Committee and Date	Item
Audit Committee	
29 June 2017	
09:30am	Public

INTERNAL AUDIT ANNUAL REPORT 2016/17

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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 2017. It informs on delivery against the approved annual audit plan and includes the Head of Audit'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. Fifty one good and reasonable assurances were made in the year accounting for 52% of the opinions delivered. This represents a 3% increase in the higher levels of assurance compared to the previous year, offset by a 3% decrease in limited and unsatisfactory opinions.

Payroll is the largest financial system in the Council and whilst the audit was not completed in 2016/17, data tested as part of the audit applied to that year and a 'reasonable' assurance level was given. These results along with the high level assurances related to key financial systems and their supporting applications, combine to provide a high level of confidence in the robustness of the data reflected in the accounts.

Fourteen of the lower assurance levels concern IT systems/processes. IT Services continue to invest in and implement required control improvements. Whilst there has been some improvement in the IT control environment with business continuity, disaster recovery and physical and environmental controls improving from unsatisfactory to limited assurance levels, hardware replacement remains at an unsatisfactory level in its fourth year of reporting. Improvements are still being embedded and are yet to be reflected fully in the control environment. This further supports qualification of the current opinion. The lower levels of assurance in social care and schools, whilst not significant enough to sway the opinion, should be used by managers to target areas for improvement.

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 2017.

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 2016/17.

c) The Head of Audit's qualified year end opinion on the Council's internal control environment for 2016/17 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 Corporate 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 2016/17 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 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 2016/17 was considered and approved by Audit Committee at its meeting on the 18 February 2016. The Plan provided for a total of 1,717 days. Revisions throughout the year to reflect changing risks and resources were reported to Audit Committee and the plan revised to a target of 1,795 days. The Head of Audit can confirm that the service has been free from interference throughout the year. 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 97 final reports have been issued in 2016/17. These are broken down by service area at **Appendix A, Table 2**.

5.8   The following tables compare 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
2016/17	7%	45%	31%	17%	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	4%	50%	46%	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%

5.9   Fifty one good and reasonable assurances were made in the year accounting for 52% of the opinions delivered. This represents a 3% increase in the higher levels of

assurance compared to the previous year, offset by a 3% decrease in limited and unsatisfactory opinions. Sixteen unsatisfactory opinions and 30 limited assurance opinions were issued, 48% in total, compared to 51% last year.

5.10   Three of the high level assurances relate to key financial systems through which a significant amount of the Council's financial business is transacted, **Appendix A, Table 3.** Two[1] financial system applications also attract higher level assurances. Whilst the Payroll audit was not completed in 2016/17, data tested as part of the audit applied to that year and a 'reasonable' assurance level was given. Payroll is the largest financial system in the Council. These results combine to provide a high level of confidence in the robustness of the data reflected in the accounts.

5.11   Fourteen of the lower assurance levels concern IT systems/processes. IT Services continue to invest in and implement required control improvements. There has been some improvement in the IT control environment which led to the qualified opinions in 2013/14, 2014/15 and 2015/16, and business continuity, disaster recovery and physical and environmental controls have improved from unsatisfactory to limited. Hardware replacement remains at an unsatisfactory level in its fourth year of reporting. Improvements are still being embedded and are yet to be reflected fully in the control environment. This further supports qualification of the current opinion. The lower levels of assurance in social care and schools, whist not significant enough to sway the opinion, should be used by managers to target areas for improvement.

5.12   Given the overall impact of assurances as described above, there is no option other than for the Head of Audit's Year-end opinion to be qualified. There is a concern that this is the fifth 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. The Audit Committee is satisfied that there has been no evidence of significant IT business failure or material errors that could result in a material misstatement in the Council's accounts and reliance can be placed upon them for that purpose.

5.13   Work has also been completed for external clients including honorary and voluntary bodies in addition to the drafting and auditing of financial statements.

5.14   A summary of the reviews resulting in an unsatisfactory or limited assurance since the last report, in February 2017 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**.

5.15   A total of 1,338 recommendations have been made in the 97 final audit reports issued in the year; these are broken down by audit area and appear at **Appendix A, Table 7**.

5.16   The number of fundamental recommendations has remained static at six 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 in relation to compliance with contract rules and governance procedures:

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[1] Samis, Northgate

- **Highley Primary School**
- **St Giles CE Primary School**
- **Brockton CE Primary School 2015/16**
- **Thomas Adams School**
- **Dorrington CE Primary School**

Dorrington and Thomas Adams have already implemented control improvements, others have agreed improvements.

