

# Internal Audit

# Annual Report

## 2013/14

## **Purpose of the Report**

1. To set out the work carried out by Internal Audit during 2013/14, and based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

## **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 ensure that the Authority's systems and procedures achieve their objectives. In order to identify the key areas to be audited, Internal Audit carries out a risk assessment of the Council's financial and other systems which, following consultation, forms the basis of the annual Audit Plan. Audits during 2013/14 were carried out in accordance with the Public Sector Internal Audit Standards, which define the standards that should be followed to achieve best professional practice.

## **Summary of Internal Audit Work for 2013/14**

4. The audits completed during 2013/14 covered a broad range of the Authority's services, systems and processes, with reviews carried out at establishment, divisional, departmental and corporate levels. The time spent on audit work compared to that planned is shown in Appendix 1. The total time delivered on audit work (1939 days) is below the original plan (2125 days). This is due to there being a number of vacancies during the year. Audit work has been prioritised by detailed discussions with managers across the Authority. There were 133 audit jobs completed during the year on County Council systems and procedures.
5. Of the 133 County audit jobs, 28 were on areas where the usual audit opinion is not provided, for example on irregularities, grant claims, provision of detailed advice on changes in procedures and work requested by departments. The remainder (105 reports) were issued on the Authority's operations and contained an internal audit opinion on the financial controls and procedures in place, categorised as follows:-

Substantial Assurance – there are no weaknesses or only minor weaknesses

Reasonable Assurance – most of the arrangements for financial management are effective, but some weaknesses have been identified

Limited Assurance – there is an unacceptable level of risk which requires the prompt implementation of the recommendations made to correct the weaknesses identified.

6. A detailed analysis of all the reports issued during 2013/14 is set out in Appendix 2. Table 1 below analyses the opinions given on the individual reports by department.

**Table 1: Analysis of Audit Opinions during 2013/14**

Department	Opinion on Level of Assurance			Total
	Substantial	Reasonable	Limited	
Children Families and Cultural Services	4	3	-	7
Schools	18	35	2	55
Adult Social Care, Health and Public Protection	2	12	-	14
Environment and Resources	3	15	2	20
Policy, Planning and Corporate Services	1	1	1	3
Public Health	-	1	-	1
Cross Cutting	-	2	3	5
TOTALS	28	69	8	105
Percentage	27%	65%	8%	100

7. There were 683 individual recommendations for change during the year. The managers of the service are required to formally respond to each recommendation and the vast majority of recommendations (98%) were agreed for implementation.
8. From the table, it can be seen 97 of the 105 areas reviewed during 2013/14 had an opinion that the level of internal control was sufficient (i.e. substantial assurance or reasonable assurance). This equates to 92% of the areas reviewed. There were 8% of areas audited which were categorised as limited assurance. The details of these reports are set out in Appendix 3. These audits revealed weaknesses requiring urgent action to strengthen the systems and procedures in

place. The weaknesses identified covered a diverse range of issues including the need for:

- Training and compliance with Financial Regulations
- Failure to monitor and control central systems
- Failure to adhere to agreed procedures

9. The trend in audit opinions over the last 5 years is shown in the table 2 below.

Table 2: Trend in Audit Opinions over the last 5 years

<b>Year</b>	<b>Number of reports</b>	<b>Substantial Assurance</b>	<b>Reasonable Assurance</b>	<b>Limited Assurance</b>
2009/10	155	21 (13%)	116 (75%)	18 (12%)
2010/11	150	40 (27%)	100 (67%)	10 (7%)
2011/12	133	43 (32%)	76 (57%)	14 (11%)
2012/13	98	29 (30%)	54 (55%)	15 (15%)
2013/14	105	28 (27%)	69 (65%)	8 (8%)

10. As can be seen from the chart above, the number of limited assurance audit opinions during 2013/14 has decreased compared to the previous year. The Authority has undertaken significant changes during 2011 and 2012, including the introduction of the new Business Management System (BMS), reorganisation of departments, services and organisational structures, with the loss of a number of experienced employees. These changes have now become “business as usual” as the new systems have bedded in.
11. The 28 special projects during the year covered a range of issues including:-
- Following up concerns over the operation of Imprest accounts where they have become overdrawn
  - Advice on the implementation of Lean plus reviews
  - Advice on the new Civica Income system
  - Provision of advice on cheque scams
  - Follow up of information arising from the National Fraud Initiative
  - Carrying out a number of grant audits
  - Work on suspected irregularities and whistleblowing complaints

#### Annual Governance Statement

12. The Accounts and Audit Regulations 2011 require the Authority to publish an Annual Governance Statement with its Accounts. The Statement focuses on the Authority’s system of governance and internal control which facilitates the effective exercise of its functions and the achievement of its objectives. Internal Audit’s work contributes

to the assurance process detailed in the Annual Governance Statement.

