
Meeting: Audit Committee

Date: 27 January 2010

Subject: Internal Audit and Risk Management Progress Report

Report of: Director of Corporate Resources

Summary: This report provides a progress update on the status of internal audit and risk management work for 2009/10.

Advising Officer: Clive Heaphy, Director of Corporate Resources

Contact Officer: Nick Murley, Assistant Director Audit & Risk

Public/Exempt: Public

Wards Affected: All

Function of: Audit

CORPORATE IMPLICATIONS

Council Priorities:

The activities of Internal Audit and Risk Management are crucial to the governance arrangements of the organisation and as such are supporting all of the priorities of the Council.

Financial:

None directly from this report.

Legal:

None directly from this report.

Risk Management:

No risk management implications come directly from this report but the Risk Management team have been actively working with Directors and Assistant Directors to identify and score strategic, directorate and service risk with the controls to mitigate these risks.

Staffing (including Trades Unions):

None directly from this report.

Equalities/Human Rights:

None directly from this report.

Community Safety:

None directly from this report

Sustainability:

None directly from this report

RECOMMENDATION:

That the Audit Committee note the progress made to date.

Background

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 and Risk Management review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls.
2. In September 2009, the Audit Committee approved the 2009/10 internal audit plan, drawing information from the Audit Needs Assessment exercise that was being undertaken for the whole council to form that plan. This report sets out the progress of work undertaken against that 2009/10 plan and also details the work undertaken by the Risk Management team to date during 2009/10.

Progress on the 2009/10 Internal Audit Plan.

3. The Audit Needs Assessment informing our Strategic Internal Audit Plan is now almost complete. Members, however, will recall approving an initial 2009/10 Internal Audit plan in September 2009 using the headline information available at that time.
4. Discussions were held with the Audit Commission at an early stage to agree the approach to the 2009/10 Managed Audits. Regular meetings have since taken place discussing progress against these audits and to share some of the initial work completed.
5. Final reports for these managed audits will not be finished until early in the next financial year as the substantive transaction testing needs to cover the complete 2009/10 financial year.
6. The primary focus of the work undertaken to date in respect of the Managed Audits has been to document the system in detail, identifying the key controls and undertaking walkthrough testing to confirm whether the key controls identified are in operation. Further substantive testing will be undertaken to cover the complete 2009/10 financial year. Recognising the need to communicate some of our initial findings reports have been produced setting out our draft recommendations. The outcomes of these reports are set out later in the report.

7. Progress on all audits is given below:

Review Title	Progress
Accounts Payable	First stage final report issued
Accounts Receivable	Draft first stage report issued for comment
Main Accounting System	First stage final report issued
Cash & Banking	Work in progress
Treasury Management	Draft first stage report issued for comment
Payroll	First stage final report issued
Asset Management	Awaiting Asset Disaggregation to be agreed, but preliminary work commenced.
SWIFT Financials	Not yet started, but work scheduled for end February
National Non Domestic Rates	Work in progress
Council Tax	Work in progress
Housing Rents	Draft first stage report issued for Arrears. Rent calculation element is work in progress..
Housing Benefits	Draft first stage report prepared
SAP Access and Security	Brief prepared. Work scheduled for end February.
Other Audits	
Youth Foster Care	Draft report issued for comment.
Grants	Draft report prepared
Gifts and Hospitality	Draft report issued for comment
Leighton Buzzard Theatre	Final report agreed.
Teachers Pensions	Work in progress
EEDA Grant Claim	Fieldwork completed
Travel and Subsistence	Work In progress
Data Quality Management	Work In progress
Contactpoint	Preliminary work commenced.

8. Work has also been completed on the verification of two grant claims. Work on Section 256 and 28A agreements has previously been reported to the Committee. Internal Audit has also participated in the Purchasing Card Project, providing advice on the expected controls.

9. Our assurance ratings on all of the above will be reported to the April or June 2010 Audit Committee depending on completion.

