

#### Committee and Date

Audit Committee

23 February 2015

9:30 am

## **DRAFT INTERNAL AUDIT ANNUAL PLAN 2015/16**

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### **1. Summary**

This report provides Members with the proposed risk based Internal Audit Plan for 2015/16. The annual plan will provide coverage across the Council's services and deliver internal audit services for a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan takes into account the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed to the plan before it is finalised; if significant, these will be agreed by the Section 151 Officer and reported to the next Audit Committee.

### **2. Recommendations**

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2015/16 and approve its adoption.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 Under the Audit Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the Council's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. Where critical to the Council's operations these will be reported and rectified where possible and viable.

- 3.2 Areas to be audited within the plan have been considered with the knowledge of risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 Provision of the Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011, part 2, section 6 in relation to internal audit which state:

'A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.'

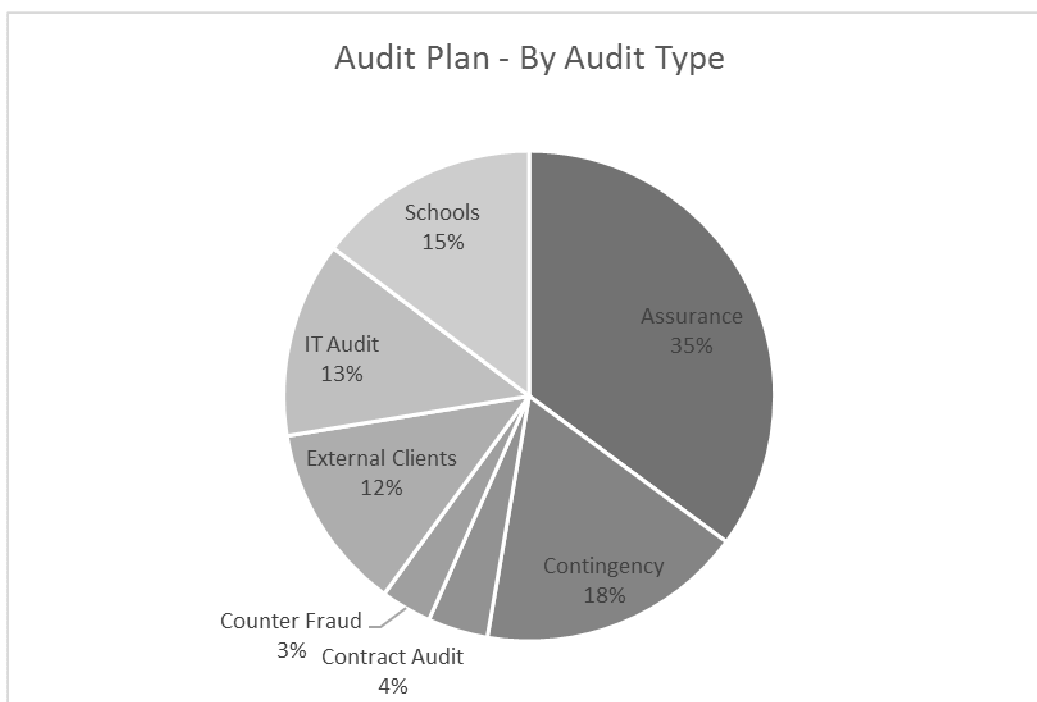
#### **4. Financial Implications**

- 4.1 The proposed plan will be met from within the approved Internal Audit budget.

#### **5. Background**

- 5.1 The provision of a risk based Internal Audit Plan consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's internal controls, risk exposure and governance framework. The plan has been constructed to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion and assurance framework. In doing this it can be confirmed that the plan covers the following activities:
- Governance processes
  - Ethics
  - Information technology governance
  - Risk management and
  - Fraud management.
- 5.2 The audit risk assessment is reviewed annually with Directors, Area Commissioners, Heads of Service and the Section 151 Officer to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources and the transformation into a commissioning organisation.
- 5.3 When considering the risks affecting audit areas account has been taken of:
- changes to and the introduction of new services;
  - the redesign/transformation programme and business plans of the Council;
  - budget pressures and saving commitments;
  - previous audit findings;
  - opening and closure of establishments;

- comments from the external auditors on scope and coverage to ensure the work of Internal Audit does not duplicate that of the external auditor;
  - Audit Committee terms of reference;
  - increased partnership working or different delivery models for future service delivery;
  - risks identified by the risk management process;
  - large contracts likely to be undertaken.
- 5.4 Top risks facing councils continue to include pressures on finances and resources; changes in demands and demography and the impact of welfare reforms. In addition, the Council's strategic risks of safeguarding, the IT infrastructure, workforce development, redesigning of services and fraud have also been considered when refining the plan.
- 5.5 **Appendix A** provides the summarised audit plan and identifies a planned day requirement of 1,829 days for Shropshire Council audit work. These days are broken down by type in the chart below which also includes the time spent with external clients.



