



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
27 June 2019	
13:30pm	<u>Public</u>

INTERNAL AUDIT ANNUAL REPORT 2018/19

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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 2019. 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 more than the 90% delivery target, in compliance with the Public Sector Internal Audit Standards and to the satisfaction of customers. Forty-two good and reasonable assurances were made in the year accounting for 67% 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.

Based on the Internal Audit work undertaken and management responses received; I can offer **reasonable assurance** for the 2018/19 year that the Council's framework for governance, risk management and internal control is sound and working effectively.

Generally, risks are well managed but some areas require the introduction of, compliance with or improvement to internal controls to ensure the achievement of the Council's objectives. 2018/19 has been a challenging year given the level of key fundamental line of business system changes delivered (social care, customer services, financial and human resources) and the embedding of these continues. Alongside the challenge to deliver savings and increase income (Commercial and Digital Transformation).

2. Recommendations

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

- a) Performance against the Audit Plan for the year ended 31 March 2019.

- 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 2018/19.
- c) The Head of Audit's **reasonable assurance**, year end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2018/19 based on 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, poor value for money and reputational damage.
- 3.2 Internal Audit operates a strategic risk based plan. 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 recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 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 2018/19 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 Director of Finance, Governance and Assurance (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 plan 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.

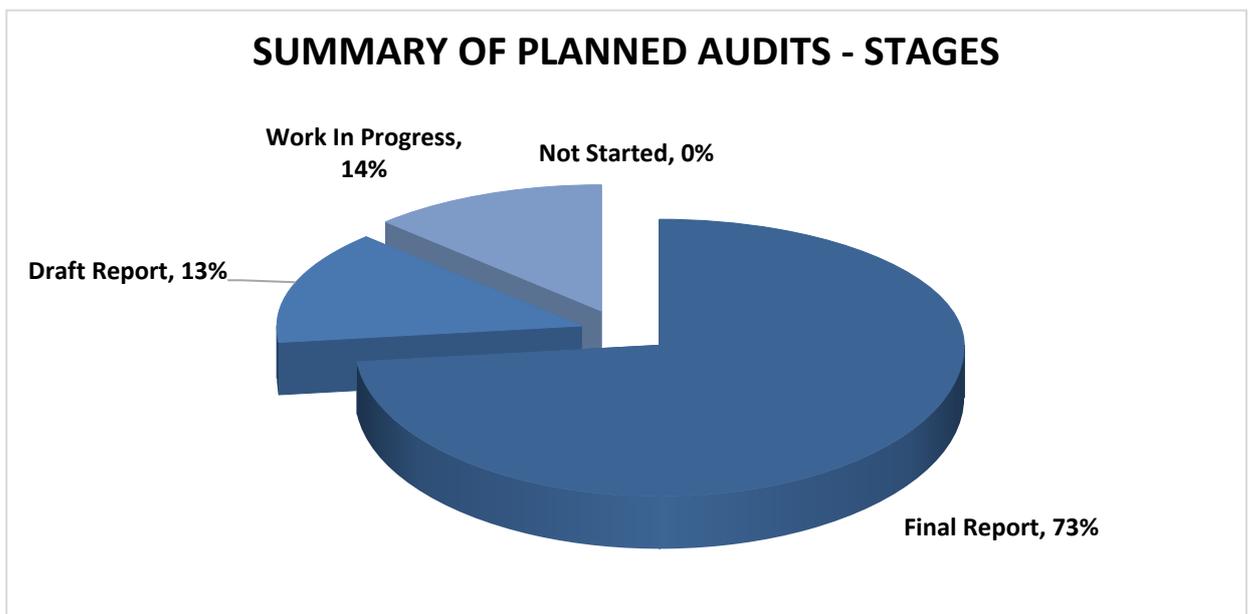
Scope and purpose of Internal Audit

- 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 2018/19 was considered and approved by Audit Committee at its meeting on the 1 March 2018. The Plan provided for a total of 2,256 days. Revisions throughout the year to reflect changing risks and resources were reported to Audit Committee and the plan revised to a target of 1,710 days. Revisions were necessary following adjustments in risk, more complex and sensitive reviews, a continuing reduction in resources and delivery of additional work for external clients.

