



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
25 <sup>th</sup> February 2019	
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## DRAFT INTERNAL AUDIT ANNUAL PLAN 2019/20

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### 1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2019/20. The annual plan will provide coverage across all Council services and deliver internal audit services to a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan considers the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed before the plan is finalised; if significant, these will be agreed by the Section 151 Officer and reported to a future Audit Committee.

### 2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2019/20 and approve its adoption.

### REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

identified as being critical to the Council's operations will be reported and rectified where possible and viable.

- 3.2 Areas to be audited within the plan have been considered taking into account risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 The Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015 part 2. The latter sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘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.’

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

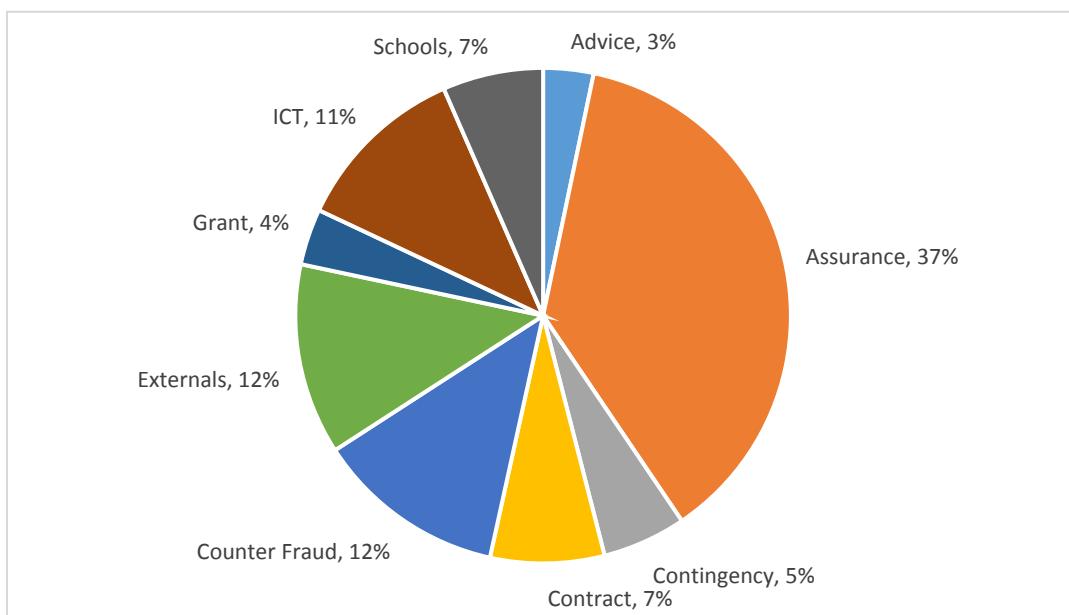
- 4.1 Costs associated with the proposed plan will be met from within the approved Internal Audit budget. The budget has been reduced to contribute savings to the Council and the impact of this has been considered when identifying audits for inclusion in the plan.

#### **5. Background**

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

- previous audit findings;
- opening and closure of establishments;
- comments from the external auditors on scope and coverage to ensure the work of Internal Audit does not duplicate that of the external auditor;
- Audit Committee terms of reference;
- increased partnership working or different delivery models for future service delivery;
- risks identified by the risk management process;
- budget deficits in relation to schools;
- large contracts likely to be undertaken; and
- assurances from services, internal governance and external parties.

- 5.4 Top risks facing councils continue to include pressures on finances and increasing demand on services; demands on social care functions continue to grow and with losing staff and experience elsewhere there is a risk that controls are cut increasing the risk of waste, losses and inefficiencies. Risks to be considered include: financial resilience; adult and children's social care funding gaps; workforce retention and stress management; alternative delivery models; supplier resilience and risk; cyber security; deprivation of liberty safeguards; affordable new homes; crime; fraud and business as usual. all of which have been considered when formulating the plan.
- 5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,600 days for Shropshire Council audit work and 228 days of work for external clients. These days are broken down by type in the chart below.



