



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

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1. Summary

This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2016. It informs on delivery against the approved annual audit plan and includes the Audit Service Manager's opinion on the Council's internal controls, as required by the Public Sector Internal Audit Standards (PSIAS). This in turn, contributes to delivering the Accounts and Audit Regulations 2015 requirement to have internal audit, 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

Final performance has been good with the revised plan being delivered in excess of the 90% delivery target, in compliance with the Public Sector Internal Audit Standards and to the satisfaction of customers. Forty nine percent of assurance opinions delivered were good or reasonable. This represented a reduction of 15% compared to last year.

Lower levels of assurance were, in the main, awarded in two areas; Children's Services (at a number of schools) and Chief Executives (ICT Infrastructure).

Whilst the control issues identified in Children's Services are key to school's operational arrangements, they do not impact significantly on the Council's assurance framework. The results of the ICT Infrastructure reviews remain a concern however, with particular regard to the Council's reliance on these systems acknowledged.

The continuing number of lower level assurances issued on the ICT infrastructure systems, combined with the direction of travel, has resulted in the Audit Service Manager (Chief Audit Executive) having to qualify her *overall* opinion on the Council's internal control environment. These risks are already known to Directors and Members and are recorded in the strategic risk register. The ICT infrastructure, on which Council applications operate, continues to provide a clear risk to service continuity. This has now been the case for several years, and although it is acknowledged that significant resource and prioritisation has been applied to manage this risk, it was also accepted that it may take several years for the necessary improvements to be implemented and embedded sufficiently to attain appropriate assurance levels. The issues currently identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must continue to prioritise implementation of plans to address the matters

raised. Whilst identifying these control weaknesses and highlighting them to management, it should be said, there has been no evidence of significant IT business failure or other error that could result in a material misstatement in the Council's accounts and reliance can still be placed upon it for that purpose.

2. Recommendations

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

- a) Performance against the Audit Plan for the year ended 31 March 2016.
- b) That Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, the results of which can be used when considering the internal control environment and the Annual Governance Statement for 2015/16.
- c) The Audit Service Manager's qualified year end opinion on the Council's internal control environment for 2015/16 on the basis of the work undertaken and management responses received.

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 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 Internal Audit operates a strategic risk based plan. This approach to audit planning has been referenced as an example of best practice in CIPFA's "It's a Risky Business 2014" publication. The plan is revisited each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. This results in a comprehensive range of audits being undertaken in the year, supporting the overall opinion on the control environment. The plan contains a contingency provision which can be utilised during the year to respond to unforeseen work demands that may arise, i.e. special investigations and advice.
- 3.3 The next twelve months continues to see the need to deliver significant budget savings as the Council maintains its journey towards a commissioner of services. This reduction of resources against changes to the delivery of services is expected to

continue to impact on systems, processes, structures and governance models, which will impact on the internal control environment. The management of risk will continue to play a key role in delivering the Council's Business Plan and Financial Strategy. Internal Audit will need to reflect the Council's needs and be resourced and skilled appropriately to continue to provide the appropriate level of advice and assurance on the effectiveness of the internal control environment during this ongoing period of major change and high risk.

- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.5 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.6 Internal Audit customers are consulted on the service that they receive. Feedback is included in this report and continues to be very positive.

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 This report is the culmination of the work of the Internal Audit team during 2015/16 and seeks to provide:
 - An update on the internal audit work undertaken
 - An annual opinion on the adequacy of the Council's governance arrangements
 - Information on the performance of Internal Audit including results of the quality and assurance programme and progress against the improvement plan.
- 5.2 As the Accountable Officer, the Section 151 Officer has responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, whilst safeguarding the Council's assets, in accordance with local government legislation. This includes section 151 of the Local Government Act 1972 which requires the Council to make arrangements for the proper administration of its financial affairs.
- 5.3 The Accounts and Audit Regulations 2015 applied from the start of this financial year. The regulations require the Council to have internal audit to; 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. In addition, organisations are no longer required to undertake an annual review of effectiveness, although audit committees should note the requirements of the Public Sector Internal Audit Standards to maintain an ongoing programme of quality assessment and improvement.

Scope and purpose of Internal Audit

- 5.4 The Public Sector Internal Audit Standards define the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent

to which compliance with the Standards has been achieved. This annual report provides an internal audit opinion that can be used by the Council to inform its governance statement as part of the wider framework of assurances considered. The annual internal audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and incorporates a summary of the work in support of the opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This is in accordance with the requirements of the 2015 Accounts and Audit Regulations. In addition, Internal Audit has an independent and objective consultancy role to help line managers improve governance, risk management and control.

- 5.5 The purpose of internal audit is to provide the Council, through the Audit Committee, the Chief Executive and the Section 151 Officer, with an independent and objective opinion on risk management, control and governance processes and their effectiveness in achieving the Council's agreed objectives.