- 5.7 The Head of Audit can confirm that the service has been free from interference throughout the year. Final performance has been good and the target to deliver 90% of the annual plan has been achieved. **Appendix A, Table 1.**
- 5.8 The audit findings and performance of audit have been set out in summary reports which have been presented to the Audit Committee during the year. In total 63 final reports have been issued in 2018/19. These are listed with their assurance rating and broken down by service area at **Appendix A, Table 2.**
- 5.9 The following chart shows performance against the approved Internal Audit Plan for 2018/19:

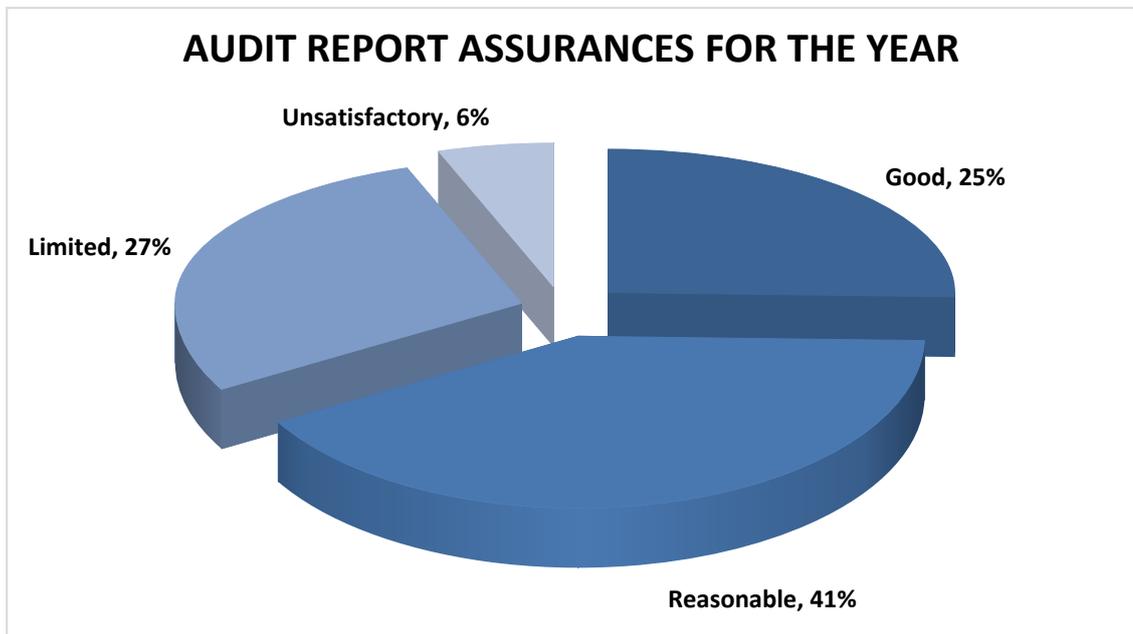


- 5.10 The following tables compare the assurance levels (where given) and categorisation of recommendations made at the Council to demonstrate a direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2018/19	26%	41%	27%	6%	100%
2017/18	20%	44%	29%	7%	100%
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%

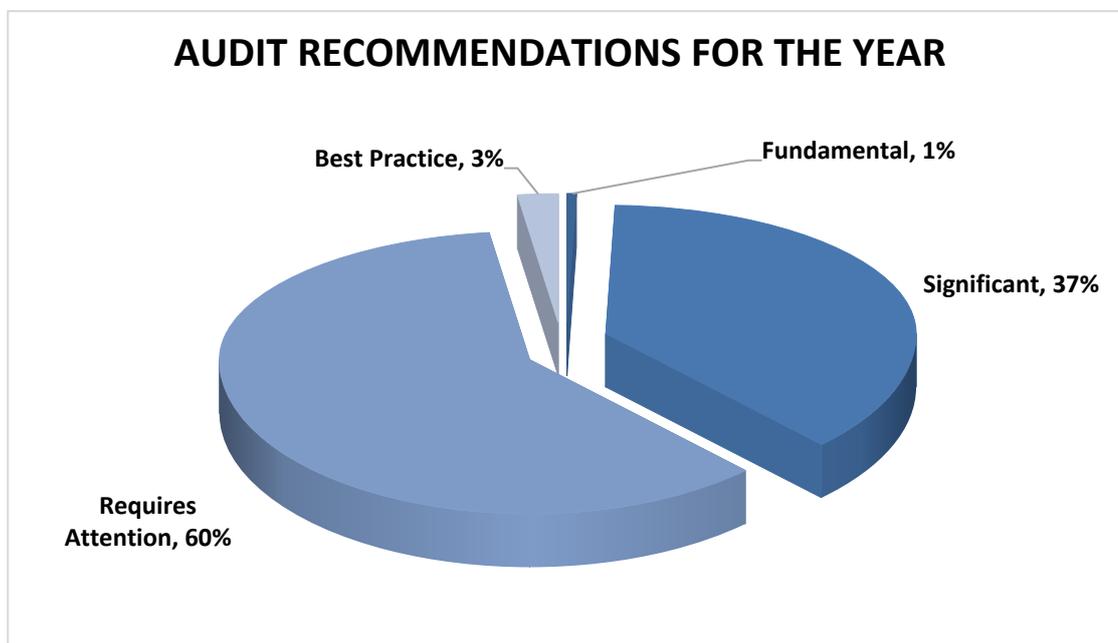
The assurance levels awarded to each completed audit area for 2018/19 appear in the following graph:



Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2018/19	2%	60%	37%	1%	100%
2017/18	3%	56%	41%	0%	100%
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%

