INTERNAL AUDIT PERFORMANCE 2021/22

Responsible Officer   Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk   Telephone: 01743 257739

1 Synopsis

This report summarises Internal Audit's work for the last two months of 2021/22 to inform the year end opinion. Progress was on target. Areas attracting lower assurances are highlighted, providing members with an opportunity to challenge.

2. Executive Summary

2.1 This report provides members with an update of work undertaken by Internal Audit in the final two months of 2021/22 since the previous update at the February Audit Committee.

2.2 97% percent of the revised plan has been completed (**see Appendix A, Table 1**). One good, six reasonable, four limited and three unsatisfactory assurance opinions have been issued in the period from 15th January to 31st March 2022. The 14 final reports contained 110 recommendations, two of which were fundamental.

2.3 Internal Audit continues to add value to the Council in supporting its business continuity processes and the delivery of bespoke pieces of work, including sharing best practice and providing advice on system developments.

3 Decisions

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

3.1   The performance against the 2021/22 Audit Plan.

3.2   Identify any action(s) it wishes to take in response to any low assurance levels and fundamental recommendations, brought to Members' attention, especially where they are repeated.

REPORT

4 Risk Assessment and Opportunities Appraisal

4.1 The delivery of a risk-based audit Internal Audit Plan is essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures. Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. In delivering the plan, the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Without this, failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.

4.2 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

4.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).

4.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct environmental or equalities consequences of this proposal.

5 Financial Implications

5.1 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.

6 Climate Change Appraisal

6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7 Background

7.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly.   Internal Audit reviews appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.

7.2 The 2021/22 Internal Audit Plan was presented to, and approved by, members at the 4th March 2021 Audit Committee, with adjustments being approved in September 2021 and February 2022. This report provides an update on progress made against the plan up to 31st March 2022.

8 Performance against the plan 2021/22

8.1 The 2021/22 plan provides for a total of 1,708 days. Over the year there have been significant changes in planned audit activity which has been adjusted to reflect changes in resources and risks, as the Service delivers in an agile way. Performance is in line with previous delivery records at 97% (97% 2020/21), the team has achieved the target to deliver a minimum of 90% of the revised annual plan by the year end.

