit Work and Findings

- 5.9 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
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	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.

5.10 In total 46 final reports have been issued to Shropshire Council in the period 1st November to 31st January 2015, the breakdown of which appears in the table below together with the year to date and previous year totals. In addition 21 audit reports have been issued in draft which are awaiting management responses. Ten reports have been issued to external clients and financial statements drawn up and audits completed in respect of 11 schools, honorary and voluntary bodies.

Audit assurance opinions delivered to 31st January 2015

Directorate	Good	Reasonable	Limited	Unsatisfactory	Total
Adult Services	4	8	5	1	18
Commissioning	1	1	0	0	2
Children's Services	1	1	2	3	7
Public Health	0	1	0	0	1
Commercial Services	0	0	1	0	1
Customer Involvement	0	6	5	2	13
Finance, Governance and Assurance	0	1	0	0	1
Human Resources	0	2	0	1	3
Total for the period 01/11/14 - 31/01/15	6	20	13	7	46
Total 2014/15 to date					
• Numbers	21	55	32	10	118
• Percentage	18%	47%	27%	8%	100%
Total 2013/14	30%	45%	15%	10%	100%
Total 2012/13	31%	56%	12%	1%	100%

5.11 Twenty six good and reasonable assurances were made in the period 1st November 2014 to 31st January 2015.

5.12 Seven unsatisfactory opinions were given in the following areas:

Adult Services

- 22 Porchfields Group Home

Children’s Services

- Newcastle CE Primary School
- Oldbury Wells School
- Woore Primary School

Customer Involvement

- Business Continuity and Disaster Recovery
- Physical and Environmental Controls

Human Resources

- Teachers’ Pension Scheme

5.13 For the above management have provided positive responses through agreed action plans to address the issues identified. A summary of the significant issues in each audit are summarised in the table below:

22 Porchfields Group Home	Accounting records were found to be incomplete. This resulted in cash withdrawals from the bank not being traced to a subsequent supporting record and an adjustment to the housekeeping account. Furthermore, funds, recorded as being given to a Service User, were not signed for and could not be traced to any supporting record. The management of this account has since passed to an external provider who will be managed through a commissioning relationship.
Newcastle Primary School	Improvements were recommended in relation to administrative and financial procedures, in particular purchasing, imprest, payroll and school fund. In addition, the controls in relation to governance arrangements and data security were found to be weak.
Oldbury Wells School	Quotes were not obtained for a number of high value purchases and contracts, this resulted in a fundamental recommendation being made. The controls in relation to budget monitoring were found to be poor and Governors had not been made aware of the revised budget position. Controls in relation to the imprest account, school fund, data security and school meals were also found to be weak.
Woore Primary School	Improvements were recommended in relation to administrative and financial procedures, in particular governance, income, purchasing; school fund and data security.
Business Continuity and Disaster Recovery	Suggested improvements in this area related to the development of fully functional recovery arrangements from an IT perspective to support the overarching business continuity arrangements, including the documentation of a formal IT recovery plan.
Physical and Environmental Controls	Issues were highlighted including that the Council should designate responsibility for managing all aspects of environmental and physical security of server rooms and ensure appropriate procedures are documented to effectively manage this activity. The Council should collate all relevant support agreements for physical and environmental controls for each data centre so that they can be obtained speedily if

	required.
Teachers' Pension Scheme	Improvements were identified in processes around the delivery of the teachers' pension service including management checks of contributions, comprehensive procedures to ensure consistency of approach, retention of documents and audit trails.

5.14 Thirteen limited opinions were issued in the following areas:

Adult Services

- 5 Lawley Gardens Group Home
- Abbots Wood Comforts Fund
- Coalport Drive Group Home
- Oak Farm Ditton Priors
- POhWER (Direct Payments) Contract

Children's Services

- CareFirst Application Review
- ONE – Education Management System

Commercial Services

- Property Repair and Maintenance

Customer Involvement

- Corporate Networking – Active Directory
- Hosted Services
- ICT Project Financing and Recharges
- IT Registration and Deregistration Procedures
- Network Perimeter Defences

5.15 Details of limited and unsatisfactory opinions issued in the period 1st April to 31st October 2014 are shown at **Appendix A**.

5.16 The level of limited audit opinions is continuing at the levels reported in November whilst the level of unsatisfactory audits has increased slightly. Thirty two limited and ten unsatisfactory opinions have been issued in the first ten months of 2014/15 compared to 14 limited and nine unsatisfactory assurance reports issued last year. In addition, five fundamental recommendations were made last year compared to six to date in 2014/15, details of which are set out below.

5.17 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.

5.18 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 directly to the Audit Committee in detail

- 5.19 A total of 366 recommendations have been made in the 46 final audit reports issued in the period 1st November 2014 to 31st January 2015; 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 January 2015

Audit Area	No. of Recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Adult Services	11	50	29	0	90
Commissioning	0	7	1	0	8
Children's Services	1	79	76	1	157
Public Health	0	0	1	0	1
Commercial Services	1	3	5	0	9
Customer Involvement	15	30	30	2	77
Finance, Governance and Assurance	0	6	1	0	7
Human Resources	0	7	10	0	17
Total for the period 01/11/14 - 31/01/15	28	182	153	3	366
Total for 2014/15 to date					
• Numbers	71	608	441	6	1,126
• Percentage	6%	54%	39%	1%	100%
Total 2013/14	15%	57%	27%	1%	100%
Total 2012/13	23%	57%	20%	0%	100%

- 5.20 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. Five recommendations have been rejected by management, two of these have been accepted by Audit, the remaining three require additional assurance from managers as to how the risks will be mitigated, these will be reported as part of the 2014/15 performance report presented at the June 2015 Committee.
- 5.21 One fundamental recommendation has been agreed with managers as part of the audit of Oldbury Wells School, one as part of Business Continuity and Disaster Recovery and one as part of Physical and Environmental Controls. A summary of these appear in the table under paragraph 5.12 earlier.

Performance against the plan

5.22 The team has achieved 84% of the revised plan by the 31st January 2015 which is in line 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 January 2015

	Original Plan	November Revised Plan	February Revision	Revised Plan Days	Days Worked	% of Revised Complete
Chief Executive	18	23	13	36	28.8	80%
Adult Services	113	132	-12	120	111.9	93%
Commissioning	104	120	-19	101	87.5	87%
Children's Services	245	286	14	300	246.0	82%
Public Health	30	25	-7	18	15.9	88%
Resources and Support	636	642	-86	556	403.7	73%
S151 Planned Audit	1,146	1,228	-97	1,131	893.8	79%
Contingencies and other chargeable work	649	670	85	755	684.1	91%
Total S151 Audit	1,795	1,898	-12	1,886	1,577.9	84%
External Clients	265	249	12	261	218.9	84%
Total	2,060	2,147	0	2,147	1,796.8	84%

5.23 Work for external clients is progressing as scheduled and plans are on target for full delivery. There has been an increase in days from additional work requested.

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
 Internal Audit Plan 2014/15 Performance Report - Audit Committee 27 November 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 and Unsatisfactory Assurance Opinions 1st April to 31st October 2014

Appendix B: Audit Plan by Group and Service

Limited Assurance Opinions 1st April to 31st October 2014

Adult Services

- 207 Crowmere Road Group Home
- 9 Sefton Place Group Home
- 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)
- Shifnal Primary School
- Trinity (Ford) CE Primary School (2013/14)
- Wistanstow CE Primary School
- Woodlands School