- **Hardware Replacement Programme**

As recommended and agreed in 2013/14, 2014/15 and 2015/16, 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. Revised implementation date 30 June 2017.

The percentage of significant and fundamental recommendations has risen slightly from 42% to 46% compared to last year with a corresponding fall in requires attention and best practice recommendations.

5.17   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.

5.18   Three recommendations, equivalent to less than 1% of all recommendations made, have been rejected by management. All recommendations have been discussed with the managers concerned.

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:

- A school was advised to keep purchasing cards secure by the card holder at all times. They did not agree and stated that governors agreed that locking the purchase card in the safe was the most secure place for it to be held.

  Audit Comments
  The Purchasing Card guidelines which are issued to all cardholders stipulate in section 2.1 that the cardholder "must keep the card and PIN in a secure location to which only the cardholder has access and must not allow anyone else to have or use the card". The purchasing card is held in the safe, there are two key holders, Head Teacher and Business Manager, and therefore the card would be accessible to a person other than the cardholder and in breach of guidelines.

- Two schools were advised to include another member of staff in the income process, in order to introduce segregation of duties. The administrators were placed in vulnerable positions given the lack of clear financial records and no evidence of review by an independent person.

The schools stated that there is only one administrator. All money is receipted and records kept.

Audit Comments
Whilst it is recognised that these are small schools with very few staff, the risk of misappropriation or fraud increases when there is lack of segregation of duties. Another member of staff should be drafted in to provide the independent checks.

No fundamental recommendations have been rejected.

5.20   Given the significance of the ICT infrastructure controls and application systems in terms of supporting the Council's fundamental systems (including financial systems), the Head of Audit considers the control issues identified sufficient to warrant qualifying the annual audit opinion. Whilst there has been some improvement in the IT control environment, hardware replacement remains at an unsatisfactory level in its fourth year of reporting and improvements are still being embedded that are yet to be reflected fully in the control environment. This further supports qualification of the current opinion. 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, it is recognised that further improvement is required and will take time. IT audit reviews conducted during the year receiving unsatisfactory or limited assurances include:

- Third Party Audits for Hosted Systems
- Social Media
- Remote Support
- Business Continuity and Disaster Recovery (IT)
- Physical and Environmental Controls
- SCCM (System Centre Configuration Manager)
- Tranman – transport management system
- ICT Project Financing and Recharges
- Galaxy - Libraries System
- Technology Forge Application – property system
- Civica Icon Income Management Application
- Resource Link - HR Application Review
- CONFIRM - Highways Management System
- Hardware Replacement Programme

5.21   During 2016/17, 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. The introduction of matching Council Tax Reduction Scheme data against all the other datasets was added this year. Savings of £19,956 were identified and recovered. These were cases where the deaths of pensioners had not been notified to the Council and the pensions had been over paid. Management are exploring the introduction of further controls to reduce this risk

reoccurring. 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:
- Adult social care financial assessments
- Appointeeships/ court of protection and deputyships
- Grant claims
- Housing benefits
- Income collection
- Individual service funds
- Parking
- Payroll
- Planning
- Personal budgets
- Primary school income collection
- Purchase ledger
- Purchasing and contract arrangements
- Sales ledger
- Software inventories
- Telephones usage and income
- Various comforts funds and trading accounts

5.23   The above were further supported by specific counter fraud work in relation to single person discounts, casual driver checks, housing tenancy, overtime payments, procurement cards, and travel and subsistence claims. 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:

- Identifying items and the successful recovery of equipment that ex-employees had withheld.
- Preventing unsolicited invoices being paid by schools by raising awareness through the Learning Gateway and the school newsletter.
- Providing schools with an internal control self-assessment tool which helps Head Teachers to think about the systems they currently have in place.
- Sharing learning from a health check on a Council owned company, covering business plans, governance structures, contract monitoring and performance reporting.
- Reviewing 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.

- Undertaking the role of critical friend in reviewing the Highways Management responses to the Department of Transport Funding Criteria, to ensure that the Council's application for level three funding is evidence based and robust in the event of external scrutiny.
- Reviewing the insurance policies of a sample of major contractors and the processes for ensuring that they are up to date and monitored, to ensure risks are managed appropriately.
- Conducting one off exit reviews on services that are being transferred to alternative management models to ensure that all assets are accounted for properly.

An annual opinion on the adequacy of the governance arrangements

5.25 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.