8.2 In total, 14 final reports have been issued in the period from 15th January to 31st March 2022. All are listed with their assurance rating and broken down by service area at paragraph 8.4. the year to date position is show at **Appendix A, Table 2**. The following chart shows performance against the approved Internal Audit Plan for 2021/22:
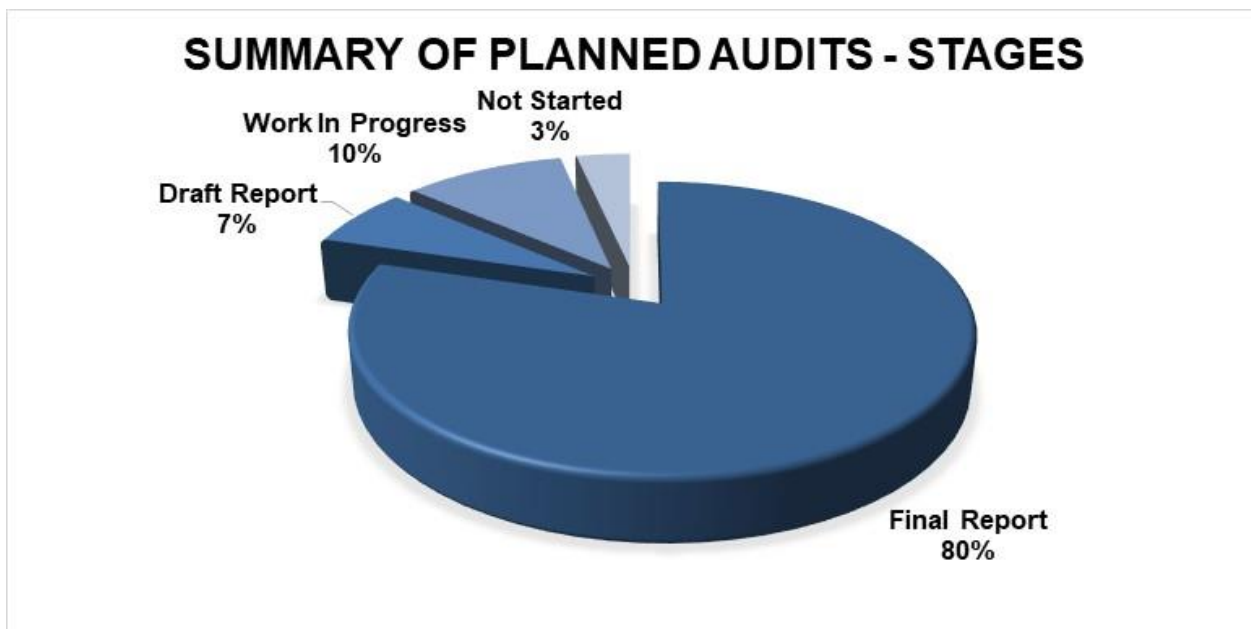
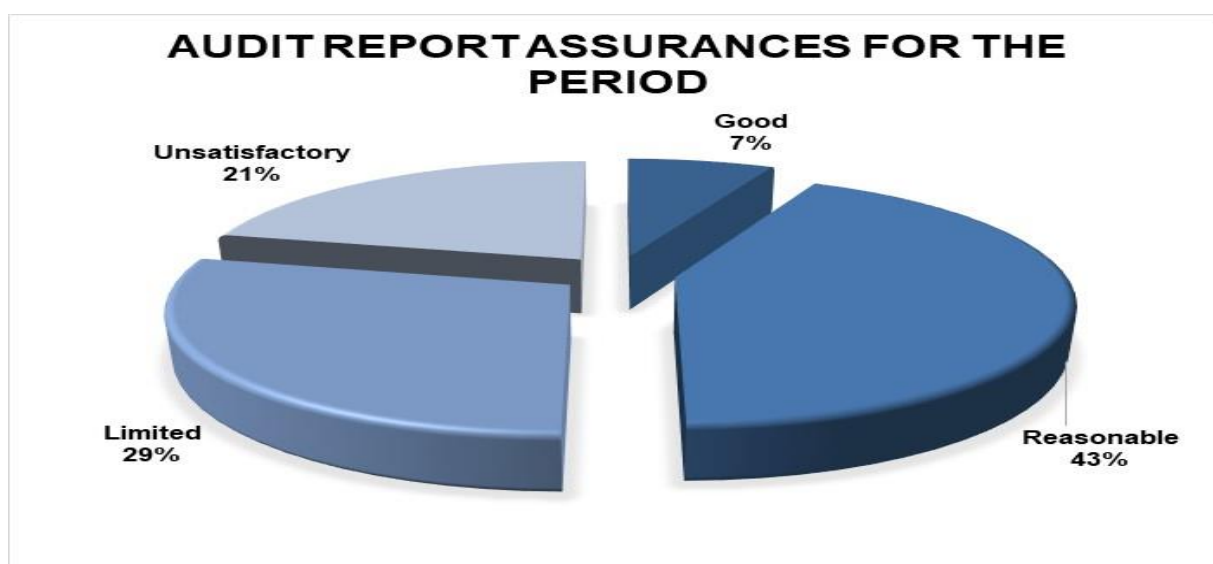8.3 Audits have been completed over several service areas as planned:
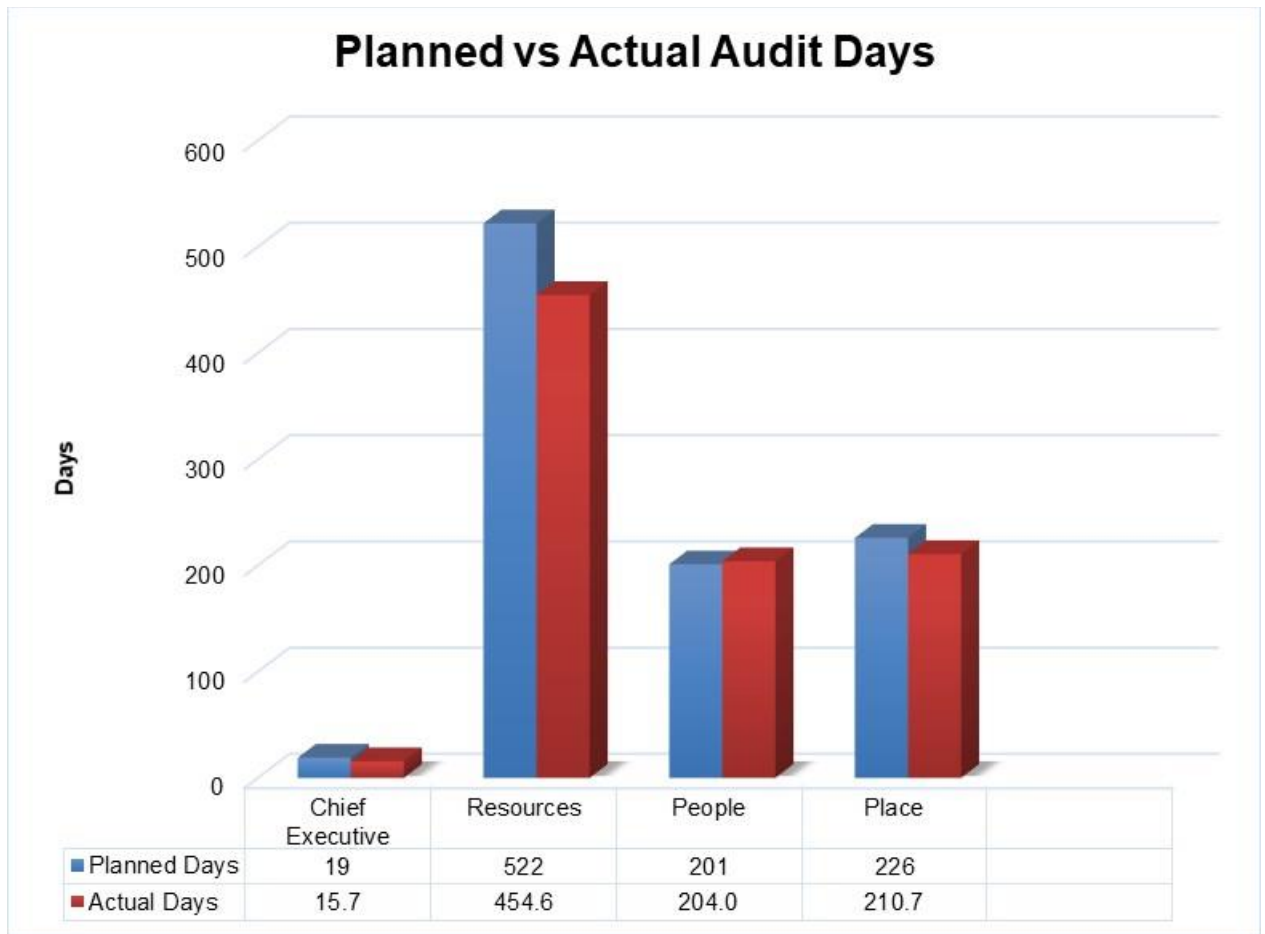
8.4 The following audits have been completed in the period:

