

Internal Audit

Annual Report

2011/12

Purpose of the Report

1. To set out the work carried out by Internal Audit during 2011/12, 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 are carried out in accordance with the CIPFA Code of Practice for Internal Audit, which defines the standards that should be followed to achieve best professional practice.

Summary of Internal Audit Work for 2011/12

4. The audits completed during 2011/12 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 (2360 days) is above the original plan (2135 days). This is due to there being no vacancies during the year and a below average level of sick leave. There were 167 audit jobs completed during the year on County Council systems and procedures.
5. Of the 167 County audit jobs, 34 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 (133 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:-

Sound – there are no weaknesses or only minor weaknesses

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

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

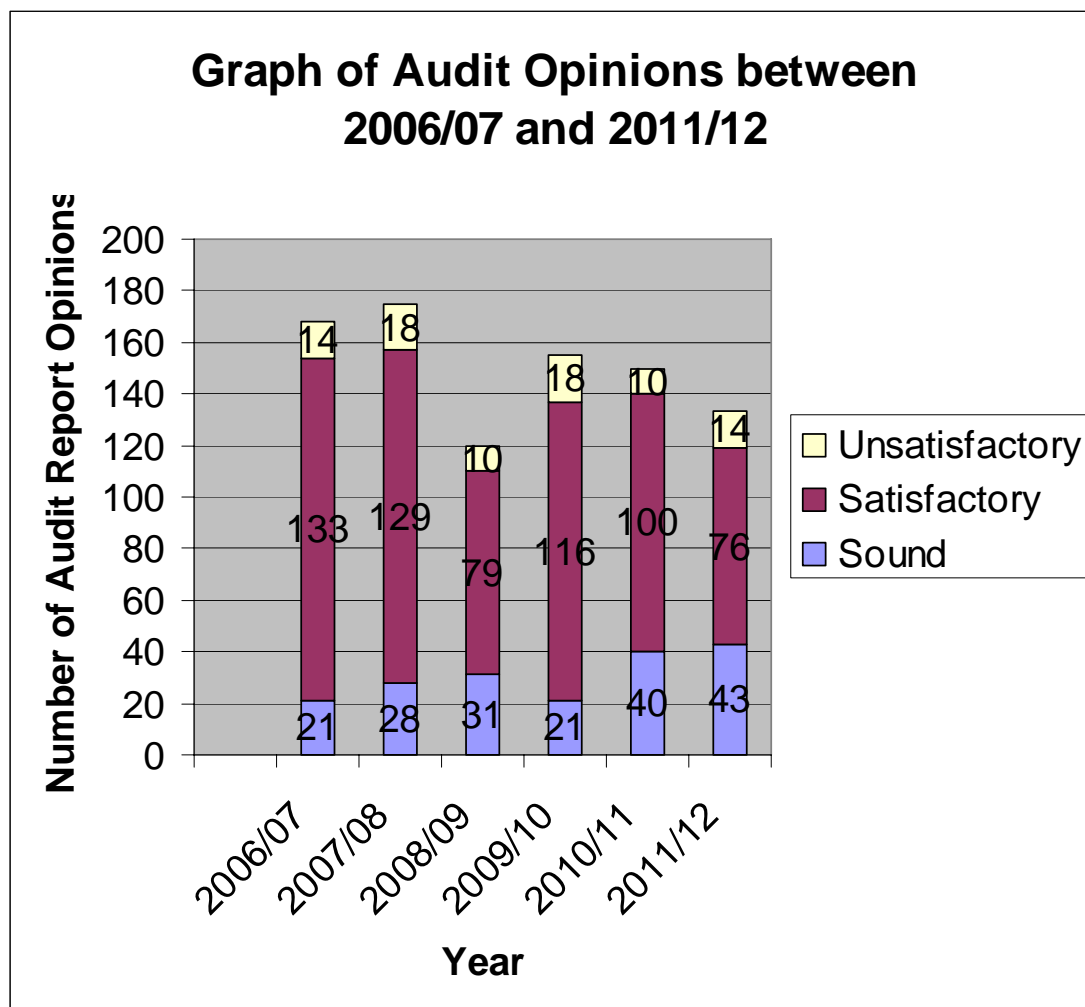
6. A detailed analysis of all the reports issued during 2011/12 is set out in Appendix 2. Table 1 below analyses the opinions given on the individual reports by department.

