

Bath & North East Somerset Council

MEETING:	Corporate Audit Committee	
MEETING DATE:	4 th December 2012	AGENDA ITEM NUMBER
TITLE:	Internal Audit 2012/13 Plan – Update	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendices 1 & 2 Audit & Risk Dashboards Quarter 2 2012/13		

1 THE ISSUE

1.1 The Annual Internal Audit Plan for 2012/13 was presented to the Corporate Audit Committee on the 15th May 2012. This report has been compiled to provide an update to the Committee on progress against the Plan and the results of Internal Audit work completed.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to note progress made against the Internal Audit Plan for 2012/13.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

4.1 Robust and accurate performance measurement and reporting is critical for an organisation to ensure that timely and effective decisions can be made. To aid and inform the committee Appendices 1 & 2 provide detail on key performance information related to the Audit and Risk function.

4.2 As at the end of Quarter 2, the Audit & Risk Team had completed or had work in progress amounting to 43% of the planned work. Therefore, at the half way stage through the financial year the Audit & Risk Team are behind on completing the 'planned' work for 2012/13. This is not wholly unexpected and can be explained as follows.

- 4.3 As previously reported, the planned work listing was compiled based on available audit days. We had made allocation for leave, training, administration / management and Academy School Work. However, we deliberately did not allow any contingency for 'unplanned' work, i.e. Consultancy / Advisory / Investigations. The intention, as stated at the May 2013 Committee meeting, was to drop lower 'risk' planned audits as and when 'unplanned' work consumed productive audit days. So for example, the Team had to spend 60 days on work within Tourism, Leisure & Culture. This was 'unplanned' so this will result in audits of the equivalent days being deducted from planned audit work.
- 4.4 Unplanned work to end of Quarter 2 totalled 130 days. This is an increase in the proportion of 'unplanned' work compared to the figures for 2011/12. The percentage of unplanned work has increased from 14% to 20%.
- 4.5 In addition to the significant level of 'unplanned' work a number of other considerations need to be reported:
- 1) One member of the Audit & Risk Team has been seconded to the Procurement Team in order to complete work which will contribute significantly to the financial savings required by the Council.
 - 2) A number of audit reviews required additional work to be carried out increasing the audit days allocated. This included audits included in the 2011/12 Audit Plan which were 'Work-In-Progress' at the time the 2012/13 Plan was compiled. The days recorded for '2011/12 carry forward' in the 2012/13 was therefore understated, impacting on days available to complete 2012/13 planned work.
- 4.6 The secondment of one of the Audit Team Managers to the Procurement Team resulted in a loss of 133 productive days. To help compensate for the loss a part-time Senior Auditor agreed to increase their hours to provide an additional 36 productive days per annum, resulting in a net loss of 97 productive days. This equates overall to a net 6% loss in productive days.
- 4.7 The second part of the Dashboard records the 2012/13 Audit Plan. This records that 20 Audit Reports have been finalised during the first two quarters of 2012/13. The Audit work related to School Theme Governance Standards did not result in an Audit Report. This work was to develop new financial standards for Schools.
- 4.8 Of the 20 Audit Reviews, 70% were assessed at an Assurance Level of 3 or above (Adequate to Good Framework of Internal Control). 6 reviews were assessed at a 'Weak' Assurance Level (Level 2).
- 4.9 The audits identifying weak systems of internal control included:
- 1) Radstock Community Store - This store managed and administered by the Sirona (previously the Primary Care Trust) holds equipment financed and owned by the Council. There were 8 'High' Risk weaknesses identified all linked to the safeguarding of assets and reliability and integrity of information which resulted in a 'Weak' rating being allocated. Sirona's Head of Facilities agreed with the Audit recommendations and recent enquiries have confirmed that the recommendations have been implemented.

2) Payroll Additions & Deductions - This 'Weak' Assurance rating was assigned based on the scope of the audit and its findings and is not an assessment of the whole Payroll system. The four 'key' weaknesses identified were related to: 1) limited control of individual payroll files within People Services; 2) limited documentation confirming individual's entitlement to Essential Car User Payments; 3) incomplete 'input' documentation, i.e. timesheets, enabling a full audit trail to be maintained of time worked / claimed; 4) inaccuracies in a small number of employee pension deductions, primarily related to the rates being applied when employees returned from maternity leave. This audit is to be 'followed-up' in Quarter 4 2012/13.

3) Homefinders - This long running scheme enabled individuals to access private rented housing through loans for deposit and first month's rent. The framework of controls to ensure the effective monitoring and recovery of loans were assessed as weak. This audit is to be 'followed-up' in Quarter 4 2012/13.

4) Supplier Account & Contract Set-Up - The focus of this audit was to undertake testing on the set up of suppliers based on recent fraud alerts relating to attempts by fraudsters to set up / change supplier bank details. Whilst there were some good controls in obtaining independent verification of bank details from suppliers via contacting head offices there were examples of amending bank details on receipt of emails alone which had limited or no management checks. The lack of such checks exposes the Council to a higher risk of fraud with limited opportunity for early prevention or detection prior to a complaint from a supplier. Reliance on external complaints is limited and any such complaints could be suppressed or hidden.

5) Catering - The majority of this service's trading activity is in relation to School Meals. Changes to School funding next April will require schools to decide on how this service is to be provided, a significant change. In addition to some operational weaknesses, i.e. reconciling income, there were some elements of the future planning of the service in relation to School funding which were considered 'weak'.

6) Tenancy Fraud – The Council had not yet fully developed its Tenancy Fraud Strategy including formal procedures for investigation and data sharing with Registered Providers when tenancy fraud is suspected.

4.10 In addition to the 'finalised' audit work a further 5 Audit Reviews were at 'draft' report stage, and another 11 were 'Work-In-Progress'.

4.11 It has been reported to Committee previously that the Audit & Risk Team have been successful in being appointed as the "Responsible Officer" (in effect, an Internal Auditor) for 8 Academy Schools and The Link School. During 2012/13, Ralph Allen School requested our services, whilst Hayesfield School decided to contract with an external firm to provide a comprehensive Internal Audit Service. The new Academy Financial Handbook was issued in September 2012 and this provided Schools with further guidance on the Responsible Officer role. The Audit & Risk Team will be able to continue providing a contracted service to Schools but the actual role of Responsible Officer must be carried out by a School Governor.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer for Consultation.

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Background papers	<i>Report to Corporate Audit Committee – 15th May 2012 – Internal Audit - Annual Report</i>
Please contact the report author if you need to access this report in an alternative format	