13. The individual audit opinions set out in paragraph 6 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. As 92% of the audits undertaken identified that appropriate controls were found to be in place, Internal Audit's overall opinion is that the Authority's system of internal control is good. However, the fact that 8% of systems or procedures were found to provide limited assurance is a cause for concern, and it is essential that the control weaknesses in these areas are addressed. Follow up audits will be carried out to ensure that the recommendations made have been implemented.

#### Internal Audit Performance Indicators

14. A number of performance measures and indicators are monitored to assist in the delivery of the Section's objectives. Performance against these key indicators was as set out in Table 3 below.

Table 3: Analysis of Performance Indicators 2013/14

<b>Indicator</b>	<b>Target</b>	<b>Outcome</b>
Comply with Public Sector Internal Audit Standards	Substantial compliance	Internal review shows 96% compliance
Completion of Audit Plan:- Number of days Audits completed	90% 90%	90% 97%
Customer Satisfaction score	Under 2	Average 1.6
Recommendations accepted	95% acceptance	98% accepted
Productive time	Over 70%	69% achieved
Net audit cost per £1m turnover for 2013/14	£650	£329
External audit review	Positive	Positive

15. Overall, performance during the year has been in line with target. The number of audit days provided was 90% of the planned days due to a number of vacancies within the Audit Section. The number of audit jobs completed was slightly below plan.
16. During the year, the section has continued to use a Customer Satisfaction questionnaire, and has maintained very positive results. The vast majority of recommendations made have been agreed for implementation (97%).
17. The net audit cost per £1m turnover for 2013/14 was £329, which is significantly below the county council average. The net cost in 2014/15 will be similar to 2013/14.

## Quality Assurance Programme

18. The Public Sector Internal Audit Standards require Internal Audit Sections to develop a Quality Assurance and Improvement Programme to ensure that appropriate quality standards are being applied. An internal review was carried out during the year and the results reported to the Audit Committee in March 2014, together with an Action Plan to address identified weaknesses.
19. As a local authority, the County Council does not comply with some of the Standards. The requirement for the Chief Audit Executive (Head of Internal Audit at Nottinghamshire County Council) to report to an organisational level equal or higher than the corporate management team is not met. In practice, the Head of Internal Audit's line manager is the Service Director, Finance and Procurement. A further requirement is that the audit budget and resource plan be approved by the Board (Audit Committee). In practice, the budget is agreed as part of the budget setting by Full Council in February each year. In addition, the requirement for the appointment and removal of the Chief Audit Executive to be approved by the Board is not met, as this is dealt with by delegated powers under the Constitution. Following discussions at Corporate Leadership Team, it was agreed that changes will be made to comply more fully with the Standards, including regular (quarterly) reports to the Chief Executive and Corporate Leadership Team and review of the budget for internal audit by Audit Committee.
20. An updated Quality Assurance and Improvement Programme has been developed and is attached as Appendix 4, setting out progress against the plan.

## Conclusion

21. The work undertaken by Internal Audit during 2013/14 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. However, the fact that 8% of systems or procedures were found to be unsatisfactory is a cause for concern, and it is essential that the control weaknesses in these areas are addressed.

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**INTERNAL AUDIT ANNUAL PLAN REPORT 2013/14****PERFORMANCE AGAINST PLAN**

	<b>Annual Plan Days</b>	<b>Actual Days</b>	<b>Variance Days</b>
Cross cutting work	397	303	-94
Children, Families and Cultural Services	219	188	-31
Schools	403	416	+13
Adult Social Care and Health	260	264	+4
Environment and Resources	470	460	-10
Policy, Planning and Corporate Services	80	74	-6
Public Health	-	30	+30
Contingency	100	-	-100
County Council Total	1,929	1,735	-194
External Contracts	196	204	+8
OVERALL TOTAL	2,125	1,939	-186

APPENDIX 2

**INTERNAL AUDIT PLAN 2013/14**  
**Audits Completed 1 April 2013 to 31 March 2014**

Audit Report Department and Area audited	Audit Opinion on Assurance	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<b>Adult Social Care, Health and Public Protection</b>							
Direct Payments monitoring – follow up	Reasonable	-	1	2	-	1	2
Homecare Management system	Reasonable	2	7	-	2	7	-
Framework/i follow up	Reasonable	-	-	-	-	-	-
Meals at Home Income – 2 <sup>nd</sup> follow up	Reasonable	-	2	-	-	2	-
Mental Health Service	Reasonable	1	1	-	1	1	-
External Day Service Commissioning	Reasonable	-	7	-	-	7	-
The i-work Team	Reasonable	-	3	1	-	3	1
Scambusters project grant	Reasonable	-	-	-	-	-	-
Operation Spinnaker grant (investigation of suspected fraud by Trading Standards units)	Reasonable	-	-	-	-	-	-
Fairer Contributions and Financial Assessments	Substantial	-	-	3	-	-	3
Integrated Community Equipment Service	Reasonable	-	3	2	-	3	2
Mental Health Services	Reasonable	1	1	-	1	1	-
Services to Care Self-funders	Reasonable	-	5	3	-	5	3
Business Support	Substantial	-	-	3	-	-	3
<b>Sub Total</b>		<b>4</b>	<b>30</b>	<b>14</b>	<b>4</b>	<b>30</b>	<b>14</b>
<b>Children, Families and Cultural Services</b>							
External placements for looked after children	Reasonable	-	5	-	-	5	-
School funding formula	Substantial	-	-	-	-	-	-
Public Libraries	Reasonable	-	2	2	-	2	2
PFI schools – contract monitoring	Substantial	-	1	-	-	1	-
National Award for Special Educational Needs							



Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
coordination	Reasonable	-	-	-	-	-	-
Country Parks and Green Estate	Substantial	-	3	3	-	3	3
School Funding Formula	Substantial	-	-	-	-	-	-
Sub Total		-	11	5	-	11	5
<b>School Audits</b>							
Secondary Schools (2 final reports issued)	Overall, 18	1	20	4	1	20	4
Primary Schools (53 final reports issued)	Substantial, 35 Reasonable and 2 Limited Assurance	14	372	75	14	364	75
<b>Environment and Resources</b>							
IT Data Backup	Reasonable	-	3	-	-	3	-
Street Lighting	Limited	2	3	1	2	3	1
Flood Risk Management	Reasonable	-	2	1	-	2	1
Cleaning Service – follow up	Limited	-	9	4	-	9	4
IT Database Management	Reasonable	1	3	2	1	3	2
BMS Accounts Receivable Process Maps	Reasonable	-	3	-	-	3	-
Car Loans – follow up	Reasonable	-	-	-	-	-	-
IT Server Virtualisation	Reasonable	-	1	-	-	1	-
Carbon Reduction Commitment return	Reasonable	-	-	-	-	-	-
Fuel Cards	Reasonable	-	-	-	-	-	-
Medium Term Financial Strategy	Substantial	-	-	2	-	-	2
BMS Account Receivable	Reasonable	-	3	-	-	3	-
Estate Management	Reasonable	1	6	4	1	6	4
BMS Payroll	Reasonable	-	3	1	-	3	1
Street Lighting follow up	Reasonable	-	-	-	-	-	-
BSC Competency Centre	Reasonable	1	6	-	1	6	-

Concessionary Fares	Substantial	-	-	1	-	-	1
Cleaning Service – follow up	Reasonable	-	2	3	-	2	3
School Meals – follow up	Reasonable	-	3	-	-	3	-
Libraries Public Web Access	Substantial	-	-	-	-	-	-
Sub Total		5	47	19	5	47	19
<b>Policy, Planning and Corporate Services</b>							
Broadband Project	Substantial	-	3	1	-	3	1
Grant Aid	Limited	2	5	7	2	4	6
Departmental employee controls	Reasonable	-	4	-	-	4	-
Sub Total		2	12	8	2	11	7
<b>Public Health</b>							
Contracting	Reasonable	-	2	-	-	2	-
		-	2	-	-	2	-
<b>Cross Cutting Reviews</b>							
Corporate Procurement	Limited	1	12	6	1	9	3
Imprest Accounts	Limited	-	3	4	-	3	4
Business Continuity	Limited	1	3	3	1	3	3
Purchase Cards – follow up	Reasonable	-	4	1	-	4	1
Annual Governance Statement	Reasonable	-	-	-	-	-	-
Sub Total		2	22	14	2	19	11
<b><u>TOTAL</u></b>		28	516	139	28	504	135

**Audit Reports issued during 2013/14 which had a “Limited Assurance” Audit Opinion**

**E&R 1314 – Street Lighting – June 2013.** The key concerns raised related to the maintenance of the inventory of street lighting and failure to check that charges for electricity use were up-to-date and accurate. Recommendations have been made and agreed to rectify the situation. A subsequent follow up has confirmed that the area now has a reasonable assurance level.

**E&R 1318 – Cleaning Service follow up – July 2013.** This was a follow up audit to an initial review carried out following a Whistleblowing allegation. The original allegation was that the Cleaning Service’s assets and resources were being mis-used. Whilst the allegation was not substantiated, a number of weaknesses in records and processes were identified. This follow up identified that insufficient progress had been made in implementing the agreed recommendations and the area was reported to the Audit Committee. A subsequent follow up has confirmed that the area now has a reasonable assurance level.