Table 1: Analysis of Audit Opinions during 2011/12

Department	Opinion			Total
	Sound	Satisfactory	Unsatisfactory	
Children Families and Cultural Services	5	10	1	16
Schools	33	34	4	71
Adult Social Care, Health and Public Protection	2	12	3	17
Environment and Resources	2	15	5	22
Policy, Planning and Corporate Services	1	5	1	7
TOTALS	43	76	14	133
Percentage	32%	57%	11%	100

7. There were 1061 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 (99%) were agreed for implementation.
8. From the table, it can be seen 119 of the 133 areas reviewed during 2011/12 were found to be sound or satisfactory. This equates to 89% of the areas reviewed. There were 11% of areas audited which were categorised as unsatisfactory. 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 chart below.



10. As can be seen from the chart above, the number of unsatisfactory audit opinions during 2011/12 has increased compared to the previous year. The Authority is currently undertaking a transformation programme which delivered savings of the order of £70 million in 2011/12. This has involved a significant amount of change during the year, including the introduction of the new Business Management System (BMS), reorganisation of departments, services and organisational structures, and the loss of a number of experienced employees.
11. The 34 special projects during the year covered a range of issues including:-
- Attending workshops on the new Business Management System modules and providing advice and feedback on proposed control systems and systems documentation
 - Advice on the implementation of pay scheme in schools
 - 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 a number of suspected irregularities

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 89% 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 adequate. However, the fact that 11% 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. 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 2 below.

Table 2: Analysis of Performance Indicators 2011/12

Indicator	Target	Outcome
Comply with Audit Code of Practice	Substantial compliance	Achieved
Completion of Audit Plan:- Number of days Audits completed	90% 90%	110% 123%
Customer Satisfaction score	Under 2	Average 1.5
Recommendations accepted	95% acceptance	99% accepted
Productive time	Over 70%	73% achieved
Net audit cost per £1m turnover	£650	£323
External audit review	Positive	Positive

15. Overall, performance during the year has been above target. The number of audit days provided exceeded the planned days, as did the number of jobs completed. There are two main reasons for the good performance. Firstly, the Audit Section has maintained a full

complement of staff throughout the year, with no vacant posts. Secondly, there has been a low incidence of sickness absence.

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 (99%).
17. The actual net audit cost per £1m turnover reduced in 2010/11 to £450, compared to a county council average of £476. The net cost in 2012/13 will be similar to 2011/12, given the reduction in the number of staff and the additional revenue generated from charging schools for the true cost of the audit work required.

Quality Assurance Programme

18. The CIPFA Code of Practice requires Internal Audit Sections to carry out a Quality Assurance Programme to ensure that appropriate quality standards are being applied. The review for 2011/12 was positive for the files reviewed. A small number of issues were identified on the documentation of supervision and signing and dating working papers. These will be addressed.

Conclusion

19. The work undertaken by Internal Audit during 2011/12 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 11% 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.

John Bailey BSc CPFA
Head of Internal Audit
Nottinghamshire County Council

INTERNAL AUDIT ANNUAL PLAN REPORT 2010/11

PERFORMANCE AGAINST PLAN

	Annual Plan Days	Actual Days	Variance Days
Children and Young People	655	703	+48
Adult Social Care and Health	280	299	+19
Environment and Resources	680	754	+74
Policy, Planning and Corporate Services	140	244	+104
Contingency	200	142	-58
County Council Total	1955	2142	+187
External Contracts	180	218	+38
OVERALL TOTAL	2135	2360	+225