5.26 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.

5.27 In arriving at her opinion, the Head of Audit has taken the following matters into account:
- Results of all audits undertaken during the year ended 31 March 2017;
- 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.

5.28 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 Head of Audit has qualified her overall opinion on the Council's internal control environment. This is based primarily on the continuing numbers of the internal audit assurances provided on the IT infrastructure and a number of application 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 and managers have reported improvements, it was also accepted that it may take several years for the necessary improvements to be implemented and sufficiently embedded 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

5.29 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 2016/17	Actual 2016/17
Percentage of revised plan delivered	90%	99%
Compliance with Public Sector Internal Audit Standards	Compliant	Compliant
Percentage of customers satisfied overall with the service	80%	89%

5.30 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 2016/17'. In addition, an external assessment conducted by CIPFA and reported on to a February meeting of this Committee demonstrated compliance with the PSIAS.

5.31 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.

5.32   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**.

5.33   The percentage of customers scoring the service as high or excellent has increased. 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 remains a positive reflection of the service. Increasingly the client has less time to properly engage before, during and after audit reviews and the auditors are 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 can be reflected in scores.

5.34   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.

5.35   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.

5.36   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.

5.37   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.

5.38 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

5.39 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

5.40 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.

5.41 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.

5.42 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.

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 February 2016
Internal Audit Plan 2016/17 – Performance Report - Audit Committee September 2016
Internal Audit Plan 2016/17 – Performance Report - Audit Committee November 2016
Internal Audit Plan 2016/17 – Performance Report - Audit Committee February 2017
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)
Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee

Local Member: All

Appendices

Appendix A
Table 1: Summary of actual audit days delivered against plan 2016/17
Table 2: Final audit report assurance opinions issued in 2016/17
Table 3: Audit opinion and recommendations made on fundamental systems 2016/17
Table 4: Unsatisfactory and limited assurance opinions since February 2017 listed by service area
Table 5: Audit assurance opinions
Table 6: Audit recommendation categories:
Table 7: Audit recommendations made in 2016/17
Table 8: Customer Feedback Survey Forms
Table 9: Summary of compliments and comments 2016/17

Appendix B - Audit plan by service – annual report 2016/17

Table 1: Summary of actual audit days delivered against plan 2016/17

	Original Plan	Revised Plan	March Actual	% of Original Complete	% of Revised Complete
Chief Executive					
Commercial Services	0	0	0	0%	0%
Finance, Governance and Assurance	166	184	197.6	119%	107%
Governance	38	30	15.7	41%	52%
HR	43	58	64.4	150%	111%
ICT	176	174	168.0	95%	97%
Legal, Democratic and Strategic Planning	21	19	19.1	91%	101%
Adult Services	140	166	147.5	105%	89%
Commissioning	102	133	132.0	129%	99%
Children's Services	232	212	219.9	95%	104%
Public Health	67	76	82.6	123%	109%
S151 Planned Audit	985	1,052	1,046.8	106%	100%
Contingencies and other chargeable work	532	490	504.5	95%	103%
Total S151 Audit	1,517	1,542	1,551.3	102%	101%
External Clients	200	253	229.0	115%	91%
Total	1,717	1,795	1,780.3	104%	99%

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 2016/17

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive					
Commercial Services	0	0	2	0	2
Finance, Governance and Assurance	4	3	3	0	10
Governance	0	0	0	0	0
HR	0	0	3	0	3
ICT	0	10	9	2	21
Legal, Democratic and Strategic Planning	0	1	0	0	1
Adult Services	0	6	7	3	16
Commissioning	0	7	1	1	9
Children's Services: Schools	0	9	4	9	22
Children's Services: Others	3	4	0	0	7
Public Health	0	4	1	1	6
Total for 2016/17 ➤ **Numbers**	**7**	**44**	**30**	**16**	**97**
➤ **Percentage**	**7%**	**45%**	**31%**	**17%**	**100%**
Percentage 2015/16	**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 2016/17

Fundamental system	Direction of travel	Level of assurance given	Number of recommendations made			
			BP	RA	S	F
Sales Ledger	=	**Limited**	0	10	5	0
Income Collection (Draft)	↓	**Reasonable**	1	7	6	0
Payroll System (Draft)	↓	**Reasonable**	0	2	4	0
Housing Benefits	=	**Good**	0	8	0	0
Risk Management	=	**Good**	0	0	0	0