## Resources

- 5.6 The Internal Audit service has continued to see a rationalisation of resources at a time of significant increase in demand. The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. Whilst over time the Council will be reducing in size in terms of the services it delivers directly, the interim period continues to see the associated risks, and therefore areas requiring audit review, continue to increase. In

addition, because of the changing control environment, areas reviewed continue in part to attract lower assurance levels than previously. Follow up of these is a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.

- 5.7 The team has 12.7 full time equivalents and has retained a rich mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. However, the capacity of the team is restricted given that 4.6 FTE<sup>1</sup> post holders (36%) are new, vacant, trainees or yet to be in place. This has an impact on the remaining auditors in mentoring, coaching and supervising these staff, but the intention is to invest now for future succession planning of the team. Skills continue to be developed across the wider team and following budget cuts the ability to respond to demand during this period of change has been reduced by removing funding for external contractors. If demands require and funds are made available, the framework contract with Staffordshire County Council remains in place to accommodate such events.
- 5.8 The Audit Plan for 2019/20 based on a risk analysis identified approximately 1,705 days to review all high-risk areas. Review areas attracting a lower risk have not been considered in this year's planning process but if they were an estimated 4,304 days would be required. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate officer and member meetings, responding to legislation, s151 officer work requests, training etc.) amount to 1,828 days (162 days less than 2018/19) of which 228 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,600 days.
- 5.9 To match the plan to resources, it has been necessary to take out a few reviews identified as high priority, details of which appear at **Appendix B**. This appendix also includes areas highlighted by managers for inclusion in the plan that cannot be resourced in the current year. Contingencies for fraud, unplanned audits and advice, if not required in full this year, can be re-allocated and these higher priority reviews brought back into the plan.
- 5.10 In considering the plan for 2019/20 the key items to note are:
- Included in the plan are several fundamental systems expected to change with the introduction of the Enterprise Resource Planning (ERP) system. The Payroll system, which is of a high material value to the Council's operations, continues to be reviewed every year.
  - A separate risk based analysis of the IT audit areas has been conducted and assessments of applications, projects, developmental changes, new technology and follow ups in areas requiring improvements are planned. IT continues to form a significant part of the internal audit plan reflecting the Council's continuing reliance on technology and digital transformation requirements as services are redesigned.

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<sup>1</sup> Full time equivalent

- The fraud contingency is being maintained at 200 days; based on the current year experience and with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- Internal Audit will continue to request schools to complete a self-assessment process on a three-year basis. The Headteacher will be asked to share the self-assessment with both the Chair of Finance and Governors and seek their sign off to it. This approach will enable provision of a more rounded assessment of processes to support the s151 Officer's wider assurance of the school environment.

Establishment audits of schools will be based on the responses within self-assessments; follow a direct request from the Director of Children's Service or their nominated representative where there are known specific issues; where there is suspicion of wrong doing; where there are known concerns around the financial management of the school; or where a senior statutory officer raises concerns in respect of processes that need to be reviewed. Issues such as deficits; changes to the risk environment; non-return of SFVS (Schools Financial Value Standard) or self-assessments may also instigate a review.

In addition, a few school audits will be completed to verify the contents of the self-assessment returns. Cross cutting audits will also include school data in their sampling process. For example, payroll, creditors, imprest. to build upon the assurance process.

Therefore, with a mix of self-assessments, cross cutting reviews and targeted school audits, the necessary assurances can be demonstrated to satisfy the Section 151 Officer's requirements.

- Resources are allocated to provide internal audit services to external clients: Shropshire Fire and Rescue Service, Shropshire Towns and Rural Housing, Shropshire Pension Fund, West Mercia Energy, Oswestry Town Council and various honorary, voluntary and grant funds. In addition, audit time is allocated to review areas of significant risk which are being considered for transfer to other delivery models.
- Procurement and commissioning continue to be priority areas and, as such, there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council. A number of these will be met from the unplanned contingency as the specific business areas and timings become known.
- Discussions with senior managers have identified a few areas considered low risk, from an internal controls/ materiality perspective, where managers are receiving a mix of assurances from their systems, personnel and/or third parties on which they can place reliance. These areas are identified as part of **Appendix C** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly (first line of assurance) to Committee on these areas as appropriate.

- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is required for the benefit of the Council, external clients and the auditors. To reflect the number of Auditors new to the Council and in some cases Audit, the plan also allows for inclusion of review areas to support professional training course that based on risk alone would not be covered in the plan.
- 5.11 A copy of the draft plan for Shropshire Council and those of our external clients will be forwarded to the appropriate external auditors inviting their comments on coverage and to maximise any shared learning from each other's work.
- 5.12 Every effort has been made to include all key audit areas required in the plan. If other items are identified from discussions with colleagues from External Audit, or as knowledge becomes available from other sources, these will be agreed with the Section 151 Officer and reported to a future Audit Committee.

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

Audit universe and resources analysis

Public Sector Internal Audit Standards

CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition  
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** n/a

**Appendices**

Appendix A: Summary of Draft Internal Audit Plan by Service

Appendix B: Audit areas of high priority for which no provision is made in this year's Internal Audit plan and areas requested by managers for which no provision is made.

Appendix C: De Minimis Audit areas where managers will seek and provide any necessary assurance

**APPENDIX A****2019/20 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE**

	<b>Days</b>
<b>CHIEF EXECUTIVE</b>	
Governance	14
Finance, Governance and Assurance	293
Workforce and Transformation	213
Legal and Democratic	0
<b>Total Chief Executive</b>	<b>520</b>
<b>ADULT SERVICES</b>	
Social Care Operations	96
Social Care Efficiency and Improvement	0
Public Health	42
Public Protection	20
<b>Total Adult Services</b>	<b>158</b>
<b>PLACE AND ENTERPRISE</b>	
Culture and Heritage	79
Business Enterprise and Commercial Services	55
Economic Development	65
Infrastructure and Communities	111
<b>Total Commissioning</b>	<b>310</b>
<b>CHILDREN'S SERVICES</b>	
Safeguarding	85
Learning and Skills	167
<b>Total Children's Services</b>	<b>252</b>
<b>CONTINGENCIES</b>	
ICT Contingency	20
Advisory Contingency	40
Fraud Contingency	200
Unplanned Audit Contingency	100
Other non-audit chargeable work	534
<b>Total Contingencies</b>	<b>894</b>
<b>Total Shropshire Council</b>	<b>2,134</b>
<b>External Clients</b>	<b>228</b>
<b>Total Audit Plan</b>	<b>2,362</b>

