
Meeting: Audit Committee
Date: 24 September 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 2012/13.

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. However, sound systems assist in preventing loss of resources (by other wastage or fraud), thereby improving effectiveness and efficiency.

Legal:

2. None directly from this report.

Risk Management:

3. No risk management implications come directly from this report but 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.

Public Health

6. None directly from this report.

Community Safety:

7. None directly from this report.

Sustainability:

8. None directly from this report.

Procurement:

9. None directly from this report.

RECOMMENDATIONS:**The Committee is asked to:**

- 1. Consider and comment on the contents of the report.**
- 2. Approve the revisions to the Audit Plan.**

Background

10. 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.
11. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
12. The Audit Committee approved the 2012/13 Audit Plan in April 2012. This report provides an update on progress made against the plan up to the end of August 2012.

Updated Audit Plan

13. Internal Audit has reviewed the audit plan following discussions with senior officers and some minor changes have been made to the plan that was approved by the Audit Committee in April. The planned review of the Carbon Reduction Commitment has been deferred to next year, as a result of an extended consultation over the future of the scheme. It has been agreed with the Assistant Director – Growth, Skills and Regeneration that some of the resulting capacity will be utilised to undertake a follow up review of the Leighton Buzzard Theatre, and further consideration is currently being given to how the remaining balance will be allocated.
14. The Internal Audit work programme for IT audits is currently being reviewed in consultation with the Head of ICT and the Project Director in the light of the IT Health Check recently undertaken by PWC.

15. Internal Audit will continue to review and reassess risks and will bring any further revisions to the Audit Committee for approval.

Progress on the 2012/13 Internal Audit Plan

Managed Audits

16. The 2011/12 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.
17. Internal Audit is currently scoping and agreeing briefs for the 2012/13 managed audits and work has commenced on updating the systems documentation.
18. As in previous years, the work on managed audits will be undertaken in two phases;
Phase 1 – This will include the follow up of recommendations made in the 2011/12 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.
19. The SAP Optimisation Project will result in some revisions to processes and controls. This will particularly affect the Payroll system. Audit work will consider both the current processes and revised processes in order to provide assurance across the whole year.
20. The findings of completed Phase 1 reviews will be reported to the January Audit Committee.

Other Audit Work

21. In addition to work on managed audits, work has been finalised on the following reviews:
Budget Management (Adequate Assurance)
Contract Management (Limited Assurance)
Linsell House (Adequate Assurance)
Section 106 Follow Up (Satisfactory Progress).
22. Internal Audit has been engaged in several projects, including SAP Optimisation, in order to provide advice and guidance on the control environment during project implementation.
23. 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)

24. 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.
25. Work has commenced on the 2012/13 data exercise. Arrangements have been made to ensure Fair Processing Notices are in place. Data sets will be extracted in October 2012 and submitted via the secure web application. It is anticipated that the 2012/13 matches will be available for review from the end of January 2013.

Fraud and Special Investigations

26. No investigations have been concluded since the last Committee. There are two investigations ongoing.
27. The National Fraud Authority (NFA) has recently launched a Fighting Fraud Locally campaign, aimed at improving the prevention, detection and recovery of losses in relation to public sector fraud. Internal Audit has been reviewing the document in order to inform future work on both raising fraud awareness and future pro active audit work.

Schools

28. The rolling programme of school audit visits has continued. To date this year 6 school reports have been finalised in relation to site visits undertaken during 2011/12 and 1 report has been finalised in respect of a 2012/13 visit.
29. Work is also in progress in revising the school audit programme, to ensure that the work programme reflects risks to the authority arising from recent changes in the delivery of support to schools.

Public Sector Internal Audit Standards

30. Organisations in the UK public sector are currently governed by different internal audit standards. For example, there are slightly differing standards for central government, the health sector, the higher education sector and charities. As organisations work more closely together in formal partnerships and informal arrangements the lack of consistency has become apparent.
31. The Relevant Internal Audit Standard Setters (of which CIPFA is a member) have issued a common set of Public Sector Internal Audit Standards that are due to be adopted with effect from 1st April 2013. These standards are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework, and will apply to all internal audit service providers. The standards will replace the current Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.
32. Internal Audit is currently reviewing the revised standards and will reflect any revised requirements within the Internal Audit Charter and Strategy for next year.

Performance Management

33. 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.

34.. Activities for 1 April 2012 – 30 August 2012

KPI	Definition	Current Year		Previous Year		Annual target
		Actual	Target	Actual	Target	
KPI01	Percentage of total audit days completed.	22%	35%	33%	35%	80%
KPI02	Percentage of the number of planned reviews completed.	23%	30%	26%	30%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	56%	80%	62%	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.	87%	80%	53%	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.	n/a	80%	86%	80%	80%

35. Analysis of indicators:

KPI01 – As at the end of August Internal Audit has delivered a total of 289 productive audit days against a total of 1,300 planned days for the year. This is below the target of 35%. This reflects staff secondments, which has also impacted on other KPIs. The secondments have had an impact on the timing of the delivery of the audit plan. The secondments have now been concluded and work is progressing on delivering the outstanding audits. Although this has impacted on the timing of the audit reviews, it is anticipated that overall the target of 80% delivery of the plan will be achieved by the year end.

KPI02 – This KPI measures final reports issued to date. 23% of the planned reviews have been completed to final report stage along with milestones reached for Managed Audit work. This is slightly below target, and reflects the delays in commencing some audits as a result of staff secondments .

KPI03 – 56% of planned reviews have been completed within the planned time budgets. This is below target. 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 87% 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 the majority of the draft Phase 2 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 – Due to staff secondments there has been a delay in sending out questionnaires. Internal Audit are currently awaiting responses to the questionnaires sent out recently.

Conclusion and Next Steps

36. Internal Audit has continued to support the drive to strengthen internal control within Central Bedfordshire Council. Although staff secondments have had an impact on the team's output during the early months of the year, due to a delay in the timing of the reviews, the secondments have now concluded and work is progressing on the delivery of the agreed plan by the year end.
37. 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