National Fraud Initiative (NFI)

10. During the year we have also been completing work around the National Fraud Initiative (NFI). This involves supplying data to the Audit Commission for matching purposes and then investigating any of the positive matches.
11. During 2009/10 we have been completing work started by the legacy authorities including matches around pension payments to registered deaths, matching payrolls between local authorities, and other matches including UK visas, blue badges, private residential care, and Housing Benefits.
12. As a result of our work to date £7,240 has been identified as being fraudulent from the former BCC data matches. No savings have been identified from either the South or Mid Beds portals. There are however a number of matches that are still being investigated.

Special Investigations

13. To date we have completed one special investigation which concluded there were no breaches of key controls or any fraudulent activity.
14. We currently have three further investigations underway and as soon as these have been concluded, the outcomes will be presented to the committee.

Schools

15. The audit plan includes provision for the external assessment of over 100 schools and on allowance of 335 days to complete the work against the Financial Management in Schools Standard (FMSiS). This includes first time assessments, re-assessments and slippage from previous years. Work on this has will continue to the end of the financial year.
16. Of the planned school FMSiS assessments, 39 have been finalised. 65% of the schools assessed have met the standard which equates to 51% of all Central Bedfordshire Schools.
17. Reports on the progress of the audit work have been taken to the Schools Forum in June 2009, September 2009 and January 2010.
18. In addition to the CBC schools, the team have also completed 15 Bedford Borough Council (BBC) school assessment that were in progress at the start of the financial year. As such BBC will be charged for this element of our work.

Audit Findings to date

19. Initial audit work has identified some control weaknesses. These have been reported to the responsible officers in draft reports in order that timely action may be taken.

20. It is important to recognise that not all auditees have had chance to discuss these recommendations and that they have only arisen from our initial work. As we begin to complete the substantive testing we may find that through more sample transaction testing some of the recommendations are not appropriate or more that recommendations are be made.
21. The table below sets out the draft recommendations made following the audit work completed to date, categorised as high, medium or low:

Audit	High	Medium	Low	Total
Payroll	4	4	1	9
Main Accounting System	4	6	0	10
Accounts Payable	0	5	0	5
Accounts Receivable	1	0	0	1
Housing Rent Arrears	1	9	0	10
Treasury Management	5	9	1	15
Gifts and Hospitality	3	4	3	10
Leighton Buzzard Theatre	4	16	0	20
Housing Benefits	3	0	0	3
Grants	0	7	1	8
Youth Foster Care	5	5	0	10

22. As mentioned above the final reports for these audits will not be finished until early in the next financial year and as a result it is too early to comment on any assurance ratings.
23. Future reports on the progress of actions addressing the high ranking recommendations will be presented to the Audit Committee once final audit reports have been issued.

Performance Management

24. The Internal Audit Charter approved by the Audit Committee in April 2009 requires Internal Audit to report its progress on some key performance indicators. Processes will be developed to ensure that progress reports contain periodically updated indicators.
25. The indicators include both CBC audit activities and school activity.

26. **Activities for 1 April – 31 December 2009**

KPI	Definition	How we performed	Our target
KPI01	Percentage of total audit days completed.	67%	80%
KPI02	Percentage of the number of planned reviews completed.	40%	80%
KPI03	Time taken to complete an audit within the planned time budget.	50%	80%
KPI04	Time taken to draft reports: Percentage of reviews where the first final draft report was returned within 10 available working days of receipt of the report from the Auditor.	N/A	80%
KPI05	Time taken to issue a final report: Percentage of reviews where the final report was issued within 10 available working days of receipt of the response agreeing to the formal report.	N/A	80%
KPI06	Overall customer satisfaction	85%	80%

27. Analysis of indicators:

KPI01 – In the first nine months we have delivered a total of 1,000 productive audit days against a total of 1,484 planned days for the year. This exceeds our target for the period.

KPI02 – This KPI measures final reports issued To date, 40% of the planned reviews have been completed to final report stage. However, this excludes work on managed audits for which the final report will not be issued until substantive testing is finalised.