## Appendix B

<b>2019/20 Audit areas of high priority for which no provision is made in this year's Internal Audit plan and areas requested by managers for which no provision is made – management assurances may be sought by the Committee</b>		
<p><b>Chief Executive</b> <b>Corporate Programme and Project mgt</b></p> <p><b>Finance, Governance and Assurance</b></p> <ul style="list-style-type: none"> <li>Income Collection</li> <li>PCI Compliance</li> <li>Budget Management and Control - Corporate</li> <li>Procurement Arrangements</li> <li>Social Enterprises</li> <li>Benefits Administration Grant</li> <li>Comino Document Management System Application</li> <li>Council Tax Collection</li> <li>Housing Benefits</li> <li>National Non-Domestic Rates (NNDR)</li> <li>Business Continuity and Disaster Recovery - non- IT</li> <li>Insurance</li> <li>Cash Offices - Regularity Audits</li> <li>Treasury Management</li> </ul> <p><b>Workforce and Development</b></p> <ul style="list-style-type: none"> <li>Communications</li> <li>Complaints and Compliments</li> <li>Credit Union Client</li> <li>Customer Service Points</li> <li>Apprenticeship Levy</li> <li>Diversity Arrangements</li> <li>Flexi/ Annualised Time System</li> <li>Holiday Pay HR</li> <li>Human Resources - JD's, PS's and Contracts, Leavers</li> <li>Guidance for PT Workers</li> <li>Human Resources / Workforce Planning</li> <li>Job Evaluation</li> <li>Lone Working Arrangements</li> <li>Mobile Working HR Policies</li> <li>Recruitment / redeployment arrangements</li> <li>Redundancy Process CR</li> <li>Salary Sacrifice Schemes (Childcare, AL etc)</li> <li>Sickness Management</li> <li>Teachers Pension Scheme</li> <li>Travel and Subsistence</li> <li>Database Access / Admin / Management</li> <li>Internet Controls</li> </ul>	<p><b>Chief Executive (cont.)</b></p> <p><b>Workforce and Development (cont.)</b></p> <ul style="list-style-type: none"> <li>Payroll - Self Service Facility</li> <li>Occupational Health</li> </ul> <p><b>Legal and Democratic</b></p> <ul style="list-style-type: none"> <li>Members Allowances</li> </ul> <p><b>Strategic Director of Place</b></p> <ul style="list-style-type: none"> <li>Arts Developments &amp; Grants</li> <li>Sports Development</li> <li>Recruitment &amp; Management of Volunteers</li> <li>Budget Management and Control - Shire Services</li> <li>External Catering Contracts</li> <li>Primary School Income Collection</li> <li>Secondary School Income Collection</li> <li>Corporate Landlord (Estate Management)</li> <li>Rent of Council Owned Property</li> <li>Smallholdings Estate</li> <li>Funding &amp; Programmes</li> <li>Management of Workshops &amp; Industrial Units</li> <li>Building Control</li> <li>Land Charges</li> <li>Planning</li> <li>Section 106 Agreements</li> <li>Historic Environment &amp; Listed Buildings</li> <li>Community Infrastructure Levy</li> <li>Flood Risk Management Arrangements</li> <li>Highways Development Control</li> <li>Highways Maintenance - Northern Area</li> <li>Highways Maintenance - Southern Area</li> <li>Highways Permits</li> <li>Highways Specialist Contracts</li> <li>Public Transport - Concession Fares</li> <li>NRSWA - Road Openings &amp; S278</li> <li>Section 38 Road Adoption</li> <li>Grey Fleet</li> <li>TOMS-ITU</li> <li>Property Repair and Maintenance</li> <li>Economic Growth Projects</li> <li>Economic Growth Strategy</li> </ul>	<p><b>Strategic Director of Children's Services</b></p> <ul style="list-style-type: none"> <li>Nursery Grants 3 to 5 years</li> <li>Monitoring of Schools Deficit/Surplus Budgets</li> <li>Sixth Form Schools Calculation</li> <li>Standards Fund</li> <li>Albrighton Primary School</li> <li>Inspire to Learn</li> <li>Assessments and looked after children</li> </ul> <p><b>Strategic Director of Adult Services</b></p> <ul style="list-style-type: none"> <li>Coroners and Mortuary Service</li> <li>Registrars Service</li> <li>Counter Terrorism Prevent Duty</li> <li>Drug and Alcohol Misuse Contract</li> <li>NHS Joint Funding Arrangements</li> <li>Contaminated Land</li> <li>Environmental Service</li> <li>Parking - Cash Collection</li> <li>Private Water Supplies</li> <li>Food Safety</li> <li>Refugee Action Grant</li> <li>Housing Rents Client Side</li> <li>Care assessments Adults and Children's</li> <li>Continuing Health Care Funding</li> <li>Greenacres Rural Unit</li> <li>Energy Grants</li> <li>Housing Strategy</li> <li>Purchasing Domiciliary, Residential and Nursing Care:</li> <li>Adults, ALD, Mental Health</li> <li>Sustainability and Transformation Plan (STP)</li> </ul>

