



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
15 September 2016	
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INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2016/17 – FIVE MONTH REPORT

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1. Summary

This report provides members with an update of work undertaken by Internal Audit in the five months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation. Twenty nine percent of the revised plan has been completed (**see Appendix A, Table 1**), lower than previous delivery records, but in line with the profile of available resources this year and the team is still targeting achieving 90% delivery by the year end.

Two good and ten reasonable assurances, eight limited and eight unsatisfactory assurance opinions have been issued. The 28 final reports contained 549 recommendations, two of which were fundamental.

This report proposes minor revisions taking the overall audit plan from 1,717 days, as reported in February 2016, to 1,761 days. Changes to the planned activity reflect adjustments in both risks and resources. The changes have been discussed with, and agreed by, the Section 151 Officer.

The Council is undergoing significant change in its operational approach and is having to do so under ongoing financial constraint. An increase in risk taking has been inevitable, and continues to be reflected in a reduction in the level of assurance in the internal control environment. Of concern at this stage of the audit plan delivery, is the increased number of service areas attracting unsatisfactory assurances compared to previous years. Limited assurances are also being seen across all service areas. It is important therefore that this situation is kept under review and managed appropriately.

Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including counter fraud guidance, management of and recovery of assets, sharing best practice and providing advice on system developments.

2. Recommendations

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

- a) The performance to date against the 2016/17 Audit Plan set out in this report.
- b) The adjustments required to the 2016/17 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 essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures, and is closely aligned to strategic and operational risk registers. The Plan is delivered in an effective manner in which the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control, risk and governance procedures 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 are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes and impacts on risks and controls.
- 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. These 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.
- 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, governance, risk 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 Internal Audit Plan was presented to, and approved by, members at the 18th February 2016 Audit Committee with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 14th August 2016 and includes minor revisions to the plan.
- 5.4 Part of the internal audit plan continues to be met by external providers.

Performance against the plan 2016/17

- 5.5 Revisions to the February 2016 plan provide for a total of 1,761 days following slight changes reflecting adjustments in risks and resources.
- 5.6 In total 28 final reports have been issued in the period to 14th August 2016. These are broken down by service area in **Appendix A, Table 2**.
- 5.7 Two good and ten reasonable assurances were made in the period accounting for 42% of the opinions delivered. This represents a reduction in the higher levels of assurance compared to the previous year outturn of 49%. A corresponding 7% increase in limited (eight) and unsatisfactory (eight) opinions make up the remaining 58% of opinions issued in the period.
- 5.8 During this period, Children's Services continue to show lower assurance levels following the completion of school audits. These are considered low risk to the Council overall and therefore, at this stage, are not expected to affect the Audit Service Manager's overall year-end opinion. Limited assurances have been identified across all service areas based on the audits completed to date with continuing focus on IT system controls. The overall direction of travel throughout the Council is explored in more detail in section 5.17.
- 5.9 Nineteen draft reports, awaiting management responses, 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 a school fund and the certification of three grant claims.

- 5.10 A summary of the planned audit reviews which resulted in unsatisfactory or limited assurance is included in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5**.
- 5.11 A total of 549 recommendations have been made in the 28 final audit reports issued to date; these are broken down by audit area and appear in **Appendix A, Table 6**.
- 5.12 Two fundamental recommendations have been identified. These are:

Brockton Primary School 2015/16

To ensure that duplicate payments are not made, payments should only be processed upon the receipt of an original invoice which should be date stamped on receipt and subject to pre-payment checks.

Dorrington Primary School 2015/16

Formal minutes of the Finance, General Personnel and Premises Committee must be recorded at the meetings. The format should include the following to ensure that they meet minimum requirements:

- The name of the Chair and the Clerk;
- Apologies;
- Separate items discussed should be numbered;
- Declaration of interests as a standing item;
- A summary of actions, a space for the Chair to sign and date and the date of the next meeting;
- Be signed and dated by the Chair of the Committee to confirm as accurate;
- Be subject to review by the Governing Body.

Other committee minutes should be reviewed in light of this recommendation.

Meetings should be held termly and in advance of the Governing Body meetings.

(Updated from previous recommendation made and agreed in 2010/11 and in 2007/08).

- 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, progress on fundamental, significant and requires attention recommendations are followed up after six months by seeking an update from management. Cases where fundamental recommendations are not implemented in a timely manner are escalated to directors and Audit Committee.
- 5.14 Three recommendations have been rejected by management.

Two rejected recommendations were at different primary schools where management had been advised to involve an additional member of staff in the income processes to ensure that appropriate segregation of duties were in place. This was rejected by management in both cases with mitigation put forward that all money is receipted and records are kept at one school whilst the Head Teacher checks the cash sheets against the paying in books and signs at the second school.

Whilst it is recognised that small schools have a corresponding low number of staff, the risk of misappropriation or fraud increases when there is a lack of segregation of duties in the collection, recording and banking of income and therefore the risk is not mitigated

by the controls identified.

A secondary school was advised that purchasing cards should be kept securely by the card holder at all times. This was rejected with a comment that Governors had agreed that locking the purchasing cards in a safe was the most secure place for them to be held. The Purchasing Card Guidelines, issued to all purchasing card holders, clearly stipulate that the cardholder must keep their card in a secure location to which only the cardholder has access and must not allow anyone else to have access to or use their card. Audit established that both the Head Teacher and the Business Manager had access to the safe thereby exposing the cards to access by a person other than the cardholder, with potential for abuse.

5.15 Performance to date has been lower than previous delivery records at 29% (37%). This position was expected as the vacancies and maternity leave at the start of the financial year have impacted on resources available to undertake audit work in the period to 14th August 2016. The team is still currently targeting delivery of a minimum of 90% of the annual plan by year end. The increased resources currently available to the end of the financial year have allowed the revised plan to be increased to 1,761 days (1,717 days). In addition to known demands in the period to 14th August 2016, the Audit Team has been affected by a number of unanticipated demands:

- The unplanned vacancy of an auditor post: Following a recruitment process, a fixed term replacement has been appointed for one of the two vacant posts in the team, covering a period of twelve months. The second post remains unfilled.
- Management of a change of contractor for the provision of internal audits. The new contractor is in place and early work, completed to draft stage, will be reported to future committees. In addition, this year will see the revisiting and letting of the contract under the Staffordshire Framework agreement, requiring the commitment of additional resources, difficult to quantify at this time.
- Maternity leave of an Auditor and a Principal Auditor not backfilled. The Auditor has now returned to work and increasing available resources from quarter two. The Principal Auditor is responsible for a lot of the processes around servicing the data required for the Council's Audit Committee and, as such, additional time is required from other team members to pick up this work in her absence.
- A performance management process has been instigated in line with Council procedures for an Auditor who has been unable to deliver to the quality needed in the time required. This process is ongoing but requires significant management investment to give the employee the best chance to deliver.

Low staff numbers combined with daily pressures on the team mean that it is difficult currently to support a suitable recruitment/induction programme or management of increased numbers of contractors. Although there is currently a vacancy and budget available, there is insufficient management time available to purchase additional resources. This situation will be monitored to ensure risks remain considered.

5.16 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at Appendix A, Table 1.

- A service area failed to identify the equipment that an ex-employee had in their ownership. Audit identified the items and advised on the successful recovery of equipment to the value of £1,200.
- An Auditor identified an issue with schools receiving unsolicited invoices as part of the National Fraud Initiative audit, an alert was published via the Schools'

Learning Gateway and the school newsletter. Audit received a call from a school, within a day of posting the alert, to report that they thought they had also received this type of invoice and the alert had enabled them to identify and deal with the hoax appropriately and avoid any financial consequences.

- Schools have provided positive feedback on the internal control self-assessment designed by Audit, shared freely with maintained schools, and used for the first time this year to assess the risks within an identified number of schools. The system has been used to inform the audit plan. The approach was reported as helping Head Teachers to think about the systems they currently have in place.
- Following completion of a health check on a Council owned company, lessons learnt have been identified which cover business plans, governance structures, contract monitoring and performance reporting. These are being shared to enable ongoing improvements to continue in other areas where alternative delivery vehicles are under consideration.
- The service has reviewed the financial stability of a number of companies who provide services for the Council. Some involved companies requesting uplifts to contract prices to avoid administration. Financial analysis revealed instances where this was not the case and therefore saved the Council agreeing to unnecessary uplifts.
- Advice has been given on a number of regulatory issues and procedures reviewed to ensure that they remain current in relation to authorisations and inventories.
- The Head of Audit has supported the recruitment of officers to key posts as part of the Finance Service restructuring to ensure the appropriate selection of candidates to help with the future delivery of service and Council needs.
- Researching around an access issue identified some potential risks which are being reviewed and considered by the relevant senior managers and information asset owners to improve security.

Direction of travel

- 5.17 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2016/17 to date	7%	35%	29%	29%	100%
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
2016/17 to date	4%	51%	45%	0%	100%
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%

- 5.18 The increased number of lower level assurances, 58% compared at the five month point 2016/17, compared to the 2015/16 outturn of 51%, indicates a falling level of overall control. The recommendation classifications at this point in the year are roughly comparable with the outturn for 2015/16, representing a significant decrease in assurance from 2012/13 and 2013/14 results.
- 5.19 **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This demonstrates, at a point in time, issues around control areas such as contract management, IT systems, financial administration in Adult Services and Schools. This needs to be considered in the context of reduced Internal Audit resources that are increasingly focused on the higher level risk areas in terms of delivering the Council's business objectives.

Performance measures

- 5.20 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 2016/17 - Audit Committee 18 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)

Malcom 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 1st April 2016 to the 14th August 2016
 Table 2: Final audit report assurance opinions issued in the period 1st April 2016 to 14th August 2016
 Table 3: Unsatisfactory and limited assurance opinions in the period 1st April 2016 to the 14th August 2016
 Table 4: Audit assurance opinions
 Table 5: Audit recommendation categories
 Table 6: Audit recommendations made in the period 1st April 2016 to the 14th August 2016

Appendix B - Audit plan by service 1st April 2016 to 14th August 2016

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April to 14th August 2016

	Original Plan	August Revision	Revised Plan Days	14 August Actual	% of Plan Achieved
Chief Executive	444	3	447	86.2	19%
Adult Services	140	19	159	63.2	40%
Commissioning	102	2	104	13.2	13%
Children's Services	232	-26	206	88.2	43%
Public Health	67	13	80	25.4	32%
S151 Planned Audit	985	11	996	276.1	28%
Contingencies and other chargeable work	532	-12	520	178.3	34%
Total S151 Audit	1,517	-1	1,516	454.4	30%
External Clients	200	45	245	63.2	26%
Total	1,717	44	1,761	517.6	29%

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 from 1st April 2016 to 14th August 2016.

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	0	1	1	1	3
Adult Services	0	2	1	0	3
Commissioning	0	0	0	0	0
Children's Services	0	6	2	6	14
Public Health	0	0	1	1	2
Resources and Support					
Commercial Services	0	0	1	0	1
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	2	1	1	0	4
Human Resources	0	0	1	0	1
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	2	10	8	8	28
➤ Percentage	7%	35%	29%	29%	100%
% for 2015/16	14%	35%	42%	9%	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 from 1st April 2016 to 14th August 2016 listed by service area

Unsatisfactory assurance

Chief Executive

CONFIRM – Highways Management System

Children’s Services

Brockton CE Primary School

Corvedale CE Primary School

St Mary's CE Primary School, Westbury

Cockshutt CE (Controlled) Primary School

Dorrington CE Primary School

Crowmoor Primary School

Public Health

Drug & Alcohol Misuse Contract

Limited assurance

Chief Executive

Third Party Audits for Hosted Systems

Adult Services

Personal Budgets – Deferred Payments

Children’s Services

Kinlet CE Primary School

St Lawrence CE Primary School, Church Stretton

Public Health

Health Partnership Governance

Commercial Services

Technology Forge Application

Finance Governance and Assurance

Sales Ledger

Human Resources

ResourceLink – HR Application Review

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 from the 1st April 2016 to 14th August 2016

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	3	5	31	0	39
Adult Services	1	18	9	0	28
Commissioning	0	0	0	0	0
Children’s Services	18	216	182	2	418
Public Health	0	11	13	0	24
Resources and Support					
Commercial Services	0	9	6	0	15
Customer Involvement	0	0	0	0	0
Finance, Governance and Assurance	0	17	6	0	23
Human Resources	0	1	1	0	2
Legal, Strategy and Democratic	0	0	0	0	0
Total for the period					
➤ Numbers	22	277	248	2	549
➤ Percentage	4%	51%	45%	0%	100%
% for 2015/16	4%	54%	42%	0%	100%
% for 2014/15	6%	53%	40%	1%	100%
% for 2013/14	15%	57%	27%	1%	100%

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL TO 14th AUGUST 2016

	Original Plan Days	August Revision	Revised Plan Days	14 August 2016 Actual	% of Revised Plan Achieved
CHIEF EXECUTIVE					
Governance	38	-8	30	10.4	35%
IT	176	6	182	15.3	8%
Finance Governance & Assurance					
Finance Transactions	39	9	48	10.9	23%
Finance and S151 Officer	60	-3	57	18.9	33%
Financial Management	18	0	18	1.6	9%
Benefits	34	0	34	0.0	0%
Risk Management and Business Continuity	13	0	13	6.8	52%
Treasury	2	0	2	0.0	0%
	166	6	172	38.2	22%
Human Resources	43	3	46	8.3	18%
Legal, Democratic & Strategic Planning					
Elections	8	0	8	5.1	63%
Legal Services	13	-4	9	9.0	100%
	21	-4	17	14.0	83%
CHIEF EXECUTIVE	444	3	447	86.2	19%
ADULT SERVICES					
Social Care Operations					
Long Term Support	79	6	85	40.8	48%
Provider Services - Establishments	20	1	21	0.0	0%
Provider Services - Comforts Funds	6	4	10	6.6	66%
Provider Services - Trading Accounts	10	5	15	9.6	64%
Housing Services	20	-5	15	5.5	37%
	135	11	146	62.6	43%
Social Care Efficiency and Improvement					
Development Support	5	8	13	0.6	5%
ADULT SERVICES	140	19	159	63.2	40%
COMMISSIONING					
Library Services	5	3	8	0.0	0%
Waste & Bereavement	14	-4	10	0.0	0%

Highways	20	8	28	0.3	1%
Business & Enterprise	5	0	5	0.0	0%
Development Management	14	0	14	0.3	2%
Community Safety	15	-5	10	0.0	0%
Environmental Protection and Prevention	4	0	4	0.0	0%
Procurement and Contract Management	25	0	25	12.5	50%
COMMISSIONING	102	2	104	13.2	13%
CHILDREN'S SERVICES					
Safeguarding					
Safeguarding	20	0	20	0.3	1%
Children's Placement and Joint Adoption	38	-2	36	1.3	4%
	58	-2	56	1.6	3%
Learning and Skills					
Business Support	2	0	2	0.0	0%
Education Improvements	14	3	17	7.7	45%
Primary/Special Schools	128	-31	97	54.4	56%
Secondary Schools	20	4	24	23.7	99%
	164	-24	140	85.8	61%
Learning Employment and Training	10	0	10	0.9	9%
CHILDREN'S SERVICES	232	-26	206	88.2	43%
PUBLIC HEALTH					
Public Health	22	13	35	16.9	48%
Customer Services	5	0	5	4.9	98%
Shire Services	17	0	17	3.6	21%
Property Services	23	0	23	0.0	0%
PUBLIC HEALTH	67	13	80	25.4	32%
Total Shropshire Council Planned Work	985	11	996	276.1	28%
CONTINGENCIES					
Advisory Contingency	40	0	40	8.2	21%
Fraud Contingency	200	-20	180	49.4	27%
Unplanned Audit Contingency	45	0	45	29.5	65%
Other non-audit Chargeable Work	247	8	255	91.2	36%
CONTINGENCIES	532	-12	520	178.3	34%
Total for Shropshire	1,517	-1	1,516	454.4	30%
EXTERNAL CLIENTS	200	45	245	63.2	26%
Total Chargeable	1,717	44	1,761	517.6	29%