



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
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INTERNAL AUDIT PERFORMANCE REPORT 2015/16

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1. Summary

This report proposes refinements and revisions to the Internal Audit Plan presented as a draft in February 2015, which amounted to 2,050 audit days. The new plan will provide 2,068 days across the Council's services and external clients. Since February there have been a number of changes to the risks the Council faces and as such the areas requiring assurances from Internal Audit have been adjusted slightly. In addition, a member of staff has reduced their working hours and additional hours have been secured from the external internal audit contractor. The changes have necessitated revisions to the draft plan presented to Committee in February 2015. These have been discussed and agreed with the Section 151 Officer.

This report provides members with details of the work undertaken by Internal Audit for the period 1st April to the 23rd August 2015 summarising progress against Internal Audit Plan. 37% of the revised plan has been completed which is in line with previous delivery records.

Twenty one good and reasonable assurances, 15 unsatisfactory and three limited assurance opinions were issued. The 39 final reports contained 594 recommendations. Two fundamental recommendations have been identified.

2. Recommendations

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

- a) The performance to date against the 2015/16 Audit Plan set out in this report.
- b) The adjustments required to the 2015/16 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 control, financial, risk management systems and governance 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 examine, evaluate and report 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 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 2015, part 2, section 5(1) in relation to internal audit which state that:
- 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 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 2015.
- 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 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls.
- 5.2 The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 5.3 The Audit Committee approved the 2015/16 Audit Plan in February 2015. This report provides an update on progress made against the plan up to the 23 August 2015.

- 5.4 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 an external provider from the framework.

Performance against the plan 2015/16

- 5.5 The original plan provided for a total of 2,050 days and has required revisions to reflect changing risks and resources. Extra days have been provided by the external contractor within budget, and a member of staff has reduced their hours from September resulting in an overall increase in the plan to 2,068 days. Performance to date has been good with 37% of the revised plan being achieved. This is in line with previous delivery records and is on target to deliver 90% of the annual plan by year end. **Appendix A, Table 1.**
- 5.6 In total 39 final reports have been issued in the period to 23rd August 2015. These are broken down by service area in **Appendix A, Table 2.**
- 5.7 Twenty one good and reasonable assurances were made in the year accounting for 54% of the opinions delivered. This represents a reduction in the higher levels of assurance compared to the previous year, offset by a 10% increase in limited and unsatisfactory opinions. Three unsatisfactory opinions and 15 limited assurance opinions have been issued, 46% in total.
- 5.8 Children's Services and Customer Involvement continue to show lower assurance levels than others. Children's Services reflect audit reviews of schools. These are considered low risk to the Council overall and will therefore, at this stage, not be expected to affect the Audit Service Manager's overall year-end opinion. The team are continuing to provide some educational support to head teachers, teachers, administrators and governors through forums and area meetings in respect of the control environment to help improve it. Customer Involvement service reviews include a number of ICT infrastructure reviews. The results of these have been considered previously by officers and members and resulted in the Audit Service Manager's opinion being qualified for the last two years. The overall assurance and direction of travel remains a concern given the systems' impact on delivering the Council's objectives. Further reviews in this area will help inform the position of the control environment.
- 5.9 Twelve draft reports have been issued and management responses are awaited, these will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of three voluntary bodies, two grant certifications and three one-off reviews.
- 5.10 A summary of the planned audit reviews conducted, resulting in an unsatisfactory or limited assurance is included in **Appendix A, Table 3.** The appendix also includes descriptions for the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5.**
- 5.11 A total of 594 recommendations have been made in the 39 final audit reports issued in the year; these are broken down by audit area and appear in **Appendix A, Table 6.**

5.12 Fundamental recommendations were made on the following audits:

- **Sales Ledger 2014/15**

An operational approach, including appropriate liaison and support from the directorates, should be defined with clear targets in respect of reducing debt with details relating to where operational staff will be used to support debt reduction both in terms of the amount of debt and numbers of accounts in debt.

(Updated from recommendations made and agreed between 2009/10 and 2013/14)

- **Hardware Replacement Programme Follow Up 2014/15**

Management should define a hardware replacement strategy aligned to the overall IT Strategy which takes a long term view of hardware procurement, hardware replacement costs, license fees and support staffing demands.

(Updated from recommended previously made and agreed in 2013/14)

5.13 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.

5.14 Forty six recommendations, equivalent to 8% of all recommendations made, have been rejected by management. This is significantly higher than the number rejected in 2014/15 (0.5%); 2013/14 (0.8%); and 2012/13 (0.9 %), and is mainly down to Grove School rejecting 37 of their recommendations on the 2014/15 audit. Taking the 37 recommendations out of the figures, reduces the rejected percentage to 1.5%. All recommendations have been discussed with the managers concerned. Where the reasons for rejection are not accepted by Internal Audit, and it is considered that the identified risk is not being managed or mitigated, this has been highlighted to the managers concerned.