The overall spread of recommendations agreed with management following each audit review for 2018/19 appear in the attached graph:



- 5.11 Forty-two good and reasonable assurances were made in the year accounting for 67% 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. Four unsatisfactory opinions and 17 limited assurance opinions were issued.
- 5.12 Further consideration of the assurance levels of completed audits shows:
- No limitations have been placed on the scope of the audit.
 - The Council has seen the implementation of fundamental line of business systems within social care, customer services, finance and human resources. In addition, IT infrastructure changes have been necessary to support the business in this transition. These systems are in their infancy and full systems audits have not been conducted.
 - Nineteen¹ 'high' risk systems within the Council attracted a good or reasonable level of assurance and eight limited or unsatisfactory.
 - The scope of all audit reviews for fundamental financial systems was limited to providing assurance on controls relevant to the current year accounts and did not look at the full control environment given the move to new systems at year end, this may impact on the assurances provided. The payroll, risk management and four² of the fundamental audit assurance levels are good or reasonable, through which a significant amount of the Council's financial business is transacted. These results are set against limited assurance levels in two³ of the fundamental systems and one⁴ unsatisfactory. There are known issues in these lower assurance level audits with plans to address them in the new finance systems. The system implementation was delayed and as a result some of the controls were not established by year end due to the timing issues.
 - Improvements in Estate Management led to an assurance leap from unsatisfactory to good, this also addressed a fundamental recommendation raised in their 2017/18 audit.
 - Unsatisfactory assurance reviews demonstrated non-compliance with procurement processes; a need to improve grant processes; a low level of confidence that income targets were going to be met in key areas and the need to clarify and deliver against business cases for commercial services. All findings were supported by management and wider consultancy and advisory work reiterated the need for improvements in these areas.
 - Fundamental recommendations were implemented and none rejected by management.
 - An employee survey has provided information on the culture of the Council and demonstrated that an ethical framework is happening within the Council, however it is not working across all areas and is not fully embedded and integrated.
 - Observations from consultancy and advisory work provided;
 - Confidence in the delivery of the Digital Transformation Programme
 - Support to the ICT Governance Approvals Board and exposure to proposed system changes
 - Control improvements in respect of grants to market towns

¹ Figures exclude draft reports completed in 2019/20.

² Housing Benefits and Treasury Management. Corporate Governance and General Ledger in draft (N.B. not all fundamental systems are reviewed every year)

³ Purchase and Sales Ledger

⁴ Debt Recovery

- Awareness of fundamental procurement issues in isolated areas of the Council
- Information on the governance and internal control environment in maintained schools
- Confidence in the delivery of a few small IT based projects within services
- Awareness of the financial stability of several Council suppliers and the need for business continuity processes in a few cases where there were concerns

- 5.13 Given the overall impact of the points above, the Head of Audit can offer reasonable assurance for the 2018/19 year end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively
- 5.14 Work has also been completed for external clients including honorary and voluntary bodies in addition to the drafting and auditing of financial statements.
- 5.15 A summary of the reviews resulting in limited and unsatisfactory assurances since the last report, in February 2019 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**.

Audit Committee are asked to advise what action they wish to follow in relation to the limited and unsatisfactory areas reported?

- 5.16 A total of 519 recommendations have been made in the 63 final audit reports issued in the year; these are broken down by audit area and appear at **Appendix A, Table 7**.
- 5.17 The number of fundamental recommendations has remained static at three; overall this represents 1% of the total number of recommendations made. Fundamental recommendations were made on the following audits:
- **Environmental Maintenance Grants**
 - **Commercial Strategy and Plans**
 - **Inspire to Learn**

Some control improvements are reported as implemented, others are underway but delayed due to management decisions and associated resourcing issues. Where delays are experienced after a revised implementation date, this will be reported to the Audit Committee.

The percentage of significant and fundamental recommendations has decreased slightly from 41% to 38% compared to last year with a corresponding increase in requires attention and best practice recommendations.

- 5.18 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 8 sets out the approach adopted to following up recommendations** highlighting Audit Committees involvement.
- 5.19 Two recommendations, equivalent to less than 1% of all recommendations made, have been rejected by management. Both recommendations have been discussed with the managers concerned.

- 5.20 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 and will be reported to Audit Committee. There are none since the last report in February 2019.
- 5.21 During 2018/19, Internal Audit continued to facilitate work on the National Fraud Initiative (NFI). This involved supplying data to the Cabinet Office for matching purposes, the results of which will be reported to a later committee.
- 5.22 In the current year, several 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:
- Appointeeships/ court of protection and deputyships
 - Children's direct payments
 - Debt recovery
 - Flexi/ annualised hours
 - Housing benefits
 - Income collection
 - Licensing
 - Payroll
 - Primary school income collection
 - Procurement cards
 - Purchase ledger
 - Sales ledger
 - Secondary school income collection
 - Treasury management
- 5.23 The above were further supported by learning following individual investigations. Where internal control weaknesses have been identified, results are reported in a management report and recommendations made and agreed 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 since the last report include:
- Advice to:
 - Adult Services on managing their financial accounts;
 - Property Services regarding invoice processing on their IT system.
 - Consultation on internal controls in respect of CONTRACC a batch control process transferring files from the social care to the finance payment systems.
 - Various IT security advice including: Whatsapp security and corporate use advice; Unit 4⁵ security concerns and information security policies.

