



Committee report

Committee	AUDIT COMMITTEE
Date	THURSDAY, 25 SEPTEMBER 2014
Title	INTERNAL AUDIT PERFORMANCE REPORT
Report of	BUSINESS IMPROVEMENT MANAGER

EXECUTIVE SUMMARY

1. This report introduces the performance report from the council's internal audit provider. It provides executive summaries of their work and key performance indicators.

BACKGROUND

2. This report is about the latest outcomes of the reviews undertaken by the council's internal auditors. It also provides a further update of the completion of the 2013/14 plan.
3. The report at the Appendix provides executive summaries of the reports issued since the committee last considered internal audit's work.
4. At the last meeting, the committee was informed that there was one report outstanding from 2013/14– on 'Accounts Payable'. That report has now been finalised and its executive summary is produced as part the Appendix. Although its outcome was one categorised as 'medium' risk, it does highlight an issue in relation to a large contract payment. Officers will be in attendance at the meeting to provide the latest update on the issue.
5. The payment was generated by mistake by a member of staff who had been asked to clear the outstanding SAP commitment on a purchase order. The member of staff was asked to amend the Pihl (UK) Ltd purchase order to clear the commitment showing in the 2013/14 accounts. However, due to a failure to understand the full implications of this, the member of staff caused the system to automatically generate a payment of £431,565 plus 20% VAT, totalling £517,878.00. Pihl (UK) Ltd, the company concerned, was in administration by November 2013. Steps are being taken, and are ongoing, to recover the erroneous payment including through the Courts.

6. The overriding conclusion of the investigation (and the view of both internal and external auditors) is that the failure was caused by human error and not due to system failings. Further actions to prevent a recurrence include:
- An agreed procedure rolled out across the council for informing Shared Services (responsible for vendor master data) of providers entering insolvency so their vendor record can be blocked for automatic payment
 - process notes were reviewed to ensure the instructions around SAP purchase orders are clear and complete
 - Training for members of staff so they fully understand the purchase order processes and the consequences of their actions
 - Instructions given to all staff making requests for actions around SAP purchase orders to ensure the information they provide is clear, complete and unambiguous
 - undertake at least annual maintenance of all Large Orders to ensure out of date order lines are cleared
 - A report written to identify payment items in excess of £100,000 which is run before each payment file is sent to the bank for action. Any 'Self-Billing' vendor payments identified on this report are checked by the Payments Team and verified.

STRATEGIC CONTEXT

7. The reviews undertaken by internal audit are an important part of the council's governance arrangements and are directed at ensuring that the council's system of control is effective in helping to deliver the council's objectives.

CONSULTATION

8. No further consultation is required for this report. All internal audit reports are considered in draft by those who have been involved in the review, giving them the opportunity to correct any factual errors and to comment on the practicality of any recommendations. All findings and recommendations can therefore be described as 'agreed'.

FINANCIAL / BUDGET IMPLICATIONS

9. There are no direct financial implications of this report. Some of internal audit's recommendations may require additional resources which will be part of the consideration when implementing recommendations. The cost of the internal audit service continues to appear competitive when benchmarked against other local authorities.

LEGAL IMPLICATIONS

10. The Accounts and Audit (England) Regulations 2011, require that local authorities undertake an adequate and effective internal audit of their accounts and internal control.

EQUALITY AND DIVERSITY

11. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. Following an initial screening it is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

RISK MANAGEMENT

12. The key risk associated with this report is that the outcomes of internal audit reviews are ignored. The committee receives regular reports on the status of audit recommendations as a way of gaining reassurance that they have been implemented. Internal audit is an opportunity for weaknesses in control processes to be identified and for them to be highlighted to members.

RECOMMENDATION

13. (a) To receive the progress report of the council's internal audit provider and consider whether any further information or action is necessary.

(b) To seek assurances that the issues identified in the Internal Audit review of Accounts Payable are being appropriately addressed.

APPENDICES ATTACHED

14. [Appendix](#) – Internal Audit performance report

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