APPENDIX 2

INTERNAL AUDIT PLAN 2011/12 Audits Completed 1 April 2011 to 31 March 2012

Audit Report Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<u>Adult Social Care, Health and Public Protection</u>							
Resource Allocation System	Satisfactory		4			4	
Meal at Home Income	Unsatisfactory		11			11	
Deputyships	Satisfactory		3	2		3	2
Jubilee Court Care Home	Unsatisfactory	1	17	7	1	17	7
Brooke Farm	Satisfactory		4	3		4	3
Gedling Day Services	Satisfactory	1	5		1	5	
Willow Wood Day Centre	Satisfactory	1	3	2	1	3	2
Residential Care Homes – Payments and Receipts	Satisfactory		1			1	
Holles Street Short Breaks	Satisfactory		5	2		5	2
Home Care Commissioning – Physical Disabilities	Satisfactory		4			4	
Assessments and Commissioning – Older Adults	Sound						
Assessment Reviews	Satisfactory		4			4	
Trading Standards – Follow up	Satisfactory			1			1
i-work Team	Unsatisfactory	4	3	3	4	3	3
Balderton Resource Centre	Sound		3	4		3	4
Kingsbridge Way – Short Breaks	Satisfactory		4	2		4	2
Jubilee Court Care Home – Follow up	Satisfactory						
Sub Total		7	71	26	7	71	26

Audit Report Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<u>Children, Families and Cultural Services</u>							
School Transport follow up	Satisfactory						
Youth Clubs follow up	Satisfactory	4	2	5	4	2	5
Behaviour and Attendance Service	Satisfactory		4			4	
Outdoor Education	Sound						
Lyndene Residential Home	Satisfactory		8	2		8	2
Newark and Sherwood Children's Centres	Satisfactory		2	3		2	3
National Water Sports Centre	Unsatisfactory	1	12	2	1	12	2
Budget Management – Specialist Placements	Satisfactory		3			3	
Budget Management – Children's Social Care follow up	Satisfactory		2			2	
up	Sound	1			1		
Families Information Service	Satisfactory		1	3		1	3
Skills for Employment follow up	Satisfactory	1	14	2	1	14	2
Sports Service	Satisfactory		15	2		15	2
Adventure Bases	Sound			3			3
Beeston Family Support Service Team	Sound		1	1		1	1
Gedling Family Support Service Team	Sound		3			3	
Fostering Allowance							
Sub Total		7	67	23	7	67	23

Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
		High	Medium	Low	High	Medium	Low
<u>Environment and Resources</u>							
Business Planning	Satisfactory		3	2		3	2
Credit Control	Satisfactory		4	5		4	5
Treasury Management	Satisfactory		3			3	
County Supplies	Satisfactory		9	2		9	2
School Meals Income	Unsatisfactory	1	2	2	1	2	2
Cleaning Supervision	Unsatisfactory	1	5		1	5	
Capita One	Satisfactory		4	2		4	2
Cash Income probity	Satisfactory		6			6	
Desktop Management	Unsatisfactory	1	7		1	7	
Highways Design	Satisfactory		3	1		3	1
Business Planning	Satisfactory			3			3
Windows Servers	Satisfactory	1	1	1	1	1	1
Social Care Records (Framework)	Unsatisfactory	4	1	2	4	1	2
Information Management follow up	Satisfactory		4			4	
Highways Insurance Claims	Satisfactory		1	1		1	1
Rechargeable Works Orders – Accident Damage	Unsatisfactory		6			6	
Linux Servers	Satisfactory		2	2		2	2
Government Connect	Sound			2			2
Bank Account Management	Satisfactory		1	2		1	2
Highways Asset Management System	Satisfactory		4	5		4	5
Local Bus Services	Satisfactory	1	2	6	1	2	6
Highways Manage Operate Partnerships	Sound		1			1	
Sub Total		9	69	38	9	69	38

Department and Area audited	Audit Opinion	Recommendations made and Risk Rating			Recommendations Agreed		
<u>Policy, Planning and Corporate Services</u>							
Planning Applications	Satisfactory		2			2	
Improvement Programme Consultants	Unsatisfactory	1	2	1	1	2	1
Payroll Probity	Satisfactory		1	1		1	1
Business Planning	Satisfactory		1	3		1	3
Newark Beacon	Satisfactory		1	1		1	1
Worksop Turbine	Satisfactory		2	2		2	2
Mansfield i-centre	Sound						
Sub Total		1	9	8	1	9	8
School Audits							
Secondary Schools (5 final reports issued)		3	51	20	3	50	20
Primary Schools (66 final reports issued)		20	523	109	20	511	108
<u>TOTAL</u>		47	790	224	47	777	223

Audit Reports issued during 2011/12 which had an “Unsatisfactory” Audit Opinion

COR 1111 – ICT Desktop Management – May 2011. Recommendations were made, and agreed, to address a range of weaknesses, including:-

- * A reconciliation of information in ManageSoft asset management and Active Directory, to ensure that there is a definitