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

**Date:**            **8 April 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.

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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. 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 February 2013.

**Progress on the 2012/13 Internal Audit Plan****Managed Audits**

13. Work is progressing on the 2012/13 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.
14. 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).

15. 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.

### **Other Audit Work**

16. In addition to work on managed audits, work has been finalised on the following reviews:  
Pro Active Anti Fraud Review – Appendix E payments – no opinion given due to nature of review  
Assurance on Client Charging – Adequate Assurance  
Amphill Day Centre – Adequate Assurance
17. 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 Data Security Standards (PCIDSS).
18. 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)**

19. We continue to complete work around the National Fraud Initiative (NFI). Work has commenced on the 2012/13 matches. Work on previous matches is still ongoing. In addition to outcomes already reported to the Committee relating to 2010/11 matches, an overpayment of £12,455 relating to Housing Benefit Fraud has been identified as part of this exercise. This is currently being recovered.

### **Fraud and Special Investigations**

20. No investigations have been concluded since the last Committee.
21. A programme of pro active anti fraud reviews, informed from the review of the Fighting Fraud Locally initiative and the Audit Commission's publication Protecting the Public Purse 2012 has been included in the 2013/16 Strategic Audit Plan, which is considered elsewhere on this agenda.

### **Schools**

22. The rolling programme of school audit visits has continued. To date this year 15 school reports have been finalised and a further 2 draft reports have been issued. The opinions given are summarised within Appendix A. Schools receiving a No Assurance opinion receive a follow up audit visit. Where schools are issued with a Limited Assurance opinion, Internal Audit seeks confirmation that agreed actions have been implemented.

## Performance Management

23. 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.

24. **Activities for 1<sup>st</sup> April 2012 – 28<sup>th</sup> February 2013**

KPI	Definition	Current Year		Previous Year		Annual target
		Actual	Target	Actual	Target	
KPI01	Percentage of total audit days completed.	92%	73%	78%	73%	80%
KPI02	Percentage of the number of planned reviews completed.	67%	66%	66%	66%	80%
KPI03	Percentage of audit reviews completed within the planned time budget.	59%	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.	76%	80%	61%	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.	85%	80%	100%	80%	80%
KPI06	Overall customer satisfaction.	93%	80%	83%	80%	80%

25. Analysis of indicators:

KPI01 – As at the end of February Internal Audit has delivered a total of 1202 productive audit days against a total of 1,300 planned days for the year. This is above the target of 73%.

KPI02 – This KPI measures final reports issued to date. 67% 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 – 59% 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 February 76% 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. The reduction in performance compared to last year is due to sickness absence within the Internal Audit Team.

KPI06 – A total of 26 surveys have been sent out. 19 responses have been received to date. The responses received have been positive.

### **Internal Audit Charter**

26. To help management, employees, Members and contractors understand how Internal Audit interacts with the organisation when carrying out its work an Internal Audit Charter has been produced. This was last presented to the Audit Committee in April 2012. The Charter has been reviewed and no significant changes are required. Therefore the Charter has not been represented for approval. The amendments made include reference to the new Public Sector Internal Audit Standards and the appointment of Ernst and Young as the Council's external auditors.
27. CIPFA has recently published a Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards to help local authorities apply the new standards. The Charter will be reviewed against this guidance to ensure that it covers the requirements of the standards.

## **Conclusion and Next Steps**

28. 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 outstanding reviews, and the outcomes will be reported to the next Audit Committee.

## **Appendices:**

Appendix A – Progress on Audit Activity

## **Background Papers:**

None

## **Location of papers:**

N/A