

Meeting: Audit Committee
Date: 27th January 2011
Subject: Internal Audit Progress Report
Report of: Director of Customer and Shared Services
Summary: This report provides a progress update on the status of Internal Audit work for 2010/11.

Contact Officer: Kathy Riches, Head of Audit
Public/Exempt: Public (with exempt appendices)
Wards Affected: All
Function of: Audit Committee

CORPORATE IMPLICATIONS

Council Priorities:

The activities of Internal Audit 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:

None specifically. The Audit Plan was produced using a risk based approach.

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.

RECOMMENDATIONS:

That the Audit Committee:

- a) 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 reviews, appraises and reports on the efficiency, effectiveness and economy of financial and other management controls.
2. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
3. The Audit Committee approved the 2010/11 Audit Plan in April. This report provides an update on progress made against the plan up to 31st December 2010.

Progress on the 2010/11 Internal Audit Plan

Managed Audits

4. It was reported to the last Audit Committee that the 2009/10 Managed Audit reviews of Asset Management and SAP Access and Security had been completed to draft report stage, but had still to be finalised. The final reports have now been issued and the outcomes are included at Appendix A (Exempt).
5. The primary focus of the work undertaken to date in respect of the 2010/11 Managed Audits has been to document the systems 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 2010/11 financial year. Recognising the need to communicate initial findings Phase 1 draft reports have been produced for a number of the reviews setting out draft recommendations and provisional audit opinions. The outcomes of these reports are also set out in Appendix A. It is important to recognise that the opinions given are provisional, based upon audit testing undertaken to date. The opinions may be revised once substantive testing for the whole year has been undertaken.
6. The managed audit work is ongoing and further progress will be reported verbally at the Audit Committee meeting.

Other Audit Work

7. In addition to the managed audit work, the following reviews have been finalised since the last Audit Committee:
Luton and Beds Partnership (grant claim)
Data Quality Management 2009/10
Silsoe Horticultural Centre - Imprest Bank Account (Consultancy).
8. The outcomes of these reviews are included at Appendix A.

National Fraud Initiative (NFI)

9. We continue to complete 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.
10. Work has commenced on the 2010/11 data exercise. Arrangements have been made to ensure Fair Processing Notices are in place. Data sets were extracted in October 2010 and submitted via the secure web application. It is anticipated that the 2010/11 matches will be available for review from the end of January 2011.

Fraud and Special Investigations

11. Internal Audit has not finalised any investigations to date this year. However, Internal Audit was requested to assist in an investigation in a service area which has now been concluded. Details are shown at Appendix B (Exempt).
12. There is currently one investigation in progress. As soon as this has been concluded, any significant control weaknesses or fraudulent activity will be reported to the Committee.
13. The Revenues and Benefits Team are currently undertaking a review of entitlements to Single Person's Council Tax Discount. This is an area that has been identified by the Audit Commission as a high risk fraud area. The outcomes of this review will be reported to a future Committee.

Schools

14. The Government announced on 15th November that the Financial Management Standard in Schools (FMSiS) is no longer a mandatory requirement. The Government has recognised the importance of ensuring schools have the right arrangements in place to manage their budgets effectively and are planning to work with interested parties to develop a simpler standard, and hope the replacement standard will be introduced before the summer of 2011. The Department for Education (DfE) has also indicated that it expects schools that have failed to achieve the standard to be amongst the first to achieve the new standard. At the time of the announcement, 98 of Central Bedfordshire's 137 schools had met the standard and most of the remaining schools had assessments in progress. These schools were contacted to confirm whether these assessments should be finalised and the vast majority of schools requested that the assessment was completed. However, responses have not yet been received from all schools. As at the end of December, 101 schools had met the standard, 22 reviews were in progress, and 1 school had submitted evidence. 5 schools to date have decided not to be assessed.
15. Prior to the Government announcement, the Council had already recognised that the FMSiS regime can be burdensome to schools and the Schools' Forum had agreed that schools due for reassessment would be assessed using a lighter touch risk based approach in future. It is anticipated that the simpler standard will be consistent with this approach.
16. Reports on the progress of the FMSiS work continue to be regularly taken to the Schools Forum.
17. School audit visits have now been undertaken at 12 schools. 2 reports have been finalised and issued and reports for the others are in the process of being drafted. Details of the opinions given are set out in Appendix A. 3 further schools have been booked for the Spring Term and preparations commenced for these.

Performance Management

18. The Internal Audit Charter requires Internal Audit to report its progress on some key performance indicators.
19. The indicators include both CBC audit activities and school audit activity.

20. **Activities for 1 April 2010 – 31st December 2010**

KPI	Definition	How we performed		Our Period target		Our Annual target
		Current Period		Previous Period (to 30 th August)		
		Actual	Target	Actual	Target	
KPI01	Percentage of total audit days completed.	67%	58%	36%	35%	80%
KPI02	Percentage of the number of planned reviews completed.	51.4%	55%	22%	30%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	63%	80%	52%	80%	80%
KPI04	Time taken to respond 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.	33%	80%	38%	80%	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.	100%	80%	100%	80%	80%
KPI06	Overall customer satisfaction	85%	80%	87%	80%	80%

21. Analysis of indicators:

KPI01 – In the first nine months we have delivered a total of 1,047 productive audit days against a total of 1,560 planned days for the year, which exceeds the planned target, and is an improvement on the previous period.

KPI02 – This KPI measures final reports issued to date, 51.4% of the planned reviews have been completed to final report stage along with milestones reached for managed audit work. Work is in progress on the managed audits, school visits, FMSiS assessments and a number of other reviews within the plan. This is slightly below target due, in part, to staff sickness, but represents as improvement on the previous period.

KPI03 – 63% of planned reviews have been completed within the planned time budgets. This is below target but represents a continued improvement. In a number of instances the planned audits have taken longer than expected. In some instances, the planned reviews have only just exceeded the budget. Action continues to be taken to monitor audit work closely in order to improve performance against this indicator.

KPI04 – This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. As at the end of December, only 33% of draft reports were responded to within the target set. Internal Audit will continue to work with departments to encourage a prompt response.

KPI05 – This indicator shows that Internal Audit has continued to issue final reports promptly, once the final response agreeing the report has been received from the auditee.

KPI06 - Of the 40 questionnaires sent out, 28 have been returned to date, giving a response rate of 70%. Overall, the feedback has been very positive. The analysis indicates an overall satisfaction rate of 85%.

Conclusion and Next Steps

22. Internal Audit has continued to support the drive to strengthen internal control within Central Bedfordshire Council, and good progress has been made to date in 2010/11.
23. Further work needs to be undertaken in order to improve the delivery of audits within the planned timescales and to encourage officers to respond to draft audit reports within the required timescales.
24. An update on audit progress will be presented to the next Audit Committee.

Appendices: Appendix A – Progress on Audit Activity (Exempt)
Appendix B – Special Investigations (Exempt)

Background Papers:

Location of papers: Priory House, Chicksands, Bedfordshire