

Bath & North East Somerset Council

MEETING:	Corporate Audit Committee	
MEETING DATE:	7 th December 2010	AGENDA ITEM NUMBER
TITLE:	Internal Audit – 6 Month Update of Performance	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Audit Plan 2010/11 – Position Statement as at 30 th September 2010		

1 THE ISSUE

- 1.1 The Annual Internal Audit Plan for 2010/11 was presented to the Corporate Audit Committee on the 18th May 2010. Accordingly, attached at Appendix 1 is an update on progress against the Plan up to the 30th September.
- 1.2 In addition a summary of performance data including information from CIPFA's annual benchmarking exercise is also presented.

2 RECOMMENDATION

The Corporate Audit Committee is asked to:

- 2.1 Comment on the progress made against the Internal Audit Plan 2010/11.
- 2.2 Comment on Internal Audit's performance within the CIPFA Benchmarking exercise.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

4.1 Audit Plan Progress

4.2 Appendix 1 shows the current status of each review within the 2010/11 Annual Audit Plan.

4.3 As at the 30th September 2010 the section has completed or has work in progress amounting to 41% of the Plan and is projecting to have completed 80% of the Plan by the end of March against a target for the year of 90%.

4.4 Whilst performance at 80% is disappointing and would be the first downward trend in the last 5 years, there are several key mitigating factors:

- **Sickness:** sickness has amounted to 98 days, which already equates to 180% of the allowance built into the plan. The individual cases have received very close scrutiny and management including discussions with HR.
- **Unplanned Work:** the planning process has a built in contingency of 275 days. However, unplanned work already amounts to 253 days, some 92% of the full year contingency budget. Further detail on this area is included later in the report.
- **Redundancies:** As part of plans to meet tough budget requirements for 2011/12 and beyond, 2 members of staff - representing 15% of resources - have taken voluntary redundancy with one of these already having left.

4.5 Unplanned work for the year is detailed at the end of Appendix 1 and currently this involves some 30 additional pieces of work, including investigations into fraud & corruption, some still regarded as “work in progress”, plus requests from Senior Management.

4.6 In addition, there were three Key Control Reviews brought forward from the previous financial year, which took significant time to finalise due to the nature of the issues involved.

4.7 As in previous years, it is pleasing to note that a number of these pieces of unplanned work relate to requests for consultancy and advice from Service Managers, who continue to value the services we provide and make available.

4.8 However this does raise into question the whole Audit Planning process and consideration is already being given to a radical overhaul of this process to make it more dynamic to ‘live’ issues in future years.

4.9 In addition to unplanned work, there have been a further 64 recorded requests from various Services for advice / assistance / information, in the first six months.

4.10 A key focus of the Team, of course, is to achieve as much of the agreed annual plan as is possible. However, in addition, the internal audit team is always working to give added value to its customers and adopt best practice, especially in the following areas –

- a) **Flexible Working** - With the introduction of the new Audit & Risk Management software, the team has gone a considerable way in evolving the “paperless office”, particularly through the use of laptops and now work

in a completely 'flexible' way which has also reduced the accommodation need and ultimately resulted in budget savings.

- b) Approach to Audit Planning – As the organisation goes through significant change the number of requests to respond to new & emerging issues from Service Management is increasing and currently we are managing to accommodate these within available resources whilst still covering core systems.
- c) Fraud & Corruption - Continuing to protect and indeed strengthen the resource set aside to combat fraud and corruption risks which are inevitably heightened through the impacts of major organisational change and the current economic climate. This has included the issue of two Fraud Bulletins this year in addition to specific anti-fraud review.

Financial Management Standard in Schools (FMSiS)

4.11 The Committee will have been previously aware of the excellent work the Internal Audit Service was carrying out over the last 3 years in this area and has specifically commended the officers involved on at least 2 occasions.

4.12 However whilst compiling this report the new coalition government has announced that "The Financial Management Standard in Schools" (FMSiS) has been abolished with effect from 15th November 2010.