Internal Audit work undertaken

- 5.6 The Internal Audit Plan 2015/16 was considered and approved by Audit Committee at its meeting on the 23 February 2015. The Plan provided for a total of 2,050 days. Revisions throughout the year to reflect changing risks and resources were reported to Audit Committee and the plan revised to a target of 1,932 days. Final performance has been good and remains in excess of the target to deliver 90% of the annual plan. **Appendix A, Table 1.**
- 5.7 The audit findings and performance of audit have been set out in summary reports which have been presented to the Audit Committee during the course of the year. In total 103 final reports have been issued in 2015/16. These are broken down by service area at **Appendix A, Table 2.**
- 5.8 Fifty one good and reasonable assurances were made in the year accounting for 49% of the opinions delivered. This represents a 15% reduction in the higher levels of assurance compared to the previous year, offset by an 11% increase in limited and unsatisfactory opinions. Nine unsatisfactory opinions and 43 limited assurance opinions were issued, 51% in total, compared to 36% last year.
- 5.9 Adult Services and Commissioning Services audit review results whilst not significant enough to sway the overall year-end opinion, are being used by managers to target areas for improvement. Children's Services and Chief Executive Directorate (Information Technology Services) showed lower assurance levels than others. Children's Services reviews included a number of areas considered low risk to the Council overall and will therefore not affect the Audit Service Manager's overall year-end opinion. To help improve the control environment in schools, auditors have continued to provide support and information to head teachers, teachers, administrators and governors through a number of forums and area meetings. In addition, a self-assessment document has been provided on the Schools Learning Gateway to allow schools to examine their own internal control environment between audit reviews. Fourteen of the lower assurance levels concern IT systems/ processes. IT Services were still implementing required control improvements towards the end of 2015/2016. This indicated that there had been little or no change in the IT control environment which led to the qualified opinions in 2013/2014 and 2014/2015. In this knowledge,

follow up audits in business continuity and disaster recovery and physical and environmental controls were not conducted. These audits, key to IT control risk, will be prioritised in 2016/2017. This information supports qualification of the current opinion on this issue. The results of these audits have been considered by officers and members, and the overall assurance and direction of travel remains a concern given the systems overall impact on delivering the Council's objectives. This issue is referred to in greater detail later in this report.

- 5.10 Within the Audit Plan there are eleven reviews categorised as fundamental, high risk business critical systems. In addition to providing assurance on internal controls, these reviews complement the work of the Council's external auditors and help to avoid unnecessary duplication of work between the two audit services. Given their level of risk and importance to the business, these areas are audited annually and have a strong influence in informing the Annual Governance Statement. A summary of the level of assurances for each fundamental review area together with the number of recommendations made is shown at **Appendix A, Table 3**.
- 5.11 From the table it can be seen that all fundamental systems showed a static or improved direction of travel, with most areas providing reasonable or good assurance. The Sales Ledger is the only one showing a lower level of assurance and this was mainly due to issues around debt collection activities.
- 5.12 Work has also been completed for external clients including honorary and voluntary bodies in addition to the drafting and auditing of financial statements.
- 5.13 A summary of the reviews resulting in an unsatisfactory or limited assurance since the last report, in February 2016 is included at **Appendix A, Table 4**. The Appendix also includes descriptions for the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 5 and 6**.
- 5.14 A total of 1,568 recommendations have been made in the 103 final audit reports issued in the year; these are broken down by audit area and appear at **Appendix A, Table 7**.
- 5.15 The number of fundamental recommendations has fallen from six to four for planned audit work compared to last year; overall this represents less than 1% of the total number of recommendations made. 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)

Management attended the Audit Committee during the year and the Head of Financial Management and Reporting provided an update on progress on implementing improved management controls within Sales Ledger. The Audit Committee concluded that the report demonstrated that the audit recommendations were being addressed.

- **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. The risk is that a lack of strategy will likely result in piecemeal development of ICT and failure to exploit ICT to the full. From a resourcing perspective both staffing and resourcing requirements will rely on short term rather than strategically efficient decisions. (Updated from recommendations previously made and agreed in 2013/14).

- **Hardware Replacement Programme Follow Up 2015/16**

As recommended and agreed in 2013/14 and 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.

Management have completed a desktop hardware age assessment. Finance has been agreed to prioritise the replacement of aged ICT Equipment, which includes the replacement of switches. This will address the immediate issues. A strategy will be developed for ongoing hardware replacement requirements, based on budget allocation. It has been recommended to management that a centralised desktop replacement be re-introduced.

- **IDOX Gazetteer 2015/16**

IDOX is the system used by planning and building control. Management need to obtain assurance from IDOX that the patching has been undertaken as agreed. The current state of patching is to be included in the relevant section of the monthly performance report as a Service Level Agreement Key Performance Indicator. Without this control there is risk of exposure to security vulnerabilities and malicious exploits.

Management have provided an update stating that patching has been completed on Test and Live Databases and continual Patching has been added to the Schedule.

The percentage of significant requiring attention recommendations have risen slightly compared to last year with a corresponding fall in best practice recommendations.