KPI03 – Only 50% of planned reviews have been completed within the planned time budgets. This includes a number of school FMSiS assessments which have gone over budget. The approach to undertaking these reviews is currently being reviewed. Some audit reviews have taken longer than planned due to staff developing skills in using the new audit software. In addition, the integration of audit teams from three legacy authorities has required harmonisation of working practices and the development of staff to deliver a broader range of audits. Central Bedfordshire Council's systems are still developing which has resulted in additional audit time being taken to identify and document systems.

KPI04 - This indicator cannot be measured until final reports are issued.

KPI05 - This indicator cannot be measured until final reports are issued.

KPI06 - Of the 32 questionnaires sent out, 18 have been returned to date, giving a response rate of 56%. All returned questionnaires relate to FMSiS toolkit assessments. Overall, the feedback has been very positive. The analysis indicates an overall satisfaction rate of 85%.

Progress on the 2009/10 Corporate Risk Management Strategy

28. The Corporate Risk Management Strategy was approved in February 2009 by the Shadow Executive and endorsed by the Audit Committee in April 2009. The framework supporting this strategy was also approved by the Audit Committee at the same meeting in April.
29. Since that time the Risk Management team have been actively working with Directors, Assistant Directors and Heads of Service to produce a Strategic Risk Register, Directorate and Service Risk Registers. All these registers will be held on the JCAD software.
30. The Strategic Risk Register was approved by the Executive on the 12 January 2010. Elsewhere on this agenda a report presents the Strategic Register and also provides a position statement on the progress of the directorate and supporting service registers.
31. The Risk Management team have also been working with colleagues on a number of project registers including Information Governance, the Interim accommodation Strategy, Customer Service Strategy, Building Schools for the Future, Climate Change and the BEaR project.

32. In respect of our insurance activity, the legacy JCAD insurance claims handling system has been successfully transferred as well as the legacy authority run off claims. CBC is responsible for dealing with these claims and as the balance sheet for Bedfordshire County Council is disaggregated, along with the consolidation of the district council balance sheets, appropriate funds will be transferred to cover the costs and administration of all of these claims.

Health & Safety

33. The Health and Safety Manager has produced a 2009/10 annual risk based health and safety audit plan for our buildings. This will be resourced using our insurers, contractors and our own staff.
34. To date 21 audits have been carried out to date. The Risk Management Corporate report, attached at Appendix A, gives more information around where the audits have been completed and what the key audit finds were.
35. The appendix also provide various information around other Risk Management team activity including the number of accidents that have occurred during the first three quarters of the year and the number of insurance claims closed or that are still open. Both the Health and Safety and Insurance teams have provided advice and support to management around these incidents.
36. In addition to the above the team have been actively involved in supporting the arrangements for dealing with the Swine Flu epidemic and the short term accommodation programme.
37. The Assessnet accident reporting system has been rolled out and we currently have 70% usage across the organisation. This system enables us to electronically record the number of accidents occurring across all of our sites including schools. We are continuing to support and train administrators and increase the usage across the council.

Training

38. A comprehensive 2009/10 Risk Management and Health & Safety training programme has been developed and is available to all staff and Members. As at 31 December 2009, 11 specific training sessions have been run by the team including working safely, managing safely and risk assessment training.
39. The Risk Management team also organised a Risk Awareness Week back in November 2009. This event was aimed at raising the profile of risk across the organisation and included over 89 sessions across the three main office locations. Unfortunately due to a lack of attendance some 66 sessions had to be cancelled including a session for Members on their health and safety responsibilities.
40. Feedback was sought from the senior management because of the poor levels of attendance and a consistent message given was down to lack of capacity at this time. Further conversations have since been had with the Organisational Development team to try and integrate any future training provision with the corporate organisational development plan.

Conclusion and Next Steps

41. Good progress has been made by both of the Internal Audit and Risk Management teams and has enabled us to advise management of some of the control weaknesses we have identified at an early stage.
42. Final audit reports will be issued during the early part of the next financial year and annual reports will be produced for both Internal Audit and Health & Safety.

Appendices:

Appendix A Risk Management Corporate Report

Strategic Risk Register (please refer to the appendix in the Executive report of 12 January 2010)

Background Papers:

2009/10 Internal Audit Plan – Audit Committee 21 September 2009

Location of papers: Priory House, Chicksands, Bedfordshire