2019/20 De Minimis Audit areas where managers may be requested by members to provide any necessary assurances		
Chief Executive	Strategic Director of Place	Strategic Director of Place
<p><b>Finance, Governance and Assurance</b></p> <p><b>Inventories Management</b></p> <p><b>Benefits Administration Grant</b></p> <p><b>Employee Authentication Service</b></p> <p><b>Legal and Democratic</b></p> <p><b>Register of Electors</b></p> <p><b>Workforce and Development</b></p> <p><b>Performance Management &amp; PI's</b></p> <p><b>Performance Plus Online Register</b></p> <p><b>Design Team</b></p> <p><b>Tell Us Once Processes</b></p> <p><b>Payroll - Self Service Facility</b></p> <p><b>ARIS</b></p> <p><b>Security Management and Cyber Response</b></p>	<p>Arts Developments &amp; Grants</p> <p>Idsall Sports Centre - Joint Use</p> <p>Positive Activities Projects - Youth Service</p> <p>Roman Road Sports Centre - Joint Use</p> <p>Countryside Access General</p> <p>Parks &amp; Countryside Sites General</p> <p>North Shropshire Countryside Rangers</p> <p>Arts Festivals &amp; Events</p> <p>Culture &amp; Leisure Business Development</p> <p>Culture &amp; Leisure Marketing and Performance</p> <p>Ludlow Museum &amp; Resource Centre</p> <p>Museum on the Move</p> <p>Museums &amp; Audience Development Grant</p> <p>Arrangements</p> <p>Records Management</p> <p>Shropshire Archives</p> <p>Cleaning DSO General Systems</p> <p>Cleaning Equipment Maintenance</p> <p>Internal Catering arrangements</p> <p>Shirehall Restaurant</p> <p>Carbon Management Plan</p> <p>Fishing and Sporting Rights</p> <p>Pump House</p> <p>Shirehall Lettings</p> <p>SLA's &amp; Invoicing Arrangements</p> <p>SMR - Sites &amp; Monuments Record</p> <p>Sustainability</p> <p>Economic Growth Strategy</p> <p>Datawright Planning Development</p> <p>One App Online Planning Portal Application</p> <p>PLUMS - Planning Policy Control</p> <p>Public access mapping server/e-planning</p> <p>Ecology &amp; Biodiversity</p> <p>Tree Safety</p> <p>AONB (Areas of Outstanding Natural Beauty) - Craven Arms</p> <p>Community Working</p> <p>Highways Land Search</p> <p>Land Drainage</p>	<p>Albrighton Library</p> <p>Bayston Hill Library</p> <p>Bishops Castle Library</p> <p>Bridgnorth Library</p> <p>Broseley Library</p> <p>Church Stretton Library</p> <p>Cleobury Mortimer Library</p> <p>Craven Arms Library</p> <p>Ellesmere Library</p> <p>Gobowen Library</p> <p>Highley Library</p> <p>Libraries General</p> <p>Library Fines &amp; Charges</p> <p>Library HQ</p> <p>Library Procurement through WM Consortium</p> <p>Library Stock Management &amp; Control</p> <p>Ludlow Library</p> <p>Market Drayton Library</p> <p>Much Wenlock Library</p> <p>Oswestry Library</p> <p>Pontesbury Library</p> <p>Schools Library service</p> <p>Shifnal Library</p> <p>Wem Library</p> <p>Whitchurch Library</p> <p>Community Transport Initiatives (SCOTI, OCTI ect)</p> <p>Local Bus Network</p> <p>Passenger Transport Efficiency Operations</p> <p>Public Transport - Publicity</p> <p>Surplus Seats</p> <p>Bio Digester</p> <p>Waste - Statistics &amp; Administration</p>

<b>2019/20 De Minimis Audit areas where managers may be requested by members to provide any necessary assurances</b>	
<b>Strategic Director of Children's Services</b>  Shropshire Youth - Central Administration The Gateway Education & Arts Centre Whitchurch Training Centre Chelmaren Comforts Fund Haven Brook Comfort Fund Shropshire Children's Trust Multi Agency Teams School Census Shropshire Music Service Surestart	<b>Strategic Director of Adult Services</b>  Regulation of Investigatory Powers Act (RIPA) Fair Trading & Education Domestic Abuse Management & Control of CCTV Operations Road Safety Contaminated Land Environmental Enforcement & Byelaws Animal Health & Welfare Occupational Therapy Supporting People Personal Allowances Shropshire Partners in Care (SPIC) Social Care & Health Training Avalon Comforts Fund Four Rivers Nursing Home Comforts Fund Helena Lane / Friars Walk Day Centre Comforts Fund Wayfarers Comforts Fund Abbots Wood Day Opportunities Greenacres Rural Unit Trading Account