Previous assurances provided on fundamental systems

Purchase Ledger	2015/16	(Reasonable)
General Ledger	2015/16	(Good)
Council Tax	2015/16	(Reasonable)
NNDR Collection	2015/16	(Good)
Treasury Management	2015/16	(Good)
Capital Accounting System	2015/16	(Good)

Table 4: Unsatisfactory and limited assurance opinions since February 2017 listed by service area[2]

Unsatisfactory assurance

Adult Services - Deprivation of Liberty Safeguards
1. The Deprivation of Liberty Safeguard requirements for the Authority have been set up and agreed.
2. Compliance with legal requirements including the Mental Capacity Act 2005 and the Mental Health Act 2007 have been set out.
3. Accountability and governance arrangements have been put in place.
4. Funding for DoLS has been at a level that enables assessments and decisions to be made on a timely basis.
5. Reporting and Monitoring of DoLS cases and assessments is completed on a regular basis.

Limited assurance

Chief Executive
    Finance - Civica Icon income management application
1. Previous recommendations have been actioned.
2. There are continuity processes are in place to ensure system availability.

    Finance - Sales Ledger
1. Previous recommendations have been actioned.
2. There are processes in place to ensure compliance with established policies and procedures.
3. Appropriate input controls are in place and are operated effectively.
4. Periodic Income is invoiced and collected in accordance with defined policy and procedures.
5. There are satisfactory collection and write off procedures.
6. Income is credited to the correct codes and reflected accurately in the general ledger.
7. Management information in respect of debtors is accurate, timely and adequate.

    ICT - ICT project financing and recharges
1. To ensure that the recommendations made in the 2014-15 audit have been implemented as per the original management responses.
2. An ICT Project Management policy exists with clear procedures documented outlining the project definition and approval process.
3. ICT Project financial management is clearly defined and documented. Clear procedures exist and operate to set out to finance projects in a prudent manner.

    Human Resources - Agency and consultancy staff
1. There are adequate procedures in place to ensure that both the business requirement for agency/consultancy resources and performance is monitored and managed on a regular basis.
2. Appropriate and necessary checks are conducted prior to the employment of agency and consultancy staff.

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[2] Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

3. There are adequate controls in place to ensure that payments made are correct and appropriately authorised.

Human Resources - ResourceLink – HR application review
1. Previous recommendations have been actioned.
2. Data is accurately input and the authenticity of the data is verified.
3. There are continuity processes in place to ensure system availability.
4. Changes to the system are managed effectively.
5. Interfaces with the system are secure, efficient and effective.

Commercial Services - Technology Forge application
1. To establish the extent to which recommendations made in the 2015/16 audit have been implemented

Children's Services - Weston Rhyn Primary School
1. Previous audit recommendations have been implemented.
2. Governors and staff clearly understand their respective roles and responsibilities.
3. Budget income is identified, collected and banked in accordance with procedures.
4. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
5. The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
6. The school fund is operated in accordance with the school fund notes of guidance.
7. Income from school meals is properly recorded, fully accounted for and banked promptly and intact by the cash collection agent.

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 2016/17

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive					
Commercial Services	0	15	12	0	27
Finance, Governance and Assurance	0	49	17	0	66
Governance	0	0	0	0	0
HR	1	10	28	0	39
ICT	6	48	79	1	134
Legal, Democratic and Strategic Planning	1	7	7	0	15
Adult Services	3	91	84	0	178
Commissioning	3	44	52	0	99
Children's Services: Schools	34	351	308	5	698
Children's Services: Others	1	20	8	0	29
Public Health	0	34	19	0	53
Total for 2016/17 ➤ **Numbers**	**49**	**669**	**614**	**6**	**1,338**
➤ **Percentage**	**4%**	**50%**	**46%**	**0%**	**100%**
Percentage 2015/16	**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	2014/ 2015	2015/ 2016	2016/ 2017	Direction of Travel
Pre-audit arrangements	96%	90%	84%	↓
Post-audit briefing	97%	81%	84%	↑
Audit coverage/scope of the audit	100%	97%	81%	↓
Timeliness of production of report	88%	68%	83%	↑
Accuracy and clarity of report	94%	87%	85%	↓
Practicality of recommendations	87%	73%	78%	↑
Professionalism of approach	100%	89%	95%	↑
Communication skills	100%	95%	95%	←→
Timeliness, competence, manner	90%	87%	85%	↓
Number of forms returned	69	65	60	↓
% of forms scored as excellent and good	95%	85%	89%	↑

Table 9: Summary of compliments and comments 2016/17

As a new Head Teacher starting in January 2016, I found it bizarre that an audit was to be carried out at the end of the month. The original audit from 2014 would have been a starting point for me to address issues - especially those that were still outstanding and another audit was not needed so early on in my new headship. An audit after 6 months would have been really useful but no so early on.