- 5.16 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.
- 5.17 Forty nine recommendations, equivalent to 3.2% of all recommendations made, have been rejected by management. As reported previously to the Committee, The Grove School rejected 36 of their recommendations on the 2014/15 audit. By taking these 36 recommendations out of the figures, the rejected percentage reduces to 0.8%, showing a more comparable situation to previous year's figures (0.5% 2014/15 and 0.8% 2013/14). All recommendations have been discussed with the managers concerned.
- 5.18 In relation to The Grove School, 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. A follow up

on The Grove School during 2015/16 identified a much improved situation attracting a good assurance overall.

5.19 Where the reasons for rejection, of any recommendation, 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. Examples where rejection of a recommendation has not been accepted by Internal Audit, and where it is considered that the identified risk is not being managed or mitigated include:

- The purchase of alcohol to reward a volunteer for the school should not be met from school budgets, a more suitable gesture should have been purchased;
- Income due to the school budget should be transferred regularly from the school fund;
- Invoices should be date stamped in the event that a claim of interest is made under the Late Payments Act;
- Establishment lists should be checked on a regular basis and each time there is a change of personnel. Failure to do this may lead to the school incurring the cost of staff no longer employed at the school (ghost employees).
- There should be clear segregation of duties in the purchasing process to reduce the risk of fraud occurring;

No fundamental recommendations have been rejected.

5.20 Given the significance of the ICT infrastructure controls in terms of supporting the Council's fundamental systems (including financial systems), the Audit Service Manager considers the control issues identified sufficient to warrant qualifying the annual audit opinion. Such is the concern, that the qualification records that management must continue to prioritise implementation of the planned improvements. These issues are already recognised and recorded as high strategic risks, and are reflected in the Annual Governance Statement with a specific action for improvement. Throughout the year Audit Committee have sought independent assurances from key officers and, whilst plans have been adapted to manage outstanding control issues, only limited progress on improvement can be evidenced. IT audit reviews conducted during the year receiving unsatisfactory or limited assurances include:

- Hardware Replacement Programme Follow Up 2014/15
- Hardware Replacement Programme Follow Up 2015/16
- Homepoint IT System
- CIVICA Environmental Health System Application Review 2014/15
- Cardholder Management System for Blue Badges
- Mobile Devices – iPads, iPhone, Windows Phone 2014/15
- Remote Support 2014/15
- Corporate Networking – Active Directory
- Patch Management
- CM2000 Electronic Homecare Monitoring – Application Review
- EDRM Sharepoint
- Disposal of IT equipment
- Internet Security
- IT Registration and Deregistration Procedures
- Network Perimeter Defences
- ONE - Education Management System 2015-16

- Antivirus Controls
- Social Media
- Back-up Arrangements
- IDOX Planning, Building Control and Gazetteer Management System

- 5.21 During 2015/16, Internal Audit continued to facilitate work on the National Fraud Initiative (NFI). This involves supplying data to the Audit Commission for matching purposes. Work includes matches on pension payments to registered deaths, matching payrolls between authorities, and other matches including UK visas, blue badges, private residential care and Housing Benefits. Savings of £5,096 were identified and recovered, the majority of which was due to a case where the death of a pensioner had not been notified to the Council and the pension had been over paid. The Internal Audit team has also assisted other authorities undertake their NFI enquiries by providing information to support their investigations.
- 5.22 In the current year, a number of internal audit reviews have been conducted, to help ensure appropriate controls are in place and are operational to counter the risk of fraud. These include:
- Treasury management
 - Payroll
 - Housing benefits
 - Council tax
 - NNDR
 - Parking
 - Direct payments
 - Personal budgets
 - Purchase ledger
 - Sales ledger
 - Income collection
- 5.23 The above were further supported by specific counter fraud work in relation to strike payments, driving documentation, and overtime payments. In addition, every investigation, where weaknesses have been identified in internal controls, results in a management report which lists areas to be improved to help reduce a repeat of any inappropriate activity.
- 5.24 Although Internal Audit is primarily an assurance function, internal audit activity should also add value to the Council. Contingencies are provided in the plan to allow for such activities and review areas reprioritised based on risks. Examples of the types of additional work that the service has conducted during the year include:
- Department for Transport transformation funding and other grant work – providing advice on and ensuring that the claims are evidenced appropriately to receive the grant/ funds.
 - Provision of a presence on the Learning Gateway for maintained schools designing and making available details of self-help tools to improve their internal control environments.
 - Attendance at school forums to increase awareness of the requirements for internal controls, how Internal Audit can help and where to find more information.

- Supporting IT and various consultants in their understanding of the control environment and advising on areas for improvement
- Provision of counter fraud training to key social care staff
- Reviews of and support for the completion of business cases through to advice and guidance on transforming services in to new delivery models: People to People; County Training; hosting solutions;
- Evaluation of financial ratios and accounts to help support the business to decide if contract increments are due.