**E&R 1319 – Corporate Procurement – August 2013.** The Authority does not currently have an agreed procurement strategy. The old strategy, which covered the period from 2010 to 2012, has not yet been replaced. A number of aspects from the old strategy had not been implemented, for example establishing a Procurement Board and setting up a Contracts Register. However, it is unclear what will be required under any new strategy. Nineteen recommendations were made to improve procurement and thirteen of these have been agreed. The recommendations that have not been agreed have resulted from the view that the recommendations will be inappropriate when the new strategy is in place.

**E&R 1404 – Imprest Accounts – August 2013.** This review was carried out following the investigation of cash shortfalls in two Imprest accounts, which were subsequently referred to the Police for investigation. The review identified that there was a failure to take effective action in cases where accounts are overdrawn, out of balance or not being used. Seven recommendations have been made, and agreed, to improve the level of control.

**CC 1302 – Business Continuity – May 2013.** Although a strong framework for managing business continuity was in place, the majority of departmental business continuity plans were incomplete at the time of audit. Seven recommendations have been made and agreed to improve business continuity.

**PPCS 1301 – Grant Aid.** Issues were identified over the monitoring of the budget and confirmation of information supplied by applicants for grants. A range of recommendations were made, and agreed, to address the weaknesses.

**School budget share reports.** Two schools had a limited assurance audit opinion. A range of weaknesses were identified. Some of the key areas of concern were over ordering for goods and services, correct use of tendering and quotations and over the management of the school bank account.

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## **APPENDIX 4**

### **Quality Assurance Improvement Plan**

#### **Nottinghamshire County Council Internal Audit Service**

##### **Progress as at 31 May 2014**

	<b>Audit Standard</b>	<b>Gap in meeting standard</b>	<b>Action Required</b>	<b>Officer responsible</b>	<b>Timeline</b>	<b>Progress as at May 2014</b>
1.	Chief Audit Executive (CAE) should have direct and unrestricted access to senior management and the Board	Access to the Board is not set out in the Internal Audit Charter	Update Charter	Head of Internal Audit	June 2014	Charter updated to include this requirement
2.	CAE should report to level of corporate management team	CAE reports to Service Director	Explain as part of Annual Report	Head of Internal Audit	June 2014	Explained in Annual Report
3.	Reporting and management arrangements in place to preserve the CAE's independence and objectivity	Formal arrangements not in place	Amend Head of Internal Audit's job description to include arrangements for raising concerns	Service Director for Finance and Procurement	June 2014	Job Description updated
4.	The Board approves the internal audit budget and resource plan	The Board does not approve the budget. This is a responsibility of Full Council	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2014	Explained in Annual Report
5.	The Board approves decisions relating to the appointment and removal of the CAE	This responsibility is fulfilled by the Service Director under the Constitution.	Explain arrangements as part of Annual Report	Head of Internal Audit	June 2014	Explained in Annual Report
6.	The Chief Executive should contribute to the performance appraisal of the CAE	No formal contribution from the Chief Executive	Include in future performance appraisal	Service Director for Finance and Procurement	December 2014	Still outstanding

	<b>Audit Standard</b>	<b>Gap in meeting standard</b>	<b>Action Required</b>	<b>Officer responsible</b>	<b>Timeline</b>	<b>Progress as at May 2014</b>
7.	Feedback should be sought from the Chair of the Audit Committee for the CAE's performance appraisal	No formal contribution from the Chair	Include in future performance appraisal	Service Director for Finance and Procurement	December 2014	Still outstanding
9.	The results of the QAIP should be reported to the Board	Not previously reported	Report to Board	Head of Internal Audit	March 2014	Reported in March 2014
10.	The risk-based plan should set out the approach to using other sources of assurance and any work that may be required to place reliance upon those sources	Not formally set out in the risk-based plan	Include section in risk-based plan to cover how sources of assurance are used	Head of Internal Audit	June 2014	Included in the Audit Plan for 2014/15
11.	The CAE should carry out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance	Not formally developed	Develop assurance mapping for future planning	Head of Internal Audit	March 2015	Still outstanding
12.	Engagement results released outside the organisation should include limitations on distribution and use of the results	No caveat is placed on results released outside the organisation	A caveat will be developed to set out the limitations on use of the results	Head of Internal Audit	Immediate	A caveat has been developed to be used when required.
13.	Progress against the QAIP should be set out in the CAE's Annual Report	First year of the QAIP	The Annual Report will include a section on progress against the QAIP	Head of Internal Audit	June 2014	Reported as part of the Annual Report.