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Chief Executive								
Corporate Governance		1						
	0	**1**	**0**	**0**	**0**	**0**	**0**	**0**
People - Adults								
Controcc Application		1				1	4	
Deferred Payments			1			8	5	
	0	**1**	**1**	**0**	**0**	**9**	**9**	**0**
Place								
Shirehall Reconfiguration and Maintenance		1				1		
The Lantern				1		11	10	
	0	**1**	**0**	**1**	**0**	**12**	**10**	**0**

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Resources - Finance (Finance, Revenues & Benefits, Procurement and Treasury)								
Business Rates (NDR)	1						5	
Council Tax Collection		1				3	4	
Income Collection		1				3	8	
	1	**2**	**0**	**0**	**0**	**6**	**17**	**0**
Resources - Business Intelligence (Information and Insight, IT, Communications and Information Governance)								
Patch Management		1				1	5	
Information Security Management			1			3	5	
IT Code of Practice			1			2	4	
Legacy Infrastructure and Systems			1			2	5	
IT Business Administration Follow-up				1	1	5	1	
Microsoft Management Arrangements				1	1	3	3	
Other, including added value and briefing notes						5	1	
	0	**1**	**3**	**2**	**2**	**21**	**24**	**0**
	1	**6**	**4**	**3**	**2**	**48**	**60**	**0**
	7%	43%	29%	21%	2%	44%	54%	0%