Direction of travel

5.25 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	14%	35%	42%	9%	100%
2014/15	17%	47%	28%	8%	100%
2013/14	30%	45%	15%	10%	100%
2012/13	31%	56%	12%	1%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2015/16	4%	54%	42%	0%	100%
2014/15	6%	53%	40%	1%	100%
2013/14	15%	57%	27%	1%	100%
2012/13	23%	57%	20%	0%	100%

The statistics demonstrate a weakening control environment reflected in an increased number of lower level assurances (51%) and higher recommendation categorisations awarded (42%).

- a) The majority of high level assurances relate to key financial systems through which the majority of the Council's financial business is transacted. These processes are supported by applications which also attract higher level assurances. This combines to provide a high level of confidence in the robustness of the data reflected in the accounts.
- b) Over a quarter of the lower assurance levels concern IT systems/processes. IT Services were still implementing required control improvements towards the end of 2015/16. This indicated that there had been little or no change in the IT control environment which led to the qualified opinions in 2013/14 and 2014/15. In this knowledge, follow up audits in business continuity and disaster recovery and physical and environmental controls were not conducted. These audits, key to IT control risk, will be prioritised in 2016/17. This further supports qualification of the current opinion.

- c) The lower levels of assurance in social care and schools are not significant enough to sway the opinion; managers have agreed actions plans here to target improvement.

Given the overall impact of (a), (b) and (c) above, there is no option other than for the Audit Service Manager's Year-end opinion to be qualified. There is a concern that this is the fourth year where the opinion has been qualified and neither management nor members should accept this as the norm, instead they should continue to be robust and challenging in their improvement agenda.

An annual opinion on the adequacy of the governance arrangements

- 5.26 In considering an annual audit opinion, it should be noted that assurances given can never be absolute. The internal audit service can however provide the Council with reasonable assurance as to whether there are any major weaknesses to be found in risk management, governance and control processes.
- 5.27 The matters raised in this report are only those which came to Internal Audit's attention during its internal audit work and are not necessarily a comprehensive statement of all weaknesses that exist, or of all the improvements that may be required.
- 5.28 In arriving at her opinion, the Audit Service Manager has taken the following matters into account:
- Results of all audits undertaken during the year ended 31 March 2016;
 - Results of Corporate Governance and Risk Management reviews (good assurance);
 - Results of fundamental audit reviews and their direction of travel;
 - Implementation of recommendations of a fundamental nature;
 - Assurance levels provided and their direction of travel, and those of the recommendation ratings, compared against the risk appetite of the Council.
 - Fundamental recommendations not accepted by management and the consequent risks;
 - Effects of any material changes in the organisation's objectives or activities;
 - Matters arising from previous reports to the Audit Committee and/or Council;
 - Whether or not any limitations have been placed on the scope of internal audit;
 - Whether there have been any resource constraints imposed which may have impinged on Internal Audit's ability to meet the full internal audit needs of the Council; and
 - Proportion of the Council's internal audit needs that have been covered to date.
- 5.29 All assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

On the basis of the work undertaken and management responses received; the Audit Service Manager has qualified her overall opinion on the Council’s internal control environment. This is based primarily on the continuing numbers, and negative direction of travel, of the internal audit assurances provided on the IT infrastructure systems. These risks are already known to Directors and Members and are reflected in the strategic risk register. The IT infrastructure on which Council applications operate continues to present a clear risk to service continuity. This has now been the case for several years, and although it is acknowledged that significant resource and prioritisation has been applied to manage this risk, it was also accepted that it may take several years for the necessary improvements to be implemented and embedded sufficiently to attain appropriate assurance levels. The issues currently identified are sufficient to warrant qualifying the annual audit opinion to the extent that management must continue to prioritise implementation of plans to address the matters raised.

Whilst identifying these control weaknesses and highlighting them to management, it should be said, there has been no evidence of significant IT business failure or other error that could result in a material misstatement in the Council’s accounts and reliance can still be placed upon it for that purpose.

Audit performance

- 5.30 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, benchmarking the service against others in the sector and evaluating improvements made over the previous twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee’s delivery of its responsibilities and feedback gained from customer satisfaction surveys.

Aspect of measure	Target 2015/16	Actual 2015/16
Percentage of revised plan delivered	90%	100%
Compliance with Public Sector Internal Audit Standards	Compliant	Compliant
Percentage of customers satisfied overall with the service	80%	82%

- 5.31 An annual review of Internal Audit is conducted in the form of a self-assessment of compliance with the Public Sector Internal Audit Standards. The self-assessment forms part of another report on this agenda: ‘Annual review of Internal Audit: Quality Assurance and Improvement Programme 2015/16’.
- 5.32 Internal Audit recognises the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. The Service continually focuses on delivering high quality audit to clients – seeking opportunities to improve where possible.
- Commitment to quality begins with ensuring that appropriately skilled and experienced people are recruited and developed to undertake audits.

- Audit practice includes ongoing quality reviews for all assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
- A Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. The quality of audits is evidenced through performance and delivery, feedback from our clients and an annual self-assessment.
- There is a financial commitment for training and developing staff. Training provision is reviewed continually through the appraisal process and regular one to one meetings. Individual training programmes are developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.

- 5.33 A customer feedback survey form is sent out with the majority of audits completed. These can provide feedback on the quality of the service and play a key part in ensuring audit work meets client expectations and the quality of audit work is maintained. The percentages of excellent and good responses for the last four years are detailed in **Appendix A, Table 8**.
- 5.34 The percentage of customers scoring the service as high or excellent has reduced and demonstrates a downward trend against all results. Given the current climate where an increasing number of reviews are reporting reduced assurances and with a significant reduction in resources for both Internal Audit and our customers starting to impact on services, this trend is not unexpected.
- 5.35 Results can mainly be attributed to the reduced resources both within the client; who has less time to properly engage before, during and after audit reviews and the auditors in having to spread their attention and focus over a number of competing areas. Reprioritisation of audit work, has at times led to delays in completing projects and whilst this is communicated to customers at the time, it is reflected in their scores. There have also been significant issues with contractor delivery and a performance issue within the team, resulting in a lower, ‘timeliness of production of report’ and, ‘professionalism’ result.
- 5.36 Services receiving recommendations are also reporting difficulties in resourcing improvements, managing their internal control risks and subsequently challenging what they see as, ‘the practicality of the recommendations’. The risk to the business and the validity of the recommendation remains in these cases and is rightly reported by Internal Audit. The challenge for the Council is to realign its risk appetite or address the issue.
- 5.37 During the last year a number of compliments and comments have been received in respect of the service from both questionnaires and directly, these appear at **Appendix A, Table 9**. The vast majority of comments have been very positive reflecting the hard work the team devote to establishing a good professional relationship with clients. All critical comments are followed up with the author to identify where lessons can be learnt and improvements made.
- 5.38 Internal Audit employ a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting audit assignments. All work has been performed in accordance with PSIAS.

- 5.39 In order to ensure the quality of the work performed, a programme of quality measures is used, which includes:
- Supervision of staff conducting audit work;
 - Review of files of working papers and reports by managers and partners;
 - Receipt of formal feedback from managers to audit findings and recommendations;
 - Follow up reviews for reports attracting low assurance levels and recommendation follow up processes;
 - The use of satisfaction surveys for each completed assignment;
 - Annual appraisal of audit staff and the development of personal development and training plans;
 - The maintenance of guidance and procedures.
- 5.40 There have been no instances during the year which have impacted on Internal Audit's independence and/or have led to any declarations of interest.

Performance measures

- 5.41 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.

Review of the effectiveness of Internal Audit work by the Audit Committee

- 5.42 The Council has a well-established Audit Committee, which operates in accordance with best practice. Its terms of reference and associated working practices are aligned with those suggested by CIPFA and are reviewed annually. Its members receive regular training on the role of the committee and how they can best support this, as well as the roles of internal and external audit. It undertakes an annual self-assessment exercise and seeks to improve the way in which it operates.
- 5.43 The Committee provides an Annual Assurance Report to Council to summarise its work and opinion on internal controls. This report is also located on this agenda.
- 5.44 The Council's Audit Committee considers external and internal audit reports and the Committee requests management responses to any significant issues reported, including reporting the progress made in implementing audit recommendations. Senior officers have attended the Audit Committee to provide management responses in relation to a number of reports. Examples of audit work and remedial action that have been scrutinised by the Audit Committee include reports on strategic risks; IT update report, sales ledger, council tax and national non domestic rates performance, housing benefit overpayment performance, and programme controls and risks and the top fifty contracts controls and risks.

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 February 2015
Internal Audit Plan 2015/16 – Performance Report - Audit Committee September 2015
Internal Audit Plan 2015/16 – Performance Report - Audit Committee November 2015
Internal Audit Plan 2015/16 – Performance Report - Audit Committee February 2016

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)

Malcolm Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 2015/16

Table 2: Final audit report assurance opinions issued in 2015/16

Table 3: Audit opinion and recommendations made on fundamental systems 2015/16

Table 4: Unsatisfactory and limited assurance opinions since February 2016 listed by service area

Table 5: Audit assurance opinions

Table 6: Audit recommendation categories:

Table 7: Audit recommendations made in 2015/16

Table 8: Customer Feedback Survey Forms

Table 9: Summary of compliments and comments 2015/16

Appendix B - Audit plan by service – annual report 2015/16

Table 1: Summary of actual audit days delivered against plan 2015/16

	Original Plan	Revised Plan	March Actual	% of Original Complete	% of Revised Complete
Chief Executive	58	55	51.2	88%	93%
Adult Services	110	101	104.9	95%	104%
Commissioning	118	101	86.1	73%	85%
Children's Services	399	433	472.8	118%	109%
Public Health	32	17	16.2	51%	95%
Resources and Support	517	448	438.1	85%	98%
S151 Planned Audit	1,234	1,155	1,169.3	95%	101%
Contingencies and other chargeable work	595	538	527.1	89%	98%
Total S151 Audit	1,829	1,693	1,696.4	93%	100%
External Clients	221	239	226.2	102%	95%
Total	2,050	1,932	1,922.6	94%	100%

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 2015/16

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	10	13	10	4	37
Finance	8	8	0	1	17
ICT	0	0	9	3	12
Legal	0	1	0	0	1
HR	1	2	0	0	3
Property Services	0	0	1	0	1
Information Governance	0	2	0	0	2
Risk Management and Business Continuity	1	0	0	0	1
Adult Services	0	2	7	1	10
Commissioning	0	0	6	1	7
Children's Services	3	19	18	2	42
Public Health	2	2	2	1	7
Total for 2015/16					
➤ Numbers	15	36	43	9	103
➤ Percentage	14%	35%	42%	9%	100%
Percentage 2014/15	17%	47%	28%	8%	100%
Percentage 2013/14	30%	45%	15%	10%	100%
Percentage 2012/13	31%	56%	12%	1%	100%

Table 3: Audit opinion and recommendations made on fundamental systems 2015/16

Fundamental system	Direction of travel	Level of assurance given	Number of recommendations made			
			BP	RA	S	F
Purchase Ledger	=	Reasonable	0	7	1	0
Sales Ledger	↑	Limited	0	6	6	0
General Ledger	=	Good	0	5	0	0
Income Collection	↑	Good	0	4	0	0
Payroll System	↑	Good	0	1	1	0
Council Tax	=	Reasonable	0	4	2	0
NNDR Collection	↑	Good	0	3	0	0
Housing Benefits	↑	Good	0	0	0	0
Treasury Management	=	Good	0	1	1	0
Capital Accounting System	=	Good	1	0	0	0
Risk Management	↑	Good	0	0	0	0

Table 4: Unsatisfactory and limited assurance opinions since February 2016 listed by service area

Unsatisfactory assurance

Chief Executive

Back-up Arrangements
Hardware Replacement Programme Follow Up 2015/16

Commissioning

IDOX Planning, Building Control and Gazetteer Management System

Children's Services

Lydbury North Primary School (federated with Onny CE Primary) and Little Pippins Nursery Class

Limited assurance

Adult Services

Kempsfield Transfer - Exit Audit
Church Stretton Day Centre Transfer - Exit Audit

Commissioning

Licensing

Children's Services

Adoption Process Including Allowances

Burford CE Primary School
 Newcastle CE Primary School
 St Andrew's CE (Voluntary Controlled) Primary School, Nescliffe
Public Health
 Registrars Service

Table 5: 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 6: 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 7: Audit recommendations made in 2015/16

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	13	157	97	3	270
Finance	1	72	19	1	93
ICT	8	45	54	2	109
Legal	0	3	3	0	6
HR	0	29	16	0	45
Property Services	0	5	4	0	9

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Information Governance	4	3	1	0	8
Risk Management and Business Continuity	0	0	0	0	0
Adult Services	2	63	63	0	128
Commissioning	0	41	46	1	88
Children's Services	51	552	422	0	1025
Public Health	1	31	25	0	57
Total for 2015/16					
➤ Numbers	67	844	653	4	1568
➤ Percentage	4%	54%	42%	0%	100%
Percentage 2014/15	6%	53%	40%	1%	100%
Percentage 2013/14	15%	57%	27%	1%	100%
Percentage 2012/13	23%	57%	20%	-	100%

Table 8: Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	Direction of Travel
Pre-audit arrangements	97%	96%	96%	90%	↓
Post-audit briefing	99%	93%	97%	81%	↓
Audit coverage/scope of the audit	99%	95%	100%	97%	↓
Timeliness of production of report	94%	90%	88%	68%	↓
Accuracy and clarity of report	96%	94%	94%	87%	↓
Practicality of recommendations	84%	82%	87%	73%	↓
Professionalism of approach	99%	97%	100%	89%	↓
Communication skills	99%	97%	100%	95%	↓
Timeliness, competence, manner	97%	91%	90%	87%	↓
Number of forms returned	96	77	69	65	↓
% of forms scored as excellent and good	96%	93%	95%	85%	↓

Table 9: Summary of compliments and comments 2015/16

A good audit with very helpful post audit report briefing.

We felt that the audit was a positive experience which has enabled us to improve our practice significantly. Our Auditor was extremely thorough and also really helpful in suggesting ways we could improve.

I am writing to express my thanks to the auditors. In these difficult times when resources and staff are very stretched they were very supportive in bringing forward our audit to coincide with the notice period of our current SBM. As I am a member of CPG I know that some of my colleagues raised a number of issues regarding the conduct of school audits. I can only say that these negatives were in no way evident in the audit my school received. To the contrary the auditor put herself out to explain and engage my admin staff and myself in the process, she was willing to explain what her requirements were and was professional and non-confrontational in all that she did. She was always pleasant and smiling and in no way did we ever feel "done too" but only fully "engaged with". The feedback was very helpful and a positive experience, providing great opportunities for improving our financial practice. There were more points to address than I would have preferred, but that was our fault not yours and I am glad they were identified in such a helpful way. I am more than happy at the way the audit was conducted and the professional yet friendly relationship the Auditor developed with us as a school. Many thanks to your Team.

