

REPORT OF SERVICE DIRECTOR – FINANCE AND PROCUREMENT**INTERNAL AUDIT PROGRESS REPORT – 1ST APRIL 2014 TO 30TH SEPTEMBER 2014****Purpose of the Report**

1. To inform Audit Committee of the work carried out in the first half of the 2014/15 financial year and to highlight any key issues arising.

Information and Advice

2. The Authority has a statutory responsibility to undertake an adequate and effective internal audit of the County Council's operations. This responsibility is discharged by the Internal Audit Service which has unrestricted access to all activities undertaken by the County Council.
3. The work carried out by Internal Audit involves reviewing and reporting on the control environment established by management to:-
 - a) determine and monitor the achievement of the Authority's objectives
 - b) identify, assess and appropriately manage the risks to achieving the Authority's objectives
 - c) facilitate policy and decision making
 - d) ensure the economical, effective and efficient use of resources
 - e) ensure compliance with established policies, procedures, laws and regulations
 - f) safeguard the Authority's assets and interests

4. Internal Audit's work is planned to cover these areas and to provide an independent assessment of whether the Authority's systems and procedures are working appropriately. The work of Internal Audit is carried out in compliance with the Public Sector Internal Audit Standards. It is good practice to provide an interim report on Internal Audit work to the Board and this report satisfies this expectation.

Summary of Internal Audit Work 01/04/14 to 30/09/14

5. A wide range of audits have been completed during the period covering the Authority's operations at establishment, divisional, departmental and corporate levels. It is important to complete work at different levels of the Authority to provide assurance that the Authority is effective in setting strategy, implementing strategies effectively and operating efficiently by using good systems which minimise error and the risk of fraud. The time spent on audit work compared to that planned is shown in Appendix 1. Overall, the number of days spent carrying out audits is slightly below the planned level. It is anticipated that the Audit Plan will be completed by the end of the year. A significant emphasis has been placed on training during the period, with development of reporting skills on the Business Management System to improve the effectiveness of audit work and extend the level of assurance.
6. In the first six months of the year, a total of 51 County Council audits have been completed against a planned coverage of 119 audits for the year. For 42 of the completed audits, a formal report has been issued which includes an audit opinion on the level of internal control. A detailed analysis of the reports issued is shown in Appendix 2, setting out the area covered, the Audit Opinion, and the number of recommendations made and accepted. The other 9 audits covered a range of areas including auditing grant claims, provision of detailed written advice and developing policy and statutory reports.
7. During the period there were 3 internal audit reports issued with a "Limited" audit opinion. The details of these reports are set out below.

CFCS 1501 – Secure Accommodation (Clayfields) – August 2014. There are a number of concerns over the financial control of the Centre. Improvements are required over the monitoring of budgets, more effective planning over expenditure, poor separation of duties, poor accounting for cash income and weak controls over assets. Twelve recommendations have been made and agreed to improve these areas.

PHD 1501 – Public Health Employees and Budget Management – July 2014. This review focussed on ensuring that employees transferred in to the Authority in 2013 had been transferred on the correct pay grades and that effective budgets had been set up for Public Health and that these were being managed effectively. Three key concerns were identified. Employee data had not been obtained promptly from the NHS, and some was incorrect. Payroll reports were not being regularly reviewed. There were a number of issues around accessing the Business Management System and provision of training to ensure effective budget monitoring. Six recommendations have been made and agreed.

XC 1501 – Corporate Procurement follow up – September 2014. Although some progress had been made in implementing the recommendations agreed at the previous audit, there were a number of areas still requiring action. In particular, there was further work needed on improving the level of compliant orders, implementation of a revised

procurement strategy, development of performance information and improved monitoring of the implementation of purchasing category strategies. Some of the agreed recommendations had been placed on hold at the time of the audit including:

- establishment of a commissioning and commercial board
- initiation of a project to address the corporate risk of supply chain failure

Eight recommendations have been made and agreed to address the concerns.

8. There were two Internal Audit Reports with “Limited Assurance” audit opinions that have been revisited during the period between 1st April 2014 and 30th September 2014 to ensure that the recommendations that were agreed for implementation have been acted upon. The details of the follow ups are set out in Table 1.

Table 1: Follow up audits completed during period 1st April to 30th September 2014

Original report number	Area audited	Current Audit Opinion
PPCS 1501	Grant Aid	Substantial progress made
XC 1501	Corporate Procurement	Limited progress

Internal Audit Performance Indicators

9. Progress against the Section’s performance indicators, as at 30 September 2014, is detailed in the table below:-

Internal Audit Performance Indicators 2014/15

Performance Measure/Criteria	Target	Outcome as at 30/09/14
Comply with Public Sector Internal Audit Standards	Compliance achieved	Substantial Compliance
Completion of Audit Plan - Days - Jobs	90% 90%	97% 85%
Positive customer feedback	Feedback good or excellent	Achieved (average score is 1.6 where 1 is excellent and 2 is good)
Recommendations agreed	95%	99%
External Audit Reliance on Internal Audit	Positive	Positive

10. Progress to date on completing the Audit Plan has been good and broadly in line with the planned time. There is a small shortfall in the number of days due to a significant investment on training and development to improve extraction of information from the Business Management System. The number of jobs completed is behind the plan, however a substantial number of audits are largely complete and draft reports issued. The Internal Audit Section complies substantially with the Public Sector Internal Audit Standards and external audit continue to place reliance on the work completed by Internal Audit.
11. The responses to our audit reports continue to be positive. A total of 298 recommendations were made during the six month period to the end of September 2014 and 295 (99%) have been agreed for implementation. Customer feedback from the Quality Control Questionnaires is also positive with an average score of 1.6.

Conclusion

12. Internal Audit work completed to 30 September 2014 is slightly below target but this is likely to be addressed by the end of the financial year. The work completed shows that the Authority's overall system of internal control continues to be satisfactory at this stage of the year.

Other Options Considered

13. This report is for information and noting. No alternative options have been considered.

Reason/s for Recommendation/s

14. This report is for noting.

Statutory and Policy Implications

15. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) Members are asked to note the Internal Audit Progress Report and comment accordingly.

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Title of Report Author: Head of Internal Audit

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Constitutional Comments

16. The report is for noting only.

Financial Comments (JMB 29/10/13)

17. The net budgeted cost for Internal Audit for 2013/14 is £360k. As a result of vacant posts, it is expected that there will be an under spend during the year of approximately £60k.

Background Papers

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- The reports set out in Appendix 2 are available as background papers.

Electoral Division(s) and Member(s) Affected

- All