⁵ Recruitment software

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, **Table 11 shows opinion criteria.**
- 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 2019;
 - Results of Corporate Governance (reasonable assurance) and Risk Management (good assurance) reviews;
 - 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;
 - If 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.

Based on the Internal Audit work undertaken and management responses received; I can offer reasonable assurance for the 2018/19 year that the Council's framework for governance, risk management and internal control is sound and working effectively.

Generally, risks are well managed but some areas require the introduction of, compliance with or improvement to internal controls to ensure the achievement of the Council's objectives. 2018/19 has been a challenging year given the level of key fundamental line of business system changes delivered (social care, customer services, financial and human resources) and the embedding of these continues. Alongside the challenge to deliver savings and increase income (Commercial and Digital Transformation).

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 2018/19	Actual 2018/19
Percentage of revised plan delivered	90%	100%
Compliance with Public Sector Internal Audit Standards	Compliant	Compliant
Percentage of customers satisfied overall with the service	80%	88%

- 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 (QAIP) 2018/19. In addition, an external assessment conducted by CIPFA and reported on to a February 2017 meeting of this Committee demonstrated compliance with the PSIAS, the external assessment will be repeated in five years.
- 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 Customers are asked for feedback on their audit experience after most audit reviews. Feedback is provided on the quality of the service and helps to ensure that audit work

meets client expectations and the quality of audit work is maintained. The percentages of excellent and good responses for the last three years are detailed in **Appendix A, Table 9**.

- 5.33 Part way through the year customer surveys were moved to an electronic facility. This has seen a reduction in surveys received. The percentage of customers scoring the service as high or excellent has decreased slightly (90 to 88%). Given the current climate where there are a few reviews reporting reduced assurances and a significant reduction in resources for both Internal Audit and our customers starting to impact on services, the overall result remains a positive reflection of the service. That said where individual ratings are low, we do value the opportunity to explore the reasons for these and talk to the customer to identify the key issues and aim to improve on them.
- 5.34 During the last year several compliments and comments have been received in respect of the service from both questionnaires and directly, these appear at **Appendix A, Table 10**. Most comments have been very positive reflecting the hard work the team devote to establishing a good professional relationship with clients. All other comments are followed up with the author to identify where lessons can be learnt and improvements made.
- 5.35 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.
- 5.36 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.
- 5.37 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

- 5.38 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

- 5.39 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.

- 5.40 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.
- 5.41 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 few reports. Examples of audit work and remedial action that have been scrutinised by the Audit Committee include reports on strategic risks; estates; adult social care financial assessments; IT and digital transformation updates.

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 2018/19 - Audit Committee March 2018
 Internal Audit Plan 2018/19 – Performance Report - Audit Committee September 2018
 Internal Audit Plan 2017/18 – Performance Report - Audit Committee December 2018
 Internal Audit Plan 2017/18 – Performance Report - Audit Committee February 2019
 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 2018/19
 Table 2: Final audit report assurance opinions issued in 2018/19
 Table 3: Audit opinion and recommendations made on fundamental systems 2018/19
 Table 4: Unsatisfactory and limited assurance opinions since February 2019 listed by service area
 Table 5: Audit assurance opinions
 Table 6: Audit recommendation categories
 Table 7: Audit recommendations made in 2018/19
 Table 8: Recommendation follow up process (risk based)
 Table 9: Customer Feedback Survey Forms
 Table 10: Summary of compliments and comments 2018/19
 Table 11: The principles and assurance criteria applied to the Head of Audit's opinion

Appendix B - Audit plan by service – annual report 2018/19

Table 1: Summary of actual audit days delivered against plan 2018/19

	Original Plan	Revised Plan	March Actual	% of Original Complete	% of Revised Complete
Chief Executive	707	529	491.9	70%	93%
Finance, Governance and Assurance	392	264	251.0	64%	95%
Governance	30	20	13.5	45%	68%
Workforce and Transformation	257	209	199.4	78%	95%
Legal and Democratic	28	36	28.0	100%	78%
Adult Services	172	58	43.9	26%	76%
Place and Enterprise	342	227	221.6	65%	98%
Children's Services	173	88	92.6	54%	105%
Public Health	70	55	49.4	71%	90%
S151 Planned Audit	1,464	957	889.4	61%	94%
Contingencies and other chargeable work	566	524	551.1	97%	105%
Total S151 Audit	2,030	1,481	1,450.5	71%	98%
External Clients	226	229	263	116%	115%
Total	2,256	1,710	1,713.5	76%	100%