Audits are planned on a risk basis. This school had received an unsatisfactory audit review and therefore there was a need to revisit and ensure that controls had been improved. The need for the audit is not based on personnel but systems and internal controls in place.

The process was very long and did not take into account the size of the setting and therefore, although we agree with some of the action points, some of them are not practical. The final report was more severe than the oral feedback given. The process was time consuming, particularly since the auditor had to arrange further visits after completion of the initial audit. The initial audit was completed by the contractor and was not paid for.

A contractor had conducted the original audit. There were issues with the contractor. The school was kept informed of these but it is accepted that the experience could have been better for the school and there was an impact on school resources which if the contractor had delivered, would not have occurred.

I believe our audit was carried out February 22 - 24th. There was a considerable time lag before the draft report was received.

The only one that I have marked down as good was the timeliness of the report, however, I am aware this was out of your control. Overall, as this was my first audit and so I was entering into the unknown, I found the Auditor was extremely helpful and was very patient with my lack of knowledge.

Reprioritisation of audit work, has at times led to delays in completing projects and whilst this is communicated to customers at the time, it can be reflected in scores

X is pleased again to work with the Auditor whose professional, pleasant and helpful manner attribute to a good experience and a process easy to manage, We were happy to accept and put in place measures to comply with previous years recommendations and again happy that none this year were highlighted.

I would have preferred to have more choice about the timing of the completion of the audit.
It would be worth having a more comprehensive list of the document you require e.g. contracts for service providers.

Audits are planned on a risk basis and according to resources available in the team and with the client. It is not always possible to fully accommodate the client on the timing of the audit.

The Auditor does provide a note of the documents required but this can vary and change as the audit is completed and therefore cannot always be fully encompassing. In addition, sometimes the control is checking that documentation is readily accessible by the manager in the event of an issue arising, such as contract documentation, and therefore pre warning is not always appropriate.

It would have been helpful to have sight of the sample test sheet to enable accurate completion of the action plan so specific queries of the action plan could be addressed. Better still would be to address sample queries during the audit process as this could inform the recommendations more accurately.

The audit process allows for the samples to be reviewed as part of agreeing the draft report. Where evidence is provided that challenges audit findings, these are incorporated in the review and recommendations updated accordingly before a final report is produced.

Thank you very much for a thorough audit, we have put the recommendations in place and changed procedures where necessary. I would suggest that if you are not allowed to partially accept a recommendation, then this option should be removed from the audit response form. Many of our actions have been completed due to the introduction of parent pay (which we did point out during the audit) and as a school we are now completely cashless. Each educational establishment is different so there does need to be some consideration of procedure that work for a place in its context, as you would for any audit.

It may be a product of the Audit environment but in my opinion it is important to focus on the outcomes rather than measuring things for the sake of measurement. Notwithstanding this I found the Auditor to be extremely helpful in explaining his position and also in exhibiting a degree of flexibility and understanding what was important to the service area. I have already set out separately my significant concerns about some of the Council's back office services which in my opinion would benefit greatly from an audit and its processes appear to frustrate rather than facilitate effective outcomes.

Audit scopes are agreed with customers but have to reflect the risks of not providing a comprehensive service and the control objectives are therefore aligned to business risks. Nothing in an audit is measured 'for the sake of it'. Resources are scarce and have to be used in compliance with the PSAIS to deliver an effective audit service.

The audit findings were extremely constructive and will enable the Service to improve on existing controls and processes.

Thank you for providing this service in a timely manner to us again.

The Auditor was very polite and helpful in her approach to my tardiness in responding to the issues raised. She also appreciated the pressures the team is operating under, which, whilst not taking away from the objectivity of the report, I found reassuring and empathetic.

In the past 4 years I have worked with 4 different staff members from our Audit service. All 4 staff members have been professional and easy to communicate with. I find this service is helpful to ensure that our process are accurate and the information that is being submitted is correct. Thank you for a great working relationship.

