
Meeting: Audit Committee
Date: 26 September 2011
Subject: Internal Audit Progress Report
Report of: Chief Finance Officer
Summary: This report provides a progress update on the status of Internal Audit work for 2011/12.

Contact Officer: Kathy Riches, Head of Audit
Public/Exempt: Public (with Appendix B exempt)
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, following the completion of a detailed Audit Needs Assessment which took into account strategic and service area 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.

RECOMMENDATIONS:

That the Audit Committee:

- a) note the progress made to date, and**
- b) approve the proposed revisions to the 2011/12 Plan.**

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 2011/12 Audit Plan in April 2011. This report provides an update on progress made against the plan up to 31st August 2011.

Updated Internal Audit Plan

4. Internal Audit has risk reviewed the audit plan following discussions with senior officers and has made some changes to the plan that was approved by the Audit Committee in April. The IT audit plan has been reviewed with the Chief ICT Officer. The Information Security and Desk Top Security audits will be combined and a total of 20 days allocated to the combined piece of work. The 5 days saved by combining these two pieces of work will be added to the SAP Access and Authorisation audit, making 15 days available for this review. The review of Financial Management within Social Care, Health and Housing has been deferred to next year, at the request of the Director.
5. The secondment of a member of the Internal Audit Team to Finance to assist with the SAP Optimisation/Recovery Plan has been extended. This may impact on the delivery of the audit plan but is utilising the skills of audit staff to support the finance function. The secondment was made at the request of the Assistant Chief Executive – Resources.
6. Internal Audit will continue to review and reassess risks in the light of changes in funding and legislation and will bring any further revisions to the Committee for approval.

7. Some reviews have been scoped as ongoing assurance work. These include:
- Sustainability - Carbon Reduction – Assurance on Carbon Reduction Project.
 - Finance Recovery – Assurance on implementation of targets and milestones.
 - Integrated Children's Services (ICS) Programme Board Project Assurance.

The scope of the assurance role will be defined and Internal Audit will feedback the outcome of this work to the service areas on a regular basis, to enable any issues identified to be addressed on a timely basis. These reviews will not, therefore, have an audit opinion.

Progress on the 2011/12 Internal Audit Plan

Managed Audits

8. The 2010/11 Managed Audit reviews have now been finalised. Some draft Phase 2 opinions were reported to the June Audit Committee. The final audit opinions are set out in Appendix A. As reported to the June Audit Committee, work on the 2010/11 Asset Management review was delayed due to the availability of finance staff, who were focusing on the year end closure. The current work being undertaken will consider the control environment for both 2010/11 and the current year.
9. Internal Audit has prepared and agreed briefs for the majority of the 2011/12 managed audits and work has commenced on updating the systems documentation.
10. The work on managed audits will be undertaken in two phases;
Phase 1 – This will include the follow up of recommendations made in the 2010/11 reviews, systems documentation and walkthrough testing to confirm the system, and substantive testing of transactions covering the period April – October.
Phase 2 – This will include substantive testing covering the period November – March.
Where previous audit reviews have resulted in adequate assurance opinion and where there are no significant system changes the level of detailed audit testing will be rationalised accordingly.
11. The findings of the Phase 1 reviews will be reported to the January Audit Committee.

Other Audit Work

12. In addition to work on managed audits, work has been finalised on the Purchasing Cards review, the Contracts Register, IT Governance, and Travelling and Subsistence. In each case the opinion given was adequate. The internal audit of the Luton and South Bedfordshire Partnership Grant claim has also been undertaken, and no issues of concern were identified.
13. A number of other reviews are currently progressing, and these are summarised at Appendix A.

National Fraud Initiative (NFI)

14. 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.
15. The review of Single Person's Council Tax Discount against the Electoral Roll undertaken by the Head of Revenues and Benefits has now been concluded. In total, approximately 1,100 Single Person's Discounts were cancelled, resulting in a saving of approximately £400,000, which benefits the Council Tax Collection Fund. This represents a 5% cancellation rate.
16. Work on other NFI data matches is ongoing and any resulting savings will be reported to a future committee meeting.

Fraud and Special Investigations

17. Three investigations have been concluded since the last Committee. The outcomes of these reviews are summarised at Appendix B.
18. There is one investigation ongoing, the outcome of which will be reported to a future committee meeting.

Schools

19. The rolling programme of school audit visits has continued. Since the last committee, final reports have been issued for 2 schools. Draft reports have been issued for 6 schools.
20. Although the mandatory requirement for schools to comply with the Financial Management Standard in Schools (FMSiS) was abolished in October 2010, a number of schools requested that assessments in progress were completed. This work has now been substantially concluded.

Performance Management

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

23. **Activities for 1 April 2011 – 31 August 2011**

KPI	Definition	Current Year		Previous Year		Annual target
		Current Period to 31 August 2011		April – August 2010		
		Actual	Target	Actual	Target	
KPI01	Percentage of total audit days completed.	33%	35%	30%	35%	80%
KPI02	Percentage of the number of planned reviews completed.	26%	30%	22%	30%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	62%	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.	53%	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	86%	80%	87%	80%	80%

24. Analysis of indicators:

KPI01 – In the first five months we have delivered a total of 490 productive audit days against a total of 1,500 planned days for the year, which is slightly below target, but reflects the extended secondment of a senior auditor to Finance.

KPI02 – This KPI measures final reports issued to date, 26% 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, and a number of other reviews within the plan. This is below target but represents an improvement on last year. Although a number of reviews have been prepared to draft report stage, work to agree actions and finalise the report is still ongoing.

KPI03 – 62% of planned reviews have been completed within the planned time budgets. This is below target but represents an improvement on last year. 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 continue 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 August, 53% of draft reports were responded to within the target set. However, this represents a significant improvement over the previous period and Internal Audit will continue to work with directorates 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 33 questionnaires sent out, 8 have been returned to date, giving a response rate of 24%. Overall, the feedback has been very positive. The analysis indicates an overall satisfaction rate of 86%.

Conclusion and Next Steps

25. 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 2011/12.
26. 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.
27. An update on audit progress will be presented to the next Audit Committee.

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

Background Papers: None

Location of papers: N/A