8.5 The assurance levels awarded to each completed audit area appear in the graph below:

AUDIT REPORT ASSURANCES FOR THE PERIOD

- Good 7%
- Reasonable 43%
- Limited 29%
- Unsatisfactory 21%

8.6 The overall spread of recommendations agreed with management following each audit review are as follows:
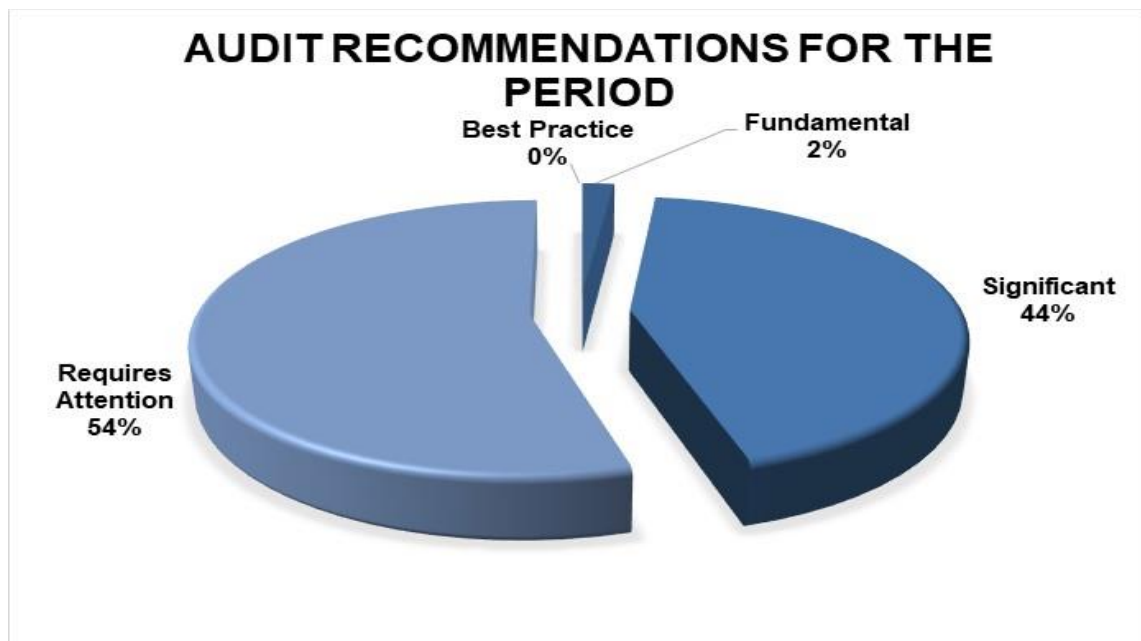
8.7 In the period 15th January to 31st March 2022, seven reports have been issued providing good or reasonable assurances and accounting for 50% of the opinions delivered. This represents a decrease in the higher levels of assurance for this period, compared to the previous year outturn of 57%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 50% compared to the previous year outturn of 43%.

8.8 Details of control objectives evaluated and not found to be in place as part of the planned audit reviews that resulted in limited and unsatisfactory assurances, appear in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5** and provides a glossary of common terms, **Table 6**.

8.9 Four draft reports, awaiting management responses, will be included in the next performance report. Work has also been completed for external clients in addition to the drafting and auditing of financial statements for several honorary funds and the certification of grant claims.

8.10 A total of 110 recommendations have been made in the 14 final audit reports issued during this period; these are broken down service area at paragraph 8.4, the year to date position is show at **Appendix A, Table 2**. Two fundamental recommendations have been identified which are detailed below:

- **IT Business Administration**
  Recommendation - As recommended in 2020/21, a contract for the provision of ICT hardware i.e. PC's, laptops and mobile devices should be secured in line with the Council's Contract Procedure Rules at the earliest opportunity.

Risk - Non-compliance with the Council's Contract Procedure Rules resulting in a failure to ensure that legal requirements are met and value for money is achieved which could result in a financial and reputational loss to the Council. Without a contract, terms and conditions are not agreed and supplier performance and costs cannot be easily measured or addressed. This could result in a financial loss to the Council if the supplier ceased to provide goods or was not delivering or performing as expected and goods needed to be sought elsewhere at short notice.

Original Management Response - Activity is underway to procure a contract for this provision, it has been delayed due to limited staff time and other procurement activities requiring attention. Given current lead times on these activities we are forecasting April for this to be complete – it is also a pre-requisite of a formal PC Replacement programme. In the interim when equipment is purchased multiple quotes are sought and individual purchases are below the procurement threshold, however it is recognised that this is not a sustainable position.

Date to be Actioned – 31st April 2022

Management Response, July 2022 – the budgets for IT equipment and support hardware is being centralised from 1 July to secure efficiency and equity in the replacement of necessary IT equipment for all staff; Recent approaches to the market has indicated that suppliers are dealing with significant supply lines and there are delays for many products; there is also work in hand internally to scope the overall contract needs in terms of both backlog replacement needs and a rolling (three year) replacement programme, allowing colleagues to determine the contract needed and support the procurement; the revised target date for letting this contract is Dec 2022. In the meantime, existing contracts are used to secure best value. The later delivery date will enable the adoption of latest technology across the whole Council and is also linked into the 'Digital County' initiatives which supports The Shropshire Plan.

Revised date to be Actioned – 31st December 2022

- **Microsoft Arrangements**
  Recommendation - There should be a fundamental review of the services. The Council should establish where it is in relation to the cloud adoption framework to meet its digital transformation goals.
  Risk – The absence of appropriate resourcing leads to poor management of the platforms, increasing the risk of configuration error leading to a cyber event.
  Management Response –Implementation of the new Corporate and Digital strategy should address this.
  Date to be Actioned - Following the formal adoption of the digital strategy and after direction and approval by the Executive Director of Resources on the approach. Q4 2022.
  Management Response, July 2022 - the strategy is targeted for September 2022; adoption of cloud-based solutions will be part of that

strategy, and these solutions are also part of the Digital County initiative which supports The Shropshire Plan.

8.11 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 7 sets out the approach adopted to following up recommendations** highlighting Audit Committee's involvement.

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

- Digital Strategy advice on the composition and content of the draft.
- Advice and evaluation of data insights tool (Intelligent-I) in respect of governance, finance, procurement, project management and the initial business case.
- Consultancy and advice on the approach to the corporate phishing email test, working with members of the Information Security Information Group to ensure that the objectives of the testing were met.
- Spear Phishing cyber response, analysis of report prepared following the corporate phishing email testing, providing comment, challenge and an infographic based on the results from the event to aid communications on the topic.
- Supporting Finance to establish processes to pay the energy support grant out to council tax clients with appropriate counter fraud processes and in an efficient and effective way aligned with Council policies and processes,
- Dog Wardens interim report on improvements to the control environment to provide the latest assurance to managers.
- During the ongoing business continuity response to the impact of Covid, provision of Audit Resources to support the delivery of Household Support Fund grants to households to help with essentials such as food, utilities and clothing.
- Independent Service Fund Contract advice on contractual arrangements on reconciliations and nature of records maintained for domiciliary care.
- Advice on the management and administration of the ResourceLink application for processing external Payrolls.
- Consultancy and advice to school's management following a cyber incident at a school including support on communications sent to schools regarding measures that can help to prepare for such an incident
- Supporting and advising on the establishment of processes to provide for Ukrainian Homes Grants whilst safeguarding individuals and countering susceptibility to fraud and inadequate housing.

Performance measures

8.13 All Internal Audit work has been completed in accordance with agreed plans and the outcomes of final reports have been reported to the Audit Committee.