AUDIT PLAN BY SERVICE – ANNUAL REPORT 2016/17

	Original Plan Days	Revised Plan Days	31 Mar 2017 Actuals	% Original Plan Achieved	% Revised Plan Achieved
CHIEF EXECUTIVE					
Governance	**38**	**30**	**15.7**	**41%**	**52%**
IT	**176**	**174**	**168.0**	**95%**	**97%**
Finance Governance & Assurance					
Finance Transactions	39	57	57.2	147%	100%
Finance and S151 Officer	60	57	77.9	130%	137%
Financial Management	18	19	14.1	78%	74%
Benefits	34	38	38.1	112%	100%
Risk Management and Business Continuity	13	11	10.0	77%	91%
Treasury	2	2	0.3	15%	15%
	166	**184**	**197.6**	**119%**	**107%**
Human Resources	**43**	**58**	**64.4**	**150%**	**111%**
Legal, Democratic & Strategic Planning					
Elections	8	10	10.0	125%	100%
Legal Services	13	9	9.1	70%	101%
	21	**19**	**19.1**	**91%**	**101%**
CHIEF EXECUTIVE	**444**	**465**	**464.8**	**105%**	**100%**
ADULT SERVICES					
Social Care Operations					
Long Term Support	79	97	84.3	107%	87%
Provider Services - Establishments	20	14	10.7	54%	76%
Provider Services - Comforts Funds	6	8	8.6	143%	108%
Provider Services - Trading Accounts	10	16	15.7	157%	98%
Housing Services	20	6	5.6	28%	93%
Short Term Support	0	5	2.3	0%	46%
	135	**146**	**127.2**	**94%**	**87%**
Social Care Efficiency and Improvement					
Development Support	**5**	**20**	**20.3**	**406%**	**102%**
ADULT SERVICES	**140**	**166**	**147.5**	**105%**	**89%**

	Original Plan Days	Revised Plan Days	31 Mar 2017 Actuals	% Original Plan Achieved	% Revised Plan Achieved
COMMISSIONING					
Library Services	5	9	8.8	176%	98%
Waste & Bereavement	14	14	13.8	99%	99%
Highways	20	37	35.3	177%	95%
Public Transport	0	8	3.0	0%	38%
Business & Enterprise	5	0	0.2	4%	0%
Development Management	14	16	16.2	116%	101%
Theatre Severn and OMH	0	8	14.4	0%	180%
Community Safety	15	10	4.1	27%	41%
Environmental Protection and Prevention	4	4	0.0	0%	0%
Procurement and Contract Management	25	27	36.2	145%	134%
COMMISSIONING	**102**	**133**	**132.0**	**129%**	**99%**
CHILDREN'S SERVICES					
Safeguarding					
Safeguarding	20	9	10.6	53%	118%
Children's Placement and Joint Adoption	38	41	38.6	102%	94%
	58	**50**	**49.2**	**85%**	**98%**
Learning and Skills					
Business Support	2	0	0.0	0%	0%
Education Improvements	14	19	19.0	136%	100%
Primary/Special Schools	128	108	117.0	91%	108%
Secondary Schools	20	26	25.9	130%	100%
	164	**153**	**161.9**	**99%**	**106%**
Learning Employment & Training	**10**	**9**	**8.8**	**88%**	**98%**
CHILDREN'S SERVICES	**232**	**212**	**219.9**	**95%**	**104%**
PUBLIC HEALTH					
Public Health	22	36	37.3	170%	104%
Customer Services	5	6	6.3	126%	105%
Shire Services	17	18	18.3	108%	102%
Property Services	23	16	20.7	90%	129%
PUBLIC HEALTH	**67**	**76**	**82.6**	**123%**	**109%**
Total Shropshire Council Planned Work	**985**	**1,052**	**1,046.8**	**106%**	**100%**

	Original Plan Days	Revised Plan Days	31 Mar 2017 Actuals	% Original Plan Achieved	% Revised Plan Achieved
CONTINGENCIES					
Advisory Contingency	40	19	24.3	61%	128%
Fraud Contingency	200	143	150.6	75%	105%
Unplanned Audit Contingency	45	55	56.6	126%	103%
Other non audit Chargeable Work	247	273	273.0	111%	100%
CONTINGENCIES	**532**	**490**	**504.5**	**95%**	**103%**
Total for Shropshire	**1,517**	**1,542**	**1,551.3**	**102%**	**101%**
EXTERNAL CLIENTS	**200**	**253**	**229.0**	**115%**	**91%**
Total Chargeable	**1,717**	**1,795**	**1,780.3**	**104%**	**99%**