The audit itself was very useful. It was the first one I had experienced as a Head Teacher (although there was a lot of preparation needed to collect all the relevant information in advance). Unfortunately, I wasn't made aware of the schools previous audit date until the process began and as a different Head coming into the school, I hadn't seen the previous audit to be able to address some of the issues it had raised. I felt the audit itself and areas it focused on were thorough and the report provided details which were useful in supporting financial school improvement. Although an effective relationship was established with the auditor, the actual time spent in school was very limited and the process itself felt rushed as a result. Many emails and several calls then followed at the end of the very busy summer term and into Autumn term requesting documents which could have been viewed and collected in school especially when the Administrator was available and also the Head as extra release time from teaching had been provided in line with the audit dates given to enable regular communication and easy access to documentation. Some of the recommendations highlighted in the report came after following the advice and guidance provided to the school from Shropshire Council which was quite worrying. We also wondered why there is a judgement of "good" if no schools ever achieve this. I felt the audit was positive in helping the school to formalize necessary improvements.

¹As customers are issued their own copy of the audit report when an audit is undertaken, it is not considered necessary, under normal circumstances, to re-issue previous reports prior to a subsequent audit being undertaken. In this case, the new Head Teacher could have requested a copy of the earlier report if, for any reason, he was unable to locate the school's copy.

Time spent in schools is limited and getting the balance right is not easy. It relies on the school being able to accommodate the auditor, and the level of work that is required. All these aspects vary across the different schools. Internal Audit try to minimise the number of post audit enquiries that are required, but sometimes for a number of good reasons, this is unavoidable.

There is a judgement of good. It is awarded when a customer reaches that standard and is achievable with the right controls in place.

A very useful exercise delivered at a very timely period and providing excellent feedback and observations to assist with developing our processes and procedures.

¹ Text in highlights and italics sets out the actions Internal audit have completed to remedy the situation set out in the feedback

I would like to thank you for all your help with this audit and the team are now working on getting everything in place. They are grateful for the advice and it's given them the help they needed in some areas.

This audit has helped to highlight the volume and complexity of work that this small team is required to undertake. It has provided an evidence base from which to improve from and as a means of seeking additional resources. The assessment of reasonable as indicated above is not a reflection on the staff who completed the audit but relates to the timescales and continuity of auditors which we note was unavoidable due to maternity leave. We do though appreciate the opportunity to comment before the final audit report was issued and note the amendments.

As a new Head only in post six weeks when the audit took place I was aware of certain financial processes that had previously not been in place and had implemented them but this was not taken into consideration during the audit. The audit has been very useful for the school but with such a small staff membership it is very difficult to implement some of the recommendations accurately. The majority of points have now been implemented or dealt with. The auditors should have stated that they were unsure of the final judgement as we were led to believe that it would be requiring improvement and not unsatisfactory.

Audit reviews look for evidence that processes are embedded. With new systems it is not possible to say if systems are embedded and effective at the time of the audit, only whether the right controls are in place to demonstrate an improvement moving forward. I can understand the frustration of the customer in this instance and their understanding of Internal Audit's remit.

All Auditors have been reminded of the need to ensure that the customer is fully aware of their role. A marketing brochure setting out roles and responsibilities is provided to customers in advance of audits.

All Auditors have been reminded of the need to be clear to the customer when providing an initial assurance position, and to emphasise that it is provisional since the quality review process may seek out further data that could lead to the adjustment of an early assurance level indicator going up or down.

Only concern was the practicality of the recommendation give the reduced resources that we have, on the whole though the audit provided a helpful and useful assurance overview.

We have viewed this audit as a huge learning curve. However, it is a learning curve that wouldn't have been so steep were appropriate training available for administrators in the first place. Many of the systems that my administrator has been using were ones used by her predecessor and were not identified as issues in the previous audit.

Internal audit has introduced a marketing brochure to clarify the role and responsibilities of all partners.

An internal control self-assessment checklist has been set up to allow schools to assess their current position

A general manual or expectations from a finance point of view would be useful for us to then personalise and adapt for our establishment. The information provided at the HT update regarding issues for schools in general is something that needs to be sent out on a regular basis, so that schools can be picking them up and dealing with them quickly and not having to wait for 3 years to be told you are not doing it right. A termly update/bulletin of recommendations or checks would be very useful. During the HT meeting it was said that Audit were the third line of defence for schools, but by then it is actually too late as judgements are made and available to a wider audience. Undoubtedly however, we will be operating much more efficient systems as a result of the audit.

A more precise list of documentation needed for the audit would have been appreciated. We did find the overall experience helpful and useful.

It was a useful process to go through, as it re-enforced some of the issues and weaknesses I believed to exist within our current systems. The auditor was really professional throughout the process and made it very straight forward, from the initial contact arranging the audit, right through to receiving the final report.