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

Internal Audit Performance and Revised Annual Audit Plan 2021/22 – Audit Committee 22nd February 2022
Internal Audit Performance and Revised Annual Audit Plan 2021/22 – Audit Committee 16th September 2021
Draft Internal Audit Risk Based Plan 2021/22 - Audit Committee 4th March 2021
Public Sector Internal Audit Standards (PSIAS)
Audit Management system
Accounts and Audit Regulations 2015, 2018 and Accounts and Audit (Coronavirus) (Amendment) Regulations 2020

Cabinet Member (Portfolio Holder)
Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee

Local Member: All

Appendices

Appendix A
Table 1: Summary of actual audit days delivered against plan 1st April to 31st March 2022
Table 2: Final audit report assurance opinions and recommendation summary 1st April to 31st March 2022
Table 3: Unsatisfactory and limited assurance opinions in the period 15th January to 31st March 2022
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Glossary of terms
Table 7: Recommendation follow up process (risk based)

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1st April to 31st March 2022

	Original Plan	Revised Plan	31st March 2022 Actual	% of Original Complete	% of Revised Complete
Chief Executive	36	19	15.7	44%	83%
Resources	769	522	454.6	59%	87%
Finance	512	315	270.1	53%	86%
Workforce and Development	68	52	45.4	67%	87%
Business Intelligence	189	155	139.0	74%	90%
Legal and Democratic			0.1	0%	0%
People	285	201	203.9	72%	101%
Adult Social Care	95	77	76.3	80%	99%
Public Health	19	0	0.0	0%	0%
Public Protection	8	10	9.8	123%	98%
Bereavement	38	16	15.9	42%	99%
Children's Services	83	23	22.0	27%	96%
Schools	42	75	79.9	190%	107%
Place	195	226	210.7	108%	93%
S151 Planned Audit	**1,285**	**968**	**884.9**	**69%**	**91%**
Contingencies and other chargeable work	493	483	543.3	110%	112%
Total S151 Audit	**1,778**	**1,451**	**1,428.2**	**80%**	**98%**
External Clients	222	257	227.0	102%	88%
Total	**2,000**	**1,708**	**1,655.2**	**83%**	**97%**

Table 2: Final audit report assurance opinions and recommendation summary - 1st April to 31st March 2022

Audit Name	Audit Opinion					Recommendations		
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Chief Executive								
Corporate Governance 2020/21		1						
Corporate Governance 2021/22		1						
	0	**2**	**0**	**0**	**0**	**0**	**0**	**0**
People - Adults								
CM2000 Decommissioning	1							
Parking Cash Collection 2020/21		1				3	5	
Appointeeships and Deputyships		1				4	13	
ASC Management Controls Audit (Safeguarding)		1				5	5	
Adult Social Care Assessments		1				1	1	
Controcc Application		1				1	4	
Deferred Payments			1			8	5	
Other, including added value and briefing notes					1	11		
	1	**5**	**1**	**0**	**1**	**33**	**33**	**0**
People - Children								
Supporting Families Grant	1						1	
Trinity Primary School		1				5	11	1
Bishops Castle Community College			1			13	15	
Brockton Primary School				1	1	27	11	
	1	**1**	**1**	**1**	**1**	**45**	**38**	**1**
Place								
Housing Provision - Development Cornovii	1						1	
Housing Strategy		1				1		
Smallholdings Estate		1				2	1	
Local Transport Plan (LTP)		1					2	
Shirehall Reconfiguration and Maintenance		1				1		
Repurposing Project PH 2020/21			1			8	3	
Highways Term Maintenance - Kier Contract			1			14	7	
Tree Safety 2020/21				1	1			

Audit Name	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Registrars Service - Income Collection				1		7	1	
Dog Warden's Follow Up				1	1			
The Lantern				1		11	10	
Other, including added value and briefing notes					1	4	2	
	1	4	2	4	3	48	27	0
Resources - Finance (Finance, Revenues & Benefits, Procurement and Treasury)								
COVID Test and Trace Grants	1						1	
Business Rates (NDR)	1						5	
Comino Application 2020/21		1				1	4	
Adobe Sign		1				2	4	
Procurement Arrangements		1						
Council Tax Collection		1				3	4	
Income Collection		1				3	8	
Other, including added value and briefing notes						3	2	
	2	5	0	0	0	12	28	0
Resources - Workforce and Development (HR, Risk & Insurance and Health & Safety)								
Covid PPE procurement and allocation	1						3	
Apprenticeship Levy 2020/21		1				2	6	
Risk Management		1				1	4	
	1	2	0	0	0	3	13	0
Resources - Business Intelligence (Information & Insight, IT, Communications and Information Governance)								
Equitrac	1					1	1	
Digital Mailroom Project		1				1	1	
IT Change Management		1					3	
Patch Management 2021/22		1				1	5	
Encryption 2020/21			1			4	3	
Microsoft Dynamics CRM Application			1			2	7	
Information Security Management			1			3	5	
IT Code of Practice			1			2	4	