4.13 During the current year, the intention had been for all 13 Secondary Schools to have gone through the assessment process. This number was reduced to 10, as 3 have or intended to become an Academy. Prior to the announcement, however, 6 secondary schools had already been assessed and had achieved the standard. Since the abolition of the standard, 2 schools have decided to still go ahead with their assessment, although the remaining 2 schools have withdrawn from the process.

4.14 Following the announcement of the FMSiS abolition, the Audit Service has received several examples of positive feedback from Headteachers. In particular, one Headteacher stated that ***"the governors and I believe that FMSiS brought about many extremely valuable and positive changes and helped us analyse and reflect on our financial management practices at a significantly deeper level"***.

4.15 Whilst it is not clear what will replace FMSiS our positive and innovative approach had already received praise from the Department for Education and so it is hoped we will be allowed to contribute to the consultation process on finding a suitable alternative.

4.16 Performance Indicators

4.17 The Internal Audit service has followed the Council's approach to performance management, to assist in delivering improvement. In this respect, the service has adopted a range of Performance Indicators to inform decision making and improve outcomes, both for the service and the Council as a whole.

4.18 The Internal Audit service has a range of Performance Indicators, which are calculated monthly, quarterly and annually.

4.19 A summary of the key monthly Performance Indicators is provided below, showing performance up to 30th September 2010. Numbers 1 & 2 relate specifically to the performance of the Team. However, numbers 3, 4 and 5 are a reflection on the control environment within the Council.

4.20 The indicators show that the Service continues to be well regarded by its customers throughout the Council and that team members consistently meet the targets set in respect to time taken on each review.

	Key Service PI	As at 30th September 2010	Target
1	% of Audits completed within time allocated	89%	80%
2	% of Services which rate Internal Audit as Excellent / Good	91%	90%
3	% of Critical / High / Medium Risk recommendations implemented by services	65% (*see para below)	90%
4	% of Services which have an internal control framework assessed as Excellent / Good / Adequate	85%	80%
5	% of Council Budget where there is no identifiable fraud.	99.99%	99%

4.21 As a footnote, the indicator relating to the % of recommendations implemented by Services should not be regarded with as much concern as is possible at first sight. The audit review process does look at degrees of implementation. Accordingly, the % of recommendations either fully or partially implemented amounts to a more positive 88%.

4.22 CIPFA Benchmarking Exercise 2010

4.23 Each year CIPFA through their consulting arm (IPF) carry out national benchmarking studies and Internal Audit have joined this study since it started in 2001. The exercise compares Internal Audit teams over a detailed range of measures as well as sharing best practice and is an invaluable tool in improving the performance of the service.

4.24 The exercise is carried out over financial years and so the results reflect the year 2009/10 and the comparisons are to Unitaries as a whole and to a family or group of reasonably similar Internal Audit teams.

4.25 The results are very detailed and sizeable both in hard copy and electronic form but are available to the members of the Committee outside of the meeting. A brief summary of the headline measures is, however, detailed below –

INDICATOR (2009/10)	B&NES	UNITARY AVERAGE	AUDIT FAMILY AVERAGE
Cost Per Chargeable Day	£288	£308	£291
Staff Cost Per Auditor	£38,000	£42,541	£39,536
Overheads Cost Per Auditor	£10,778	£13,028	£10,370
Cost per £M Gross Turnover	£1,099	£955	£1,171
Audit Days per £M Turnover	3.81	3.19	4.02
Productive Days per in-house Auditor	169	171	169

4.26 In general terms the results of this exercise are positive with the 9th year in a row the team confirming again it remains below average cost whilst maintaining satisfactory levels of productivity.

4.27 A comparison with the indicators from the previous financial year show that whilst the staff and overhead costs per auditor are virtually the same, the trend for the other four indicators show a favourable situation, with costs reducing and productive days increasing.

5 RISK MANAGEMENT

5.1 A proportionate risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance and there are no significant risks to report.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out and there are no significant issues to report.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer and Cabinet Member for Resources for Consultation.

Contact person	<i>Jeff Wring (01225 477323)</i>
Background papers	<i>Report to Corporate Audit Committee – 18th May 2010 – Internal Audit Annual Report and Annual Plan for 2010/11</i>
Please contact the report author if you need to access this report in an alternative format	