The auditors were extremely professional and helpful during the audit and have remained so, post audit. There were some additional points on the final audit, which had not been discussed at the verbal feedback session with the SBM and Chair of Governors but overall we were pleased with the judgements. We have updated our SFVS and are monitoring the action plan accordingly. One small point which is a bit disappointing is the rating term "reasonable". The auditor advised that our rating of reasonable was actually very good and we were in a minority to have achieved this level but the term itself suggests only adequate. (a different terminology might be a better incentive)

against a number of expected controls following which they can improve these or seek advice. The establishment and delivery of the controls in the school environment remains the responsibility of the schools with their delegated budgets (the first line of defence), including the production of a manual. Internal Audit can only ever provide independent assurance that the controls are in place and effective (third line of defence).

To highlight common issues, recommendation areas have been made available to all schools and it is hoped that the learning from these will benefit the school environment. This is an added value process Internal Audit has provided to help reduce similar errors.

A list of documents required is sent out prior to the audit starting and the self-assessment checklist available to schools on the intranet also aids this process.

AUDIT PLAN BY SERVICE – ANNUAL REPORT 2015/16

	Original Plan Days	Revised Plan Days	March 16 Actuals	% of Original Plan	% of Revised Plan Achieved
CHIEF EXECUTIVE					
Governance	58	55	51.2	88%	93%
ADULT SERVICES					
Social Care Operations					
Long Term Support	55	58	56.2	102%	97%
Provider Services - Establishments	13	10	10.5	81%	105%
Housing Services	29	7	12.0	41%	171%
	97	75	78.7	81%	105%
Social Care Efficiency and Improvement					
Development Support	13	26	26.2	202%	101%
ADULT SERVICES	110	101	104.9	95%	104%
COMMISSIONING					
Waste & Bereavement	10	7	7.1	71%	101%
Leisure Services	13	10	10.3	79%	103%
Highways	14	17	16.9	121%	99%
Development Management	18	15	15.7	87%	105%
Visitor Economy	5	9	9.0	180%	100%
Business & Enterprise	15	15	0.0	0%	0%
Project Development	5	0	0.0	0%	0%
Community Safety	23	19	18.1	79%	95%
Environmental Protection and Prevention	15	9	9.0	60%	100%
COMMISSIONING	118	101	86.1	73%	85%
CHILDREN'S SERVICES					
Safeguarding					
Assessment & Looked After Children	5	8	8.5	170%	106%
Safeguarding	20	9	8.4	42%	93%
Children's Placement and Joint Adoption	58	60	59.4	102%	99%
	83	77	76.3	92%	99%
Learning and Skills					
Business Support	17	14	14.6	86%	104%
Education Improvements	16	16	16.6	104%	104%
Primary/Special Schools	250	308	346.7	139%	113%
Secondary Schools	23	18	17.8	77%	99%
	306	356	395.7	129%	111%

Learning Employment and Training	10	0	0.8	8%	0%
CHILDREN'S SERVICES	399	433	472.8	118%	109%
PUBLIC HEALTH	32	17	16.2	51%	95%
RESOURCES AND SUPPORT					
Customer Care, Commercial and Support Services					
Estates & Facilities	5	10	10.3	206%	103%
Property Services	23	28	28.3	123%	101%
Shire Services	23	21	20.4	89%	97%
	51	59	59.0	116%	100%
Service Support, Marketing and Engagement					
Customer Services	34	26	25.2	74%	97%
ICT	83	69	57.7	70%	84%
	117	95	82.9	71%	87%
Finance Governance & Assurance					
Finance Transactions	69	39	49.7	72%	127%
Finance and S151 Officer	65	58	61.2	94%	106%
Financial Management	37	35	24.5	66%	70%
Procurement and Contract Management	25	17	17.6	70%	104%
Benefits	29	20	19.4	67%	97%
Revenues	40	33	33.4	84%	101%
Risk Management and Business Continuity	5	6	6.6	132%	110%
Treasury	10	15	15.0	150%	100%
	280	223	227.4	81%	102%
Payroll and Human Resources	52	48	44.9	86%	94%
Legal, Democratic & Strategic Planning					
Information Governance	7	11	11.8	169%	107%
Legal Services	10	12	12.1	121%	101%
	17	23	23.9	141%	104%
RESOURCES AND SUPPORT	517	448	438.1	85%	98%
Total Shropshire Council Planned Work	1,234	1,155	1,169.3	95%	101%

CONTINGENCIES					
Advisory Contingency	40	40	42.0	105%	105%
Fraud Contingency	250	133	123.7	49%	93%
Unplanned Audit Contingency	45	70	63.5	141%	91%
Other non-audit Chargeable Work	260	295	297.9	115%	101%
CONTINGENCIES	595	538	527.1	89%	98%
Total for Shropshire	1,829	1,693	1,696.4	93%	100%
EXTERNAL CLIENTS	221	239	226.2	102%	95%
Total Chargeable	2,050	1,932	1,922.6	94%	100%