5.15 In relation to the Grove School, the audit resulted in unsatisfactory assurance and a number of the recommendations were rejected by the Head Teacher. The management comments indicated that actions had been taken to address the weaknesses identified; supporting the fact that the audit finding was correct and that a control issue existed at the time of the audit. In addition, on receipt of the draft report the Head Teacher confirmed that various documents were now available, that had not been during the field work, which will be reviewed as part of the next audit to test their application and how embedded they are with them having being recently introduced. A further factor was a lack of readily available procedure notes for cover in the event of staff absence. This risk had materialised and a number of duties/tasks were not completed during such a staff absence, which contributed to the controls not being found during the audit. As with all audits the review process allowed the client the opportunity to identify any inaccuracies, or provide any evidence that had been missed at the time of the audit, but would not allow for system controls to be (re)introduced and a re-audit completed.

5.16 No fundamental recommendations have been rejected.

Direction of travel

- 5.17 This section compares the Assurance Levels (where given) and categorisation of recommendations made at the Council to demonstrate a direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2015/16 to date	10%	44%	38%	8%	100%
2014/15	17%	47%	28%	8%	100%
2013/14	30%	45%	15%	10%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2015/16 to date	4%	58%	37%	0%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%

The statistics suggest a falling level of overall control demonstrated by the increased number of lower level assurances (46% compared to 36%) whilst higher recommendation categorisations awarded are just below the outturn for last year at this mid-way point.

Performance measures

- 5.18 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

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

Draft Internal Audit Risk Based Plan 2015/16 - Audit Committee 23 February 2015
 Public Sector Internal Audit Standards (PSIAS).
 Various internal documents supporting self-assessment against the PSIAS.
 Audit Management system.
 Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)

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

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan to the 23rd August 2015
 Table 2: Final audit report assurance opinions issued in the period to 23rd August 2015

Table 3: Unsatisfactory and limited assurance opinions in the period to the 23rd August 2015 listed by service area

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories:

Table 6: Audit recommendations made in the period to the 23rd August 2015

Appendix B - Audit plan by service to August 2015

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period to 23rd August 2015

	Original Plan	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
Chief Executive	58	0	58	11.8	20%
Adult Services	110	23	133	36.3	27%
Commissioning	118	10	128	29	23%
Children's Services	399	9	408	203.5	50%
Public Health	32	0	32	1.4	4%
Resources and Support	517	-5	512	176.7	35%
S151 Planned Audit	1,234	37	1,271	458.7	36%
Contingencies and other chargeable work	595	-19	576	224.9	39%
Total S151 Audit	1,829	18	1,847	683.6	37%
External Clients	221	0	221	71.9	33%
Total	2,050	18	2,068	755.5	37%

Please note that a full breakdown of days by service area is shown at **Appendix B**

Table 2: Final audit report assurance opinions issued in the period to 23rd August 2015

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	0	0	0	0
Adult Services	0	0	2	0	2
Commissioning	0	0	1	0	1
Children's Services	1	8	7	1	17
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	1	0	0	1
Customer Involvement	0	1	5	1	7
Finance, Governance and Assurance	3	5	0	1	9
Human Resources	0	1	0	0	1
Legal, Strategy and Democratic	0	1	0	0	1
Total for the period					
➤ Numbers	4	17	15	3	39
➤ Percentage	10%	44%	38%	8%	100%
% for 2014/15	17%	47%	28%	8%	100%
% for 2013/14	30%	45%	15%	10%	100%

Table 3: Unsatisfactory and limited assurance opinions issued in the period to 23rd August 2015 listed by service area

Unsatisfactory assurance

Children's Services

Grove School 2014/15

Customer Involvement

Hardware Replacement Programme Follow Up 2014/15

Finance Governance and Assurance

Sales Ledger 2014/15

Limited assurance

Adult Services

Adult Social Care Financial Assessments 2014/15

Homepoint IT System

Commissioning

CIVICA Environmental Health System Application Review 2014/15

Children's Services

Leaving Care

Our Lady & St Oswalds Catholic Primary School 2014/15

Bicton CE (Controlled) Primary School

Bomere Heath CE (Controlled) Primary School

Gobowen Primary School

Radbrook Primary School

Ludlow CE School Specialist Technology and Sports College 2014/15

Customer Involvement

Cardholder Management System for Blue Badges

Mobile Devices – iPads, iPhone, Windows Phone 2014/15

Remote Support 2014/15

Corporate Networking – Active Directory

Patch Management

Table 4: Audit assurance opinions: awarded 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 controls.
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.