## Resources

- 5.6 The Internal Audit service has continued to see a rationalisation of resources with a 25% reduction in budget and staffing resources since 2013/14, the full impact of which is now being realised. This resource reduction comes at a time of significant increase in demand. The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. Whilst over time the Council will be reducing in size in terms of the services it delivers directly, the interim period will see the associated risks, and therefore areas requiring audit review, continue to increase. In addition, as a result of the changing control

environment, areas reviewed are attracting lower assurance levels than previously. This has resulted in the need for an increased level of follow up audits, a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.

- 5.7 The team has 11.4 full time equivalents and has retained skills in finance, information technology, contract management, governance, job evaluation, establishments, systems, counter fraud, investigations and project management (**Appendix B**). Skills continue to be developed across the wider team and to help supplement the internal resources and respond to demand during this period of change, additional audit reviews are purchased from external contractors using the Staffordshire framework contract. The plan provides for this mixed provision to continue going forward into 2015/16, these resources will also support the team through a period of planned maternity and unpaid leave.
- 5.8 The Audit Plan for 2015/16 based on a risk analysis identified 2,124 days to review all high risk areas. Areas requiring review attracting a lower risk have not been considered in this year's planning process. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate meetings - officer and members, responding to legislation, s151 officer work requests, training etc.) are restricted to 1,790 days of which 221 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,569 days.
- 5.9 In order to match the review areas to resources, it has been necessary to take out a number of reviews, details of which appear as **Appendix C**. These include the transformation contingency, a number of schools which have not been independently audited for five years, and some IT audit areas. The lack of a transformation contingency will mean that as work is identified throughout the year, those high risks perceived as being of 'lower value' may need to be considered for exclusion from the plan. It was felt prudent at this time however to demonstrate any activity as it happens in order to provide a transparent audit trail. Equally, if contingencies for fraud, unplanned audits and advice are not required in full, reviews may be able to be brought back into the plan.
- 5.10 In preparing the plan for 2015/16 the key items to note are:
- The plan continues to include time for the fundamental system audit reviews, and to provide assurance at the year-end on the main systems and processes supporting the Statement of Accounts.
  - A separate risk based analysis of the IT audit areas has been conducted and assessments for applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a significant part of the internal audit plan reflecting the Council's continuing reliance on technology and the developmental requirements as services are redesigned.

- The fraud contingency is being maintained at 250 days to reflect the current activity levels being experienced and, with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- Internal Audit aims to review primary schools at least every five years and secondary schools every three. It is no longer possible to achieve the primary school reviews within the time frame. When looking to prioritise schools in the plan any deficit position, previous assurance ratings (especially unsatisfactory or limited) concerns of the education service, submission and responses to the schools financial value statements and the date of the last audit are all considered. In this way Audit Services prioritise any slippage in this area with a view to managing associated risks.
- In considering how Internal Audit could support schools in improving their control environment, the plan has allowed time for the auditors to work with governors, head teachers and administrators in understanding the level of controls required and how they can be improved and implemented, thereby aiming to prevent any control erosion which would lead to increased risks.
- Days are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue, Shropshire Pension Fund, West Mercia Energy and Oswestry Town Council. In addition, discussions are planned with the Chief Executive, Director of Commissioning and Section 151 Officer to firm up proposals to review any areas of significant risk which are being transferred to ip&e from April. At this time these areas have been included in the proposed plan.
- Procurement and commissioning continue to be areas of growth and as such there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council.
- For the second year discussions with senior managers have identified a number of areas considered low risk from an internal controls/ materiality perspective where managers are receiving a mix of assurances from their systems, personnel and/ or third parties on which they can place reliance. These areas are identified in **Appendix D** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly to committee on these areas if required.
- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is

required for the benefit of the Council, external clients and the auditors. A senior member of the team is undertaking Bond Solon's Investigative Fraud training to help address a gap in this area following the recent staffing changes.

- 5.11 A copy of the draft plan for Shropshire Council and those of our external clients will be forwarded to the appropriate external auditors inviting their comments on coverage and to maximise any shared learning from each other's work.
- 5.12 Whilst every effort has been made to include all key audit areas required in the plan, if other items are identified from discussions with colleagues from External Audit, or as knowledge becomes available from other sources, these will be agreed with the Section 151 Officer and reported to a future Audit Committee.

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

Audit universe and resources analysis  
 Public Sector Internal Audit Standards 2013  
 CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition

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

**Local Member** n/a

**Appendices**

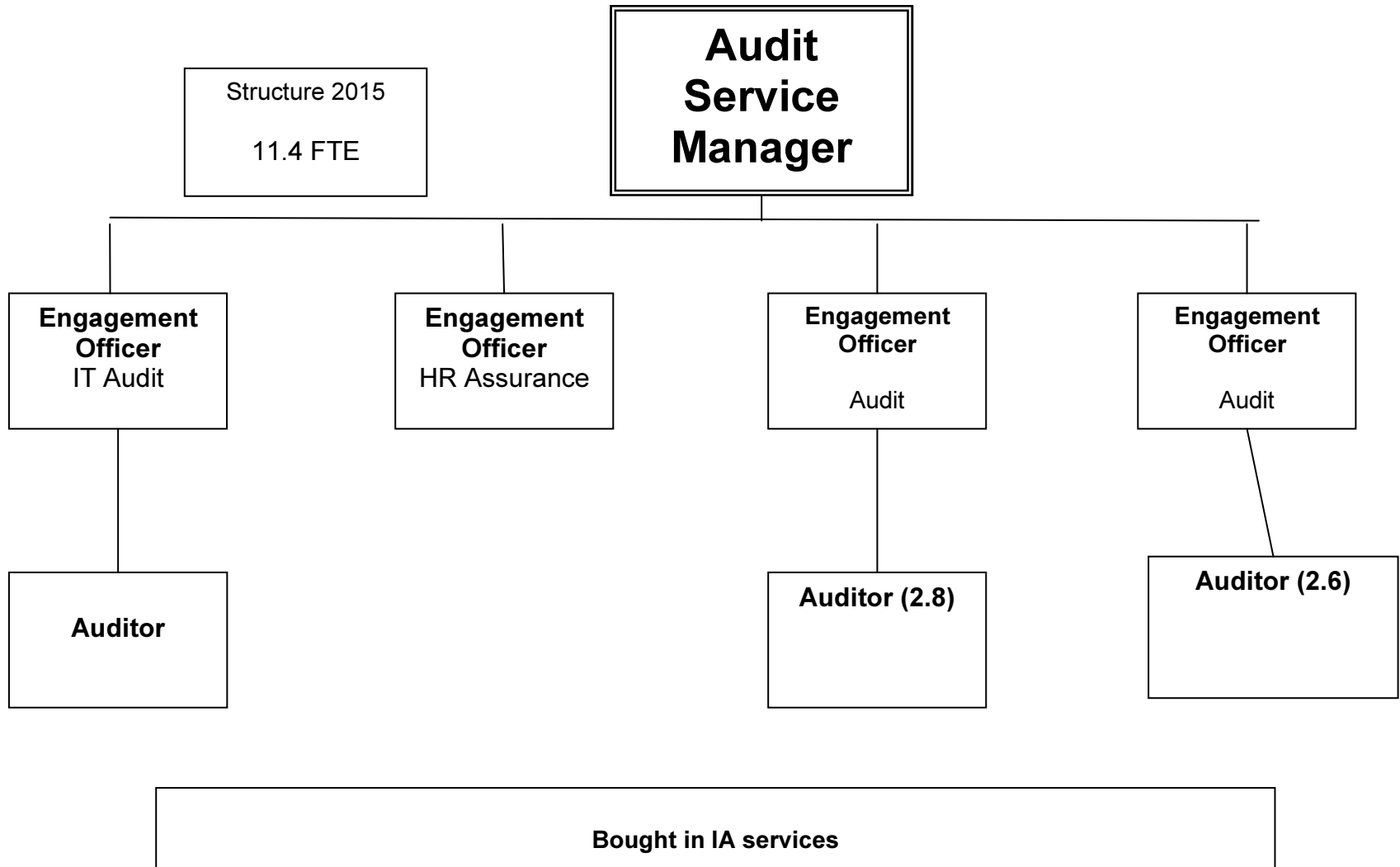
Appendix A: Summary of Draft Internal Audit Plan by Service  
 Appendix B: IA structure  
 Appendix C: High risk areas not to be audited  
 Appendix D: Audit areas where managers will seek and provide any necessary assurance

## 2015/16 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE

	Days
<b>CHIEF EXECUTIVE</b>	
<b>Governance</b>	<b>58</b>
<b>ADULT SERVICES</b>	
Housing Services	29
Provider Services - Establishments	13
Development Support	13
Long Term Support	55
<b>Total Adult Services</b>	<b>110</b>
<b>COMMISSIONING</b>	
Waste and Bereavement	10
Community Safety	23
Highways	14
Development Management	18
Project Development	5
Environmental Protection and Prevention	15
Leisure Services	13
Visitor Economy	5
Business and Enterprise	15
<b>Total Commissioning</b>	<b>118</b>
<b>CHILDREN'S SERVICES</b>	
Children's Placement Services and Joint Adoption	58
Business Support	17
Assessment and Looked After Children	5
Education Improvements	16
Primary/Special Schools	250
Secondary Schools	23
Safeguarding	20
Lifelong Learning	10
<b>Total Children's Services</b>	<b>399</b>
<b>PUBLIC HEALTH</b>	<b>32</b>
<b>RESOURCES AND SUPPORT</b>	
Estates & Facilities	5
Property Services	23
Shire Services	23
ICT	83
Customer Services	34
Finance and S151 Officer	65
Financial Management	37
Procurement and Contract Management	25
Revenues	40
Benefits	29

Risk Management and Business Continuity	5
Treasury	10
Finance Transactions	69
Human Resources	52
Information Governance	7
Legal Services	10
<b>Total Resources and Support</b>	<b>517</b>
<b>CONTINGENCIES</b>	
IT Advice Contingency	20
Advisory Contingency	20
Fraud Contingency	250
Unplanned Audit Contingency	45
Other non-audit chargeable work	260
<b>Total Contingencies</b>	<b>595</b>
<b>Total Shropshire Council</b>	<b>1829</b>
<b>External Clients</b>	<b>221</b>
<b>Total Audit Plan</b>	<b>2,050</b>





2015/16 Audit areas of high priority for which no provision is made in this year's plan		
Chief Executive	Director of Commissioning	Director of Adult Services
Ethics	Shrewsbury Library The Lantern Waste - Policy and Management Arrangements Highways Maintenance - Ringway Contract Highways Specialist Contracts Passenger Transport Compliance Arrangements Passenger Transport Procurement Arrangements Sports Development Street Lighting Food Safety Trading Standards Community Infrastructure Levy ERDF Grant Claims Partnerships Section 38 Road Adoption Shrewsbury Museums General	CMHT Bridgnorth Disability Facility Grants Greenacres Rural Unit People to People

<b>2015/16 Audit areas of high priority for which no provision is made in this year's plan</b>		
<b>Director of Children's Services</b>	<b>Director of Resources and Support</b>	<b>Contingencies</b>
CHARMS adoption service (IT) Children's Safeguarding Policies and Procedures Academy Exit Process Alveley Primary school Beckbury CE (Controlled) Primary School Bryn Offa CE (Controlled) Primary School Buildwas Primary School Claverley CE Primary School Dorrington C E Primary School Ellesmere Primary School Mary Webb School and Science College Minsterley Primary School Much Wenlock Primary School Shawbury Primary School Shifnal Primary School St George's Junior School, Shrewsbury St Mary's CE (Controlled) Primary, Albrighton St Thomas & St Anne's C E Primary School, Hanwood Stottesdon C E Primary School Sundorne Infant School Trinity C E Primary School Whitchurch C E Infant School Woodfield Primary School Worfield Endowed C E Primary School LETS - County Training	Primary Dinner Income Collection Property Repair and Maintenance On-line payments Procurement Arrangements Procurement Strategy Recharges - Internal Market School Based Procurement Human Resources / Workforce Planning Cloud Computing Database Access / Admin / Management Helpdesk Procedures Hosted Services ICT Project Financing and Recharges ILLY substance misuse application IT Strategy Microsoft Lync Project management-adequacy of arrangements Saffron menu planning (Shire Services) Telecommunications Vice Versa Pro (backup for digital images) Committee Services Replacement	Transformation

**Appendix D**

<b>2015/16 Audit areas where managers will seek and provide any necessary assurance</b>		
<b>Director of Commissioning</b>	<b>Director of Adult Services</b>	<b>Director of Children's Services</b>
Albrighton Library Bayston Hill Library Bio Digester Bishops Castle Library Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Coroners Craven Arms Library Ellesmere Library Galaxy - Libraries System Gobowen Library Highley Library Library Fines & Charges Library HQ Library Procurement through WM Consortium Library Stock Management & Control Ludlow Library Market Drayton Library Much Wenlock Library Oswestry Library Pontesbury Library Schools Library service Shawbury Library Shifnal Library Waste - Statistics & Administration Wem Library Whitchurch Library Arts Developments & Grants Bishops Castle SpArC Centre - Joint Use Cleobury Mortimer Sports & Fitness Centre - Joint Community Transport Initiatives (SCOTI, OCTI)	Abbots Wood Day Opportunities Albert Road Day Centre Comforts Fund Aquamira Comforts Fund Avalon Comforts Fund Church Stretton Day Centre Comforts Fund Four Rivers Nursing Home Comforts Fund Friars Walk Day Opportunities at Helena Lane Greenacres Rural Unit Comforts Fund Greenacres Rural Unit Trading Account Helena Lane Day Centre Helena Lane/ Friars Walk Day Centre Comforts Fund Innage Lane Day Opportunities Innage Lane Resource Centre Comforts Fund Kempfield Comforts Fund Maesbury Metals Comforts Fund Maesbury Metals Trading Account Oak Farm, Ditton Priors Comforts Fund Oak Farm, Ditton Priors Trading Account Occupational Therapy Patchworks Comforts Fund Patchworks Trading Account Personal Allowances Shropshire Partners in Care (SPIC) START Supporting People The Meres Day Centre The Meres Day Centre Comforts Fund Wayfarers Comforts Fund Wayfarers Day Opportunities	Chelmaren Comforts Fund Haven Brook Comfort Fund Multi Agency Teams Rowans Comforts Fund Shropshire Children's Trust Education Welfare Service Ludlow Training Centre Positive Activities Projects - Youth Service Schools Advisory Service - Administration Shrewsbury Training & Development Centre Shropshire Music Service Shropshire Youth - Central Administration Social Care & Health Training Standards Fund Surestart The Gateway Education & Arts Centre Whitchurch Training Centre

<b>2015/16 Audit areas where managers will seek and provide any necessary assurance</b>		
<b>Director of Commissioning</b>	<b>Director of Adult Services</b>	<b>Director of Children's Services</b>
etc.) Community Working Flood Risk Management Arrangements Highways Development Control Highways Land Search Arrangements Idsall Sports Centre - Joint Use Joint Use Leisure Facilities Lakelands Sports Centre Ellesmere - Joint Use Land Drainage Local Bus Network Mary Webb Sports Centre - Joint Use Much Wenlock Sports Centre - Joint Use NRSWA - Road Openings & S278 Passenger Transport Efficiency Operations Public Transport - Publicity Roman Road Sports Centre - Joint Use Special Transport/ Routing Arrangements Surplus Seats Thomas Adams Sports Centre Wem - Joint Use Traffic Management & Regulation Animal Health & Welfare Contaminated Land Domestic Abuse Environmental Enforcement & Byelaws Fair Trading & Education Management & Control of CCTV Operations Pest Control Road Safety Street Scene - Dog Wardens AONB - Craven Arms Arts Festivals & Events Community Strategy Countryside Access General Culture & Leisure Business Development Culture & Leisure Grants		

<b>2015/16 Audit areas where managers will seek and provide any necessary assurance</b>		
<b>Director of Commissioning</b>	<b>Director of Adult Services</b>	<b>Director of Children's Services</b>
Culture & Leisure Marketing and Performance Datwright Planning Development Ecology & Biodiversity Economic Development General Enterprise and Business Grants Historic Environment & Listed Buildings Lone Working Arrangements Ludlow Museum & Resource Centre Museum on the Move Museums & Audience Development Grant Arrangements North Shropshire Countryside Rangers One App Online Planning Portal Application Parks & Countryside Sites General PLUMS - Planning Policy Control Public access mapping server/e-planning Pump House Records Management Recruitment & Management of Volunteers Severn Valley Park Shropshire Archives SMR - Sites & Monuments Record Sustainability Tourism Tree Safety		

2015/16 Audit areas where managers will seek and provide any necessary assurance		
Director of Public Health	Director of Resources and Support	
Substance Misuse Team	Carbon Management Plan Cleaning DSO General Systems Cleaning equipment maintenance Fishing and Sporting Rights Furniture Design Group & County Furniture Group Internal Catering arrangements Post Opening Procedures Shirehall Lettings Shirehall Restaurant SLA's & Invoicing Arrangements Smallholdings Estate Benefits Administration Grant Inventories Management Asbestos Health & Safety Job Evaluation Legionella Microwave link to Jupiter House Code of Conduct - Gifts & Hospitality Performance Management & PI's Performance Plus Online Register Register of Electors Regulation of Investigatory Powers Act (RIPA) Security Management/Staff Guidance	