Please contact Ceri Pilawski on 01743 257739

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Legacy Infrastructure and Systems			1			2	5	
Internet Security 2020/21				1	2	2	8	
IT Business Administration Follow-up				1	1	5	1	
Microsoft Management Arrangements				1	1	3	3	
Other, including added value and briefing notes					1	7	9	
	1	3	5	3	5	33	55	0
Resources - Legal and Democratic								
Members Allowances 2020/21		1				3	7	
	0	1	0	0	0	3	7	0
Total	7	23	9	8	10	177	201	1
Percentage	15%	49%	19%	17%	3%	45%	52%	0%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 15th January to 31st March 2022[1]

Unsatisfactory assurance

Place – The Lantern (Unsatisfactory 2019/20)
- Previous audit recommendations have been implemented.
- Budget income is identified, collected and banked in accordance with procedures.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- Regular budget monitoring is performed and any significant variations are investigated.

Resources – IT Business Administration Follow Up (Unsatisfactory 2020/21)
- Policies and procedures are in place to ensure compliance with internal and external requirements.
- A process is place for procuring new IT Services and equipment.
- Appropriate contracts are in place that are subject to continuous monitoring.
- Suitable arrangements are in place for purchasing.

---

[1] 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.

- Suitable arrangements are in place for the receipt of goods and services.

Resources – Microsoft Management Arrangements
- To ensure that Microsoft configuration management responsibilities clearly defined.
- To ensure that permissions reflect any delegated responsibilities.
- To ensure that administration and security procedures are documented.
- To ensure that update procedures are in place and are co-ordinated.

Limited assurance

People – Deferred Payments (Limited 2015/16)
- Previous audit recommendations have been implemented.
- Written procedures and policies are in place in relation to deferred payments.
- A process exists to ensure that deferred payment applications are received and processed appropriately.
- Deferred payment Agreements are recorded on the Financial Systems.
- Deferred payment accounts are controlled in an appropriate manner.

Resources – Information Security Management
- To ensure that an information security policy is in place and is reviewed on a regular basis to determine that it is updated to reflect changes to the operating environment and new threats.
- To ensure that processes are in place for the management oversight of the information security function.
- To ensure that the security policy is implemented in operational security policies and procedures, together with appropriate investments in services, personnel, software and hardware.
- To ensure that appropriate processes are in place to ensure that all types of information are classified in a consistent manner by formally approved Information Asset Owners. Management provide clear accountability for authorised collection, management and disposal of data.
- To ensure that the information security function has established processes to ensure that routine testing of information-security-related controls is performed in accordance with regulatory requirements and risk assessments that have identified high risk or vulnerable assets.
- To ensure that an incident management policy has been established that defines the classification of information security incidents and the actions to be executed when an information security incident is identified, and the process has been communicated to units who are first responders.

Resources – IT Code of Practice
- Policies are created according to a defined format and are distributed following a distribution list based on subject matter and relevance; the scope of the policies are appropriate to ensure that the information security is adequate to address the risk tolerance.

- Appropriate monitoring of compliance with acceptable use rules is in place and staff are aware of these measures. Where breaches occur, these are investigated to a satisfactory standard.

Resources – Legacy Infrastructure and Systems
- To ensure that appropriate management arrangements are in place to identify systems running on legacy operating systems/infrastructure.
- To ensure where legacy systems, operating systems and infrastructure are present that they are segregated from the primary network
- To ensure that the cost of maintaining and supporting legacy systems, operating systems and infrastructure is adequately tracked.

Table 4: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

Table 5: Audit recommendation categories: an indicator of the effectiveness of the Council's internal control environment and are rated according to their priority

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.

Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

Table 6: Glossary of terms

Significance
The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Head of Internal Audit Annual Opinion
The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of several individual engagements and other activities for a specific time interval.

Governance
Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

Risk
The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Control
Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Impairment
Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Table 7: 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.