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

Table 2: Final audit report assurance opinions issued in 2018/19

Summary

Audits 2018 / 19	Assurance	%	Direction of travel	Audits 2017/18	%	Audits 2016/17	%
16	Good	26	↑	22	20	7	7
26	Reasonable	41	↓	48	44	44	45
42	Sub total	67	↑	70	64	51	52
17	Limited	27	↓	32	29	30	31
4	Unsatisfactory	6	↔	8	7	16	17
21	Sub total	33	↓	40	36	46	48
63	Overall total	100		110	100	97	100

Full details

	Audit	Assurance
1	PFI 2017/18	Good
2	Broadband Contract 2017/18	Good
3	Estate Management	Good
4	Strengthening Families Grant - June 2018 Claim	Good
5	Strengthening Families Grant – September 2018 Claim	Good
6	Strengthening Families Grant - December 2018 Claim	Good
7	Strengthening Families Grant – March 2019 Claim	Good
8	Academy Exit Process	Good
9	Domestic Abuse	Good
10	Risk Management	Good
11	Housing Benefits	Good
12	Treasury Management	Good
13	Payroll System 2017/18	Good
14	ICT Governance / Approvals	Good
15	IT Change Management	Good
16	Wide area network	Good
17	Section 106 Agreements	Reasonable
18	Voluntary Car Scheme	Reasonable
19	Community Car Scheme	Reasonable
20	Highways Permits	Reasonable
21	Primary School Income Collection	Reasonable
22	Secondary School Income Collection	Reasonable
23	Highley Primary School 2017/18	Reasonable
24	Strengthening Families Grant - July 2018 Claim	Reasonable
25	Strengthening Families Grant – October 2018 Claim	Reasonable
26	Strengthening Families Grant - January 2019 Claim	Reasonable
27	Parking - Enforcement and Issue of NTOs and Fixed Penalty Notices 2017/18	Reasonable
28	Public Health Contracts 2017/18	Reasonable
29	Capital - Management and Monitoring 2017/18	Reasonable
30	Procurement Cards	Reasonable
31	VAT	Reasonable
32	Digital Customer Services Design Phase 2017/18	Reasonable
33	Mobile Devices - Phones and Tablets Including Billing 2017/18	Reasonable
34	ITIL	Reasonable
35	Skype	Reasonable
36	Flexi/Annualised Hours System	Reasonable
37	Customer First Points (IT)	Reasonable
38	ICT Procurement / Contracts Manager	Reasonable
39	Ivanti Service Desk	Reasonable
40	SCCM (System Centre Configuration Manager)	Reasonable
41	Wireless Networking	Reasonable
42	Website Management	Reasonable
43	Appointeeships / Court of Protection and Deputyships 2017/18	Limited
44	Perthyn Contract	Limited
45	Liquid Logic Project Review Adults	Limited
46	Community Infrastructure Levy	Limited
47	Section 38 Road Adoption	Limited
48	Transport Operations Group	Limited

	Audit	Assurance
49	Local Enterprise Partnership	Limited
50	Corvedale CE Primary School 2017/18	Limited
51	Children's Direct Payments	Limited
52	Registrars Service	Limited
53	Licensing	Limited
54	Sales Ledger 2017/18	Limited
55	Enterprise Resource Planning (ERP) Project Governance Review of the ERP Build Phase	Limited
56	Wireless Networking 2017/18	Limited
57	Ludlow Customer Service Point Cash Regularity Audit	Limited
58	Customer Service Points	Limited
59	Internet Security Follow up	Limited
60	Environmental Maintenance Grants	Unsatisfactory / Fundamental recommendation
61	Theatre Severn Chip & Pin	Unsatisfactory
62	Commercial Strategy and Plans	Unsatisfactory / Fundamental recommendation
63	Inspire to Learn	Unsatisfactory / Fundamental recommendation

Key

Text in blue	High risk from an audit perspective
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Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	7	14	6	0	27
Finance, Governance and Assurance	3	3	2	0	8
Governance	0	0	0	0	0
Workforce and Transformation	4	11	4	0	19
Legal and Democratic	0	0	0	0	0
Adult Services	1	0	3	0	4
Place and Enterprise	2	6	4	3	15
Children's Services	5	4	2	1	12
Children's Services: Schools	0	1	1	0	2
Children's Services: Others	5	3	1	1	10
Public Health	1	2	2	0	5
Total for 2018/19					
➤ Numbers	16	26	17	4	63
➤ Percentage	26%	41%	27%	6%	100%
Percentage 2017/18	20%	44%	29%	7%	100%
Percentage 2016/17	7%	45%	31%	17%	100%
Percentage 2015/16	14%	35%	42%	9%	100%
Percentage 2014/15	17%	47%	28%	8%	100%

