

Central Bedfordshire Council

Audit Committee

26 September 2016

Internal Audit Progress Report

Report of Charles Warboys, Chief Finance Officer
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Purpose of this report:

This report provides a progress update on the status of Internal Audit work for 2016/17.

RECOMMENDATIONS

The Committee is asked to:

1. Consider and comment on the contents of the report.

Overview and Scrutiny Comments/Recommendations

1. This report is not scheduled to be considered by Overview and Scrutiny, as it is the responsibility of the Audit Committee.

Background

2. 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.
3. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
4. The Audit Committee approved the 2016-19 (3 year) Internal Audit Plan in April 2016. This report provides an update on progress made against the plan up to the end of August 2016.

Progress on the 2016/17 Audit Plan

Fundamental System Audits

5. At the time of the last Committee meeting the Asset Management 2015-16 review was still in progress. This has now been completed and the final report issued with an opinion of "Adequate". Although the fieldwork has been completed for the SWIFT Financials review the report has still to be finalised.
6. Scoping has commenced on the majority of the 2016/17 fundamental system audit reviews. Consideration is being given to internal system changes when scoping these reviews to provide assurance that the controls surrounding the implementation of any revised processes are robust. Consideration will also be given to whether there have been any Government initiatives that would impact on controls and processes. No significant issues have been identified, to date.
7. Discussions have been held with the external auditors to agree the approach to be adopted for the 2016/17 fundamental system reviews. If there has not been any significant change in the system over the previous year, a light touch approach will be adopted. This will include comprehensive walkthrough testing of all key controls, documented evaluation of whether the walkthrough has confirmed the system and whether the control environment has materially altered. Substantive testing will also be undertaken on the key controls relied upon by the external auditors. A follow up of previous recommendations made will also be carried out. Where significant changes in the system have occurred a full audit will be undertaken. This will also include substantive testing of all key controls within the system.
8. The findings of completed Phase 1 reviews will be reported to the January Audit Committee.

Other Audit Work

9. Internal Audit has continued to be engaged in several projects, in order to provide advice and guidance on the control environment during project implementation. Work has also been undertaken on grant certification work. One member of the team was seconded for 11 weeks to support the Medium Term Financial Plan (MTFP) work streams aimed at identifying potential opportunities to save money or generate income or both and help the Council deliver better outcomes for our residents.
10. In addition to the fundamental audit reviews the following audits have been finalised since the last Committee:
 - Domiciliary Care Framework Agreement – Adequate opinion
 - Public Health – Follow Up on Data Quality Review – Good Progress
 - European Social Fund – Adequate Opinion
 - Direct Payments – Adequate Opinion

- Residential Care Homes – establishment visits – Limited Opinion
 - Use of Purchasing Cards – Limited Opinion
 - Grants Register – Limited opinion
 - IT Governance Follow Up – Satisfactory Progress
 - Proactive Anti-Fraud - Bank Accounts and Bank Imprests – Adequate Opinion
11. Internal audit also undertook a review of the Highways and General Enquiries systems that went live in October 2014 as part of Phase 1 of the Customer First project. No significant issues were identified that had not been addressed by the new contract and working arrangements. Therefore, a briefing note rather than a report was issued outlining the work undertaken.
12. A number of other reviews are currently progressing, and these are also shown within Appendix A. The outcomes will be reported to a future Committee meeting.

Schools

13. The rolling programme of school audit visits has continued. To date this year 1 school report has been finalised and a further report has been issued as a draft. Reports are currently being drafted for 3 further recent visits.

Revisions to the Public Sector Internal Audit Standards

14. The Public Sector Internal Audit Standards were revised in April 2016. Although there were no significant changes that would impact on the way in which Internal Audit deliver the service, there is now a requirement for the Internal Audit Charter to reflect the Mission of Internal Audit (as defined by the Standards) and 10 supporting core principles that should be present and operating effectively in order that the Mission is achieved.
15. The Mission of Internal Audit is defined as follows: “To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.
16. The Core Principles, taken as whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. They are set out below:
- Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - Is objective and free from undue influence (independent).
 - Aligns with the strategies, objectives, and risks of the organisation.
 - Is appropriately positioned and adequately resourced.
 - Demonstrates quality and continuous improvement.

- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

17. The Internal Audit Charter has, therefore been updated to reflect both the Mission and the 10 Core principles. These principles support the Nolan Principles and also the Code of Ethics, which were already documented within the Charter. Consideration is currently being given to the impact of the revisions to the Standards on Internal Audit working practices and the updated Charter will be presented to the next Committee.

Other Matters of Interest

18. The Committee, at its June meeting received a report which summarised the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits. The Committee noted that the LGA was working on developing a sector lead body (SLB) and supported that approach, which was later approved by Full Council on 21 July 2016. At that time, the SLB had not been confirmed.

19. The LGA has now confirmed that Public Sector Audit Appointments Ltd. (PSAA) has been specified as the sector led appointing body under the Local Audit (Appointing Person) Regulation 2015. This has now paved the way for PSAA to issue formal invitations to opt-in to the sector led arrangement. It is anticipated that invitations to opt in will be issued before December 2016.

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.

Activities for 1 April 2016 – 31st August 2016

| KPI | Definition | Current Year | | Previous Year | Annual target |
|-------|--|--------------|--------|---------------|---------------|
| | | Actual | Target | Actual | |
| KPI01 | Percentage of total audit days completed. | 35% | 35% | 33% | 80% |
| KPI02 | Percentage of the number of planned reviews completed. | 21% | 27% | 25% | 80% |
| KPI03 | Percentage of audit reviews completed within the planned time budget, or within a 1 day tolerance. | 63% | 75% | 69% | 75% |
| 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. | 94% | 80% | 69% | 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% |
| KPI06 | Overall customer satisfaction. | n/a | 80% | n/a | 80% |

21. Analysis of indicators:

- KPI01 - As at the end of August, Internal Audit has delivered a total of 444 productive audit days against a total of 1260 planned days for the year. This is on target.
- KPI02 - This KPI measures final reports issued to date. 21% of the planned reviews have been completed to final report stage along with milestones reached for fundamental systems audit work. In addition, a number of reviews have been completed to draft report stage.
- KPI03 - 63% of planned reviews have been completed either within the planned time budgets, or within a 1 day tolerance. This is below the target agreed for the year. Some reviews have taken longer than originally planned because the audits identified issues that took some time to resolve.
- KPI04 - This indicator measures the time taken for Internal Audit to receive a response from the auditee to the draft report. During the period up to the end of August 94 % of draft reports were responded to within the target set. This represents a significant improvement in response times.
- KPI05 - This indicator measures the time taken by Internal Audit to issue the final report upon receipt of an agreed response from the auditee, and continues to be positive.
- KPI06 – No staff satisfaction surveys have been sent out to date this year. This exercise will commence shortly and the feedback will be presented to the next Committee.

Council Priorities

22. 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.

Corporate Implications

Legal Implications

23. None directly from this report.

Financial Implications

24. None directly from this report. However, sound systems assist in preventing loss of resources (by other wastage or fraud), thereby improving effectiveness and efficiency.

Equalities Implications

25. None directly from this report.

Conclusion and next Steps

26. Internal Audit has continued to support the drive to strengthen internal control within Central Bedfordshire Council. Work is progressing to deliver the agreed plan by the year end.

27. A further update on audit progress will be presented to the next Audit Committee.

Appendices

Appendix A – Progress on Audit Activity

Background Papers

None.