Customer Involvement

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

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 31st October 2014

Customer Involvement

- Disposal of I.T. equipment
- Lotus Notes Decommissioning

Children's Services: Burford CE Primary School

AUDIT PLAN BY GROUP AND SERVICE – PERFORMANCE REPORT TO 31st JANUARY 2015

	Original Plan Days	Nov. Revised Plan	February Revision	Revised Plan Days	Jan 31 Actual	% of Revised Complete
CHIEF EXECUTIVE						
Governance	18	23	13	36	28.8	80%
ADULT SERVICES						
Provider Services - Comforts Funds	8	14	3	17	17.2	101%
Provider Services - Establishments	6	7	0	7	7.3	104%
Provider Services - Group Homes	8	11	0	11	11.4	104%
Provider Services - Trading Accounts	2	5	0	5	5.0	100%
Development Support	8	8	-8	0	0.0	0%
Long Term Support	81	87	-7	80	71.0	89%
ADULT SERVICES	113	132	-12	120	111.9	93%
COMMISSIONING						
Waste Services	10	13	1	14	13.7	98%
Business & Enterprise	10	5	-5	0	0.0	0%
Highways & Transport Development	14	30	-13	17	13.9	82%
Management	9	15	-5	10	11.0	110%
Visitor Economy	5	0	0	0	0.0	0%
Environmental Health	5	8	-2	6	3.1	52%
Housing Services	51	49	5	54	45.8	85%
COMMISSIONING	104	120	-19	101	87.5	87%
CHILDREN'S SERVICES						
Assessment & Looked After Children	0	13	3	16	13.0	81%
Children's Placement and Joint Adoption	27	22	-13	9	8.7	97%
Business Support	22	12	-3	9	4.1	46%
Children's Placement and Joint Adoption	15	15	0	15	0.0	0%
Education Improvements	31	35	-9	26	25.0	96%
Primary/Special Schools	115	132	30	162	142.1	88%
Secondary Schools	35	57	6	63	53.1	84%

	Original Plan Days	Nov. Revised Plan	February Revision	Revised Plan Days	Jan 31 Actual	% of Revised Complete
CHILDREN'S SERVICES	245	286	14	300	246.0	82%
PUBLIC HEALTH	30	25	-7	18	15.9	88%
RESOURCES AND SUPPORT						
Commercial Services						
Estates & Facilities	5	5	0	5	5.3	106%
Property Services	25	26	-13	13	12.3	95%
Shire Services	8	8	-7	1	0.4	40%
	38	39	-20	19	18.0	95%
Customer Involvement						
Benefits	30	24	0	24	22.8	95%
Customer Services	12	14	0	14	10.0	71%
ICT Implementation & Architecture	45	44	-3	41	40.8	100%
ICT Operations	128	144	-3	141	114.7	81%
	215	226	-6	220	188.3	86%
Finance Governance & Assurance						
Finance Transactions	63	57	-16	41	24.9	61%
Financial Advice (S.151)	69	62	-22	40	28.8	72%
Financial Management	73	79	4	83	60.2	73%
Procurement	40	30	-8	22	19.4	88%
Revenues	40	40	0	40	18.3	46%
Risk Management and Business Continuity	5	5	0	5	0.4	8%
Treasury	16	16	0	16	8.4	53%
	306	289	-42	247	160.4	65%
Human Resources						
Payroll and Human Resources	57	67	0	67	34.1	51%
Legal, Strategy and Democratic						
Democratic Services	2	2	-2	0	0.0	0%
Election Services Information	4	4	-4	0	0.1	0%
Governance	4	5	-2	3	2.6	87%
Legal Services	10	10	-10	0	0.2	0%

	Original Plan Days	Nov. Revised Plan	February Revision	Revised Plan Days	Jan 31 Actual	% of Revised Complete
	20	21	-18	3	2.9	97%
RESOURCES AND SUPPORT	636	642	-86	556	403.7	73%
Total Shropshire Council Planned Work	1,146	1,228	-97	1,131	893.8	79%
CONTINGENCIES						
Advisory Contingency	40	35	5	40	36.3	91%
Fraud Contingency Transformation Projects	200	200	50	250	224.9	90%
Unplanned Audit Contingency	100	100	30	130	120.0	92%
Other non-audit Chargeable Work	49	49	0	49	48.9	100%
CONTINGENCIES	260	286	0	286	254.0	89%
Total for Shropshire	1,795	1,898	-12	1,886	1,577.9	84%
EXTERNAL CLIENTS	265	249	12	261	218.9	84%
Total Chargeable	2,060	2,147	0	2,147	1,796.8	84%