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**Meeting:**        **Audit Committee**

**Date:**            **2 April 2012**

**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.

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Contact Officer:        Kathy Riches, Head of Internal Audit and Risk

Public/Exempt:        Public

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:**

1. None directly from this report.

### **Legal:**

2. None directly from this report.

### **Risk Management:**

3. 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):**

4. None directly from this report.

### **Equalities/Human Rights:**

5. None directly from this report.

### **Community Safety:**

6. None directly from this report.

### **Sustainability:**

7. None directly from this report.

**RECOMMENDATION:**

**That the Audit Committee notes the progress made to date.**

**Background**

8. 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.
9. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
10. 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 29 February 2012.

**Progress on the 2011/12 Internal Audit Plan****Managed Audits**

11. Work is progressing on the 2011/12 Managed audit reviews and the progress made to date is summarised in Appendix A. Final Phase 1 reports have been issued for the majority of the key systems. Work is in progress for Asset Management and SWIFT Financials.
12. Phase 1 work included documenting the systems in detail, identifying the key controls and undertaking walkthrough testing to confirm whether the key controls identified are operating effectively. Where appropriate, substantive testing has been undertaken covering the period April – October 2011.
13. Phase 2 substantive testing, covering the period November – March 2012 is currently ongoing and the outcome of this work will be reported to the June Committee.
14. The audit opinions given are set out in Appendix A. Each review has received an adequate assurance opinion, with the exception of Payroll, which has continued to receive a limited assurance opinion.

**Other Audit Work**

15. The Section 106 audit review has also been finalised since the last Committee. An audit opinion of limited assurance was given because of concerns identified relating to the reconciliation of financial balances held on the planning system (Accolaid) and SAP. An action plan was agreed with management, and a follow up audit review is currently in progress to obtain assurance that the agreed actions have been addressed. This review has confirmed that significant progress has been made to address this issue.

16. A number of other reviews are currently progressing, and these are also shown within Appendix A. A number of these reviews are substantially completed and the outcome will be reported to a future committee.

#### **National Fraud Initiative (NFI)**

17. Work on the latest data matching exercise is nearing completion. No savings in addition to those previously reported have been identified.

#### **Fraud and Special Investigations**

18. No investigations have been concluded since the last Committee. There are two investigations ongoing.

#### **Schools**

19. The rolling programme of school audit visits has continued. To date this year 17 school reports have been finalised and 4 reports have been issued as drafts. 6 further site visits have been undertaken with reports still to be prepared and one further site visit is planned prior to the year end.

#### **Performance Management**

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

21. **Activities for 1 April 2011 – 29<sup>th</sup> February 2012**

KPI	Definition	Current Year		Previous Year		Annual target
		Actual	Target	Actual	Target	
KPI01	Percentage of total audit days completed.	78.6%	73%	84%	73%	80%
KPI02	Percentage of the number of planned reviews completed.	66%	66%	57%	66%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	60%	80%	60%	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.	61%	80%	43%	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%	93.3%	80%	80%
KPI06	Overall customer satisfaction.	83%	80%	85%	80%	80%

## 22. Analysis of indicators:

KPI01 – As at the end of February Internal Audit has delivered a total of 1,179 productive audit days against a total of 1,500 planned days for the year. This is above the target of 73%

KPI02 – This KPI measures final reports issued to date. 66% of the planned reviews have been completed to final report stage along with milestones reached for Managed Audit work. This is on target. Work is in progress on the Managed Audits, school visits, and a number of other reviews within the plan. This 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 reports is still ongoing.

KPI03 – 60% of planned reviews have been completed within the planned time budgets. This is below target but is consistent with 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 February 61% of draft reports were responded to within the target set. This represents a significant improvement over last year, and demonstrates that a prompt response was received to most of the draft managed audit reports issued.

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 61 questionnaires sent out, 23 have been returned to date, giving a response rate of 38%. Overall, the feedback has been very positive. The analysis indicates an overall satisfaction rate of 83%.

## **Conclusion and Next Steps**

23. 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.
24. An update on audit progress will be presented to the next Audit Committee.

## **Appendices:**

Appendix A – Progress on Audit Activity

**Background Papers:** None

**Location of papers:** N/A