Meeting:	**Audit Committee**
Date:	**7 January 2013**

Subject: Internal Audit Progress Report

Report of:	**Charles Warboys, 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.

RECOMMENDATION:

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 November 2012.

Updated Audit Plan

13.   Some further revisions have been made to the 2012/13 audit plan since the last Committee. It has been agreed with the Head of Information Assets and the Project Director that the planned audits of Information Security (hosted services) and SAP Access and Authorisations are no longer required in the current year, and that internal audit work will focus on IT Governance, SAP Access and Security (including IT DR) and ICT Contract Management.

14.   The audit work programme for Social Care Health and Housing has also been revised, following discussions with Assistant Directors. The planned audit of Financial Management has been deferred to next year and replaced by two additional audits, covering the Village Care Scheme and the Association of Directors of Social Services (ADASS) workbook. These were two areas that it was considered would benefit from an Internal Audit review.

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. Work is progressing on the 2011/12 Managed audit reviews and the progress made to date is summarised in Appendix A.

17. The primary focus of the work undertaken to date has been to document 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 (Phase 1 testing) and further testing will be undertaken to cover the complete financial year (Phase 2 testing).

18. 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.

19. In addition to the draft reports, the Phase 1 reviews for Council tax and National Non Domestic Rates (NNDR) have been finalised. The opinion given to both these reviews is full assurance, as there were no significant issues identified and the key recommendations made in previous years have now been implemented.

20. The Managed Audit work is continuing and any further progress will be reported verbally at the Audit Committee Meeting.

. **Other Audit Work**

21. In addition to work on managed audits, work has been finalised on the following reviews:
Children's Services Out of Authority Placements (Adequate)
Leighton Buzzard Theatre Follow Up (Satisfactory Progress)
Petty Cash Imprests Pro Active Anti Fraud review (due to the nature of the review, no opinion was given).

22. Internal Audit continues to be engaged in several projects in order to provide advice and guidance on the control environment during project implementation. These projects include SAP optimisation, SWIFT Disaggregation, the Local Welfare Provision Project, and the Payment Card Industry Security Card Spend Scheme (PCIDSS).

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). The required data sets have now been submitted to the Audit Commission and work will commence on analysing resulting matches once they are made available in January 2013.

Fraud and Special Investigations

25. One investigation has been concluded since the last Committee, and this is outlined at Appendix B. There is one investigation underway.

26 We are continuing to review the National Fraud Authority's (NFA) Fighting Fraud Locally campaign, aimed at improving the prevention, detection and recovery of losses in relation to public sector fraud. The outcome of this will help inform the strategic audit plan.

Schools

27. The rolling programme of school audit visits has continued. To date this year 9 school reports have been finalised and a further 5 draft reports have been issued.

Performance Management

28. 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.

29. **Activities for 1ˢᵗ April 2012 – 30ᵗʰ November 2012**

KPI	Definition	Current Year		Previous Year		Annual target
		Actual	Target	Actual	Target	
KPI01	Percentage of total audit days completed.	70%	52%	62%	52%	80%
KPI02	Percentage of the number of planned reviews completed.	48%	45%	44%	45%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	60%	80%	63%	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.	84%	80%	56%	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.	95%	80%	82%	80%	80%

30. Analysis of indicators:

KPI01 – As at the end of November Internal Audit has delivered a total of 913 productive audit days against a total of 1,300 planned days for the year. This is above the target of 52%. Performance earlier in the year had been affected by staff secondments but significant progress has been made since September in delivering the plan. This indicator reflects the use of an audit contractor to deliver three of the audits in the plan. 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. 48% of the planned reviews have been completed to final report stage along with milestones reached for Managed Audit work. This is slightly above target.

KPI03 – 60% 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. It should be noted that the budgeted days allocated to an audit are estimates and the actual time required may vary depending upon the complexity of the review.

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 November 84% of draft reports were responded to within the target set. This represents a significant improvement over last year, and demonstrates that prompt responses have been received to the majority of the managed audit reports issued since April 2012.

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 was a delay in sending out questionnaires earlier in the year. A total of 19 surveys have been sent out. 6 responses have been received to date. The responses received have been positive.

Conclusion and Next Steps

31. Internal Audit has continued to support the drive to strengthen internal control within Central Bedfordshire Council, both through audit assurance work and, increasingly, through advising on new controls at the design stage for new systems. Work is progressing on the delivery of the agreed plan by the year end.

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

Appendices:

Appendix A – Progress on Audit Activity

Appendix B – Summary of Investigation completed

Background Papers: None

Location of papers: N/A