Table 3: Audit opinion and recommendations made on fundamental systems 2018/19

Fundamental system	Direction of travel	Level of assurance given
Corporate Governance (draft)	↓	Reasonable
Debt Recovery (draft)	=	Unsatisfactory
Purchase Ledger (draft)	↓	Limited
Capital Management	↓	Reasonable
General Ledger (draft)	=	Reasonable
Treasury Management	=	Good
Sales Ledger (draft)	↑	Reasonable
Payroll System (draft)	=	Good
Risk Management	=	Good
Income Collection (draft)	=	Reasonable
Housing Benefits	=	Good

Table 4: Unsatisfactory and limited assurance opinions since February 2019 listed by service area⁶**Unsatisfactory assurance****Children's Services - Inspire to Learn (2017/18 audit unsatisfactory)**

- Previous Audit recommendations have been implemented.
- An approved Business Case is in place.
- Resources are available to ensure that services can meet their objectives as set out in the Business Case.
- Risks to services, the Council and the customers have been identified.
- Reporting arrangements and performance measurements are in place.

Limited assurance**Adult Services – Liquid Logic Project Review (Adults)**

- Shropshire Council has formally accepted the build of the new system based on previously agreed service design documents.
- Data Privacy, Security, Business Continuity, Disaster Recovery have been agreed and built into the system
- Interfaces have been built and responsibilities have been formally defined.
- Testing has been undertaken covering all elements of the workflow, configuration, administration and integrations

Children's Services – Children's Direct Payments

- Previous audit recommendations have been implemented.
- Contractual agreements are in place between all parties involved in the scheme.
- Expenditure by Service Users is monitored on a regular basis and the recovery of monies made where appropriate.

⁶ 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.

- Satisfactory arrangements are in place to make accurate payments to Service Users.
- Management information is produced on a regular basis and is subject to independent review in a timely manner.
- Electronically held data is secure and can be restored in the event of IT failure.

Place and Enterprise – Local Enterprise Partnership (2017/18 audit limited)

- To ensure that the recommendations made in the 2017/18 audit have been implemented as agreed in the following areas:
 - a) The recommendations made in the 2016/17 audit had been implemented.
 - b) There are procedures to ensure that the grant income is correctly administered.
 - c) There are adequate performance and project management arrangements.

Public Health – Licensing (2015/16 audit limited)

- The system is operated in accordance with up to date policies, procedures, Financial Rules, statutory regulations and legislation, to which relevant staff have access.
- All income due is identified, collected, receipted and banked promptly into nominated accounts.
- Upon revocation or expiry all plates and licences are recovered.
- Management information is produced on a regular basis and is subject to independent review in a timely manner.
- There are appropriate arrangements in place for the prevention and detection of fraud. Suspected or attempted fraudulent activity is investigated and action taken where appropriate.

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	Addressing a minor control weakness or housekeeping issue.

Attention (RA)	
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 2018/19

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	7	152	60	0	219
Finance, Governance and Assurance	0	48	27	0	75
Governance	0	0	0	0	0
Workforce and Transformation	7	104	33	0	144
Legal and Democratic	0	0	0	0	0
Adult Services	2	19	25	0	46
Place and Enterprise	1	88	54	2	145
Children's Services	3	29	42	1	75
Children's Services: Schools	3	17	23	0	43
Children's Services: Others	0	12	19	1	32
Public Health	0	22	12	0	34
Total for 2018/19					
➤ Numbers	13	310	193	3	519
➤ Percentage	2%	60%	37%	1%	100%
Percentage 2017/18	3%	56%	41%	0%	100%
Percentage 2016/17	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%	0%	100%

Table 8: Recommendation follow up process (risk based)

When recommendations are agreed the responsibility for implementation rests with management. There are four categories of recommendation: fundamental, significant, requires attention and best practice and there are four assurance levels given to audits: unsatisfactory, limited, reasonable and good.

The process for *fundamental recommendations* will continue to be progressed within the agreed time frame with the lead Director being asked to confirm implementation. Audit will conduct testing, either specifically on the recommendation or as part of a re-audit of the whole system. Please note that all agreed fundamental recommendations will continue to be reported to Audit Committee. Fundamental recommendations not implemented after the agreed date, plus one revision to that date where required, will in discussion with the Section 151 Officer be reported to Audit Committee for consideration.

Table 9: Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2016/ 2017	2017/ 2018	2018/ 2019	Direction of Travel
Pre-audit arrangements	84%	87%	88%	↑
Post-audit briefing	84%	88%	88%	↔
Audit coverage/scope of the audit	81%	89%	83%	↓
Timeliness of production of report	83%	92%	86%	↓
Accuracy and clarity of report	85%	89%	89%	↔
Practicality of recommendations	78%	82%	82%	↔
Professionalism of approach	95%	95%	95%	↔
Communication skills	95%	98%	97%	↓
Timeliness, competence, manner	85%	88%	88%	↔
Number of forms returned	60	56	28	↓
% of forms scored as excellent and good	89%	90%	88%	↓

Table 10: Summary of compliments and comments 2018/19**Compliments⁷**

I would just like to extend our thanks to the Auditor for completing such a thorough audit which enabled us to look at all aspects of our management and recording of agreements. Thanks also for the lovely friendly manner and for accommodating our workloads when requesting information/documents etc. This greatly assisted in making this a relatively stress-free process. Many thanks.

Not a suggestion of how to make things better but a point I'd like to make, the Auditor is always excellent to work with as he has an extraordinary understanding of the service; he is a genuine asset to Shropshire Council and we're incredibly grateful for his commitment and support. In terms of supporting us to work differently, a huge amount of credit must be given to his willingness to discuss the issues at length. The team were, shall we say, disillusioned with some of the functions and the audit process - so re-engaging them was key to our change in fortunes and the Auditor's support was instrumental in this. Simply taking the time to work with me as their new manager and explain the benefits / issues of some of the work (sometimes repeatedly) really made a difference. Thank you.

I have been very pleased with the service received. The auditor and her line manager were very helpful and accommodating as well as informative. The process was lengthy however this isn't a criticism of the audit team, it was reliance on another team assisting and therefore beyond the control of the auditor but highlights the capacity issues within services.

⁷ Depersonalised for public reporting

Pre audit advice for this audit was invaluable for me. The pointers given really helped to ensure sound processes and testing were being put in place.

Whilst I was not available for a period when the audit was being undertaken I have requested feedback from my staff who were in contact with the Auditor. It has to be noted that in all communications the Auditor was extremely helpful and supportive in requesting further clarification whilst conducting the audit.

The service has an interesting history with Audit, one that I would not say was perfect. This was, in my opinion, not down to anyone or a particular side but a lack of investment which created some fairly difficult issues to address. Fortunately, this has now been overcome and thanks to the support of colleagues in Audit things are looking much better. Of particular note for me this year is the Auditor's continued support and excellent oversight and input. Also, the openness with which the Auditors worked with us - particularly when we have challenged some of their findings - has been exemplary. As a result of this good working relationship, we hold the audit findings and process in high-regard and would recommend working with our internal team to anyone. Thank you

The audit was a positive experience from my perspective as there was minimal interruption from the Auditor. She went out of her way to avoid disruption to the business by being organised, professional and getting the audit completed in a timely manner.

Comments

Perhaps it should be a wider audit, rather than a specific function.

I mentioned in the pre-audit brief that our external school sites should be included in the scope of the audit but rarely do. The auditor said that he could only choose schools that were within a 9km radius or something along those lines - considering half our business now takes place outside of Shropshire this rather narrows down the sites that are selected to be used in any sample. It would be useful to our service if these sites could be considered in future audits.

Turned up on site for two days without agreeing in advance with team. Documentation submitted in a timely fashion from the team who heard nothing for months. Audit should have been completed before Christmas only just received the report today 5 Feb 2019.

Table 11: The principles and assurance criteria applied to the Head of Audit's opinion:

Principles applied to the opinion:

1. Authentic: Opinions are fair, reliable and honest
2. Transparent: Opinions are qualified with evidence or professional judgement
3. Strategic: Macro level information without undue detail
4. Insightful: Information is engaging and generates discussion
5. Resolute: Opinion is delivered with courage and conviction

Assurance criteria applied:

Opinion	Indication of when this type of opinion may be given**	Traditional
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		Opinion
Substantial	Limited number of medium risk related weaknesses identified but generally only low risk rated weaknesses have been found in individual assignments/ observations. No one area is classified as high or/ critical risk	Unqualified
Reasonable	Medium risk rated weakness identified in individual assignments/ observations that are not significant in aggregate to the system of governance, risk management or control. High risk rated weaknesses identified in individual assignments/ observations that are isolated to specific systems, processes and services None of the individual assignment reports/ observations have an overall high or critical risk	
Limited	Medium risk related weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected and/or High risk rated weaknesses identified in individual assignments/ observations that are significant in aggregate but discrete parts of the system of internal control remain unaffected, and/or Critical risk rated weaknesses identified in individual assignments/ observations that are not widespread to the system of internal control, and More than a minority of the individual assignment reports/ observations may have an overall report classification or rating of high or critical risk	
No Assurance	High risk rated weaknesses identified in individual assignments/ observations that in aggregate are widespread to the system of internal control and/or Critical risk rated weaknesses identified in individual assignments/ observations that are widespread to the system of internal control or More than a minority of the individual assignment reports/ observations have an overall report classification of either high or critical risk Lack of management action to deliver improvements, may be identified by repeating recommendations of a high or critical risk	Qualified
Disclaimer	An opinion cannot be issued because insufficient internal audit work has been completed due to either: -restrictions in the agreed audit programme, which means that audit work would not provide sufficient evidence to	Qualified

	conclude on the adequacy and effectiveness of governance, risk management and control, or - unable to complete enough reviews and gather sufficient evidence to conclude on the adequacy of arrangements for governance, risk management and control	
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** Indicators refer not only to Internal Audit reviews, but wider assurance providers and intelligence from across the business that is evidenced, an example would be peer reviews.

AUDIT PLAN BY SERVICE – ANNUAL REPORT 2018/19

	Original Plan Days	Revised Plan Days	31st March 2019 Actual	% Original Plan Achieved	% Revised Plan Achieved
CHIEF EXECUTIVE					
Governance	30	20	13.5	45%	68%
Finance Governance & Assurance					
Finance Transactions	108	63	62.5	58%	99%
Finance and S151 Officer	101	52	35.1	35%	68%
Financial Management	70	56	59.3	85%	106%
Revenues and Benefits	20	12	12.3	62%	103%
Treasury	24	16	16.1	67%	101%
	392	264	251.0	64%	95%
Workforce and Transformation					
Human Resources	97	56	58.4	60%	104%
Customer Services	13	13	13.1	101%	101%
ICT	147	140	127.9	87%	91%
	257	209	199.4	78%	95%
Legal and Democratic					
Information Governance	8	26	15.3	191%	59%
Legal Services	20	10	12.7	64%	127%
	28	36	28.0	100%	78%
CHIEF EXECUTIVE	707	529	491.9	70%	93%
ADULT SERVICES					
Social Care Operations					
Long Term Support	96	47	31.2	33%	66%
Assistive Services	8	0	0.0	0%	0%
Provider Services - Group Homes	8	7	7.4	93%	106%
Housing Services	28	4	5.3	19%	133%
	140	58	43.9	31%	76%
Social Care Efficiency and Improvement					
Developmental Support	32	0	0.0	0%	0%
ADULT SERVICES	172	58	43.9	26%	76%
PLACE AND ENTERPRISE					

	Original Plan Days	Revised Plan Days	31st March 2019 Actual	% Original Plan Achieved	% Revised Plan Achieved
Director of Place and Enterprise					
Corporate Performance Management	0	2	1.7	0%	85%
Business, Enterprise and Commercial Services					
Commercial Services	8	11	11.3	141%	103%
Shire Services	25	12	12.0	48%	100%
Strategic Asset Services	64	26	18.3	29%	70%
	97	49	41.6	43%	85%
Economic Development					
Business & Enterprise	29	15	16.1	56%	107%
Development Management	24	13	13.2	55%	102%
Planning & Corporate Policy	16	42	42.5	266%	101%
Project Development	17	4	4.0	24%	100%
	86	74	75.8	88%	102%
Infrastructure and Communities					
Highways	65	49	49.7	76%	101%
Environmental Maintenance	0	6	5.8	0%	97%
Library Services	4	0	0.0	0%	0%
Public Transport	48	30	29.5	61%	98%
Waste & Bereavement	24	0	0.0	0%	0%
	141	85	85.0	60%	100%
Culture and Heritage					
Theatre Severn and OMH	10	17	17.5	175%	103%
Leisure Services	8	0	0.0	0%	0%
	18	17	17.5	97%	103%
PLACE AND ENTERPRISE	342	227	221.6	65%	98%
CHILDREN'S SERVICES					
Safeguarding					
Children's Placement Services & Joint Adoption	36	20	18.7	52%	94%
Safeguarding	6	16	16.7	278%	104%
	42	36	35.4	84%	98%
Education, Improvement and Efficiency					
Education Improvements	50	12	12.2	24%	102%

	Original Plan Days	Revised Plan Days	31st March 2019 Actual	% Original Plan Achieved	% Revised Plan Achieved
Primary/Special Schools	54	40	45.0	83%	113%
Secondary Schools	27	0	0.0	0%	0%
	131	52	57.2	44%	110%
CHILDREN'S SERVICES	173	88	92.6	54%	105%
PUBLIC HEALTH					
Public Health	10	15	8.0	80%	53%
Community Safety	8	0	0.0	0%	0%
	18	15	8.0	44%	53%
Public Protection					
Community Safety	24	15	15.4	64%	103%
Environmental Protection and Prevention	20	13	13.5	68%	104%
	44	28	28.9	66%	103%
Bereavement	8	12	12.5	156%	104%
PUBLIC HEALTH	70	55	49.4	71%	90%
Total Shropshire Council Planned Work	1,464	957	899.4	61%	94%
CONTINGENCIES					
Advisory Contingency	50	32	32.0	64%	100%
Fraud Contingency	200	200	206.3	103%	103%
Unplanned Audit Contingency	50	44	44.7	89%	102%
Other non audit Chargeable Work	266	248	268.1	101%	108%
CONTINGENCIES	566	524	551.1	97%	105%
Total for Shropshire	2,030	1,481	1,450.5	71%	98%
EXTERNAL CLIENTS	226	229	263	116%	115%
Total Chargeable	2,256	1,710	1,713.5	76%	100%