Table 5: Audit recommendation categories: 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.

Table 6: Audit recommendations made in the period to 23 August 2015

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	0	0	0	0
Adult Services	0	17	16	0	33
Commissioning	0	9	8	0	17
Children’s Services	23	215	137	0	375
Public Health	0	0	0	0	0
Resources and Support					
Commercial Services	0	5	1	0	6
Customer Involvement	3	25	33	1	62
Finance, Governance and Assurance	0	51	16	1	68
Human Resources	0	16	11	0	27
Legal, Strategy and Democratic	0	3	3	0	6
Total for the period					
➤ Numbers	26	341	225	2	594
➤ Percentage	4%	58%	37%	0%	100%
% for 2014/15	6%	53%	40%	1%	100%
% for 2013/14	15%	57%	27%	1%	100%

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT TO AUGUST 2015/16

	Original Plan Days	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
CHIEF EXECUTIVE					
Governance	58	0	58	11.8	20%
ADULT SERVICES					
Social Care Operations					
Long Term Support	55	7	62	21.5	35%
Provider Services - Establishments	13	11	24	0.1	0%
Housing Services	29	1	30	5.4	18%
	97	19	116	27.0	23%
Social Care Efficiency and Improvement					
Development Support	13	4	17	9.3	55%
ADULT SERVICES	110	23	133	36.3	27%
COMMISSIONING					
Waste & Bereavement	10	0	10	5.5	55%
Leisure Services	13	0	13	2.4	18%
Highways	14	1	15	4.6	31%
Development Management	18	3	21	0.9	4%
Visitor Economy	5	0	5	1.3	26%
Business & Enterprise	15	0	15	0.0	0%
Project Development	5	0	5	0.0	0%
Community Safety	23	6	29	12.9	44%
Environmental Protection and Prevention	15	0	15	1.4	9%
COMMISSIONING	118	10	128	29.0	23%
CHILDREN'S SERVICES					
Safeguarding					
Assessment & Looked After Children	5	2	7	7.6	109%
Safeguarding	20	0	20	3.9	20%
Children's Placement and Joint Adoption	58	-5	53	53.9	102%
	83	-3	80	65.4	82%
Learning and Skills					
Business Support	17	7	24	14.1	59%
Education Improvements	16	0	16	4.2	26%
Primary/Special Schools	250	7	257	110.9	43%
Secondary Schools	23	3	26	8.1	31%
	306	17	323	137.3	43%

	Original Plan Days	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
Learning Employment and Training	10	-5	5	0.8	16%
CHILDREN'S SERVICES	399	9	408	203.5	50%
PUBLIC HEALTH	32	0	32	1.4	4%
RESOURCES AND SUPPORT					
Customer Care, Commercial and Support Services					
Estates & Facilities	5	4	9	0.1	1%
Property Services	23	11	34	14.4	42%
Shire Services	23	3	26	16.3	63%
	51	18	69	30.8	45%
Service Support, Marketing and Engagement					
Customer Services	34	1	35	8.5	24%
ICT	83	6	89	28.2	32%
	117	7	124	36.7	30%
Finance Governance & Assurance					
Finance Transactions	69	-13	56	5.8	10%
Finance and S151 Officer	65	-10	55	45.5	83%
Financial Management	37	3	40	2.4	6%
Procurement and Contract Management	25	0	25	5.5	22%
Benefits	29	-5	24	0.3	1%
Revenues	40	-10	30	1.0	3%
Risk Management and Business Continuity	5	1	6	0.0	0%
Treasury	10	4	14	10.7	76%
	280	-30	250	70.2	28%
Human Resources					
Payroll and Human Resources	52	-7	45	26.5	59%
Legal, Democratic & Strategic Planning					
Information Governance	7	5	12	0.4	3%
Legal Services	10	2	12	12.1	101%
	17	7	24	12.5	52%
RESOURCES AND SUPPORT	517	-5	512	176.7	35%

	Original Plan Days	August Revision	Revised Plan Days	Aug 23 Actual	% of Plan Achieved
Total Shropshire Council Planned Work	1,234	37	1,271	458.7	36%
CONTINGENCIES					
Advisory Contingency	40	0	40	25.9	65%
Fraud Contingency	250	-34	216	51.6	24%
Unplanned Audit Contingency	45	0	45	39.1	87%
Other non audit Chargeable Work	260	15	275	108.3	39%
CONTINGENCIES	595	-19	576	224.9	39%
Total for Shropshire	1,829	18	1,847	683.6	37%
EXTERNAL CLIENTS	221	0	221	71.9	33%
Total Chargeable	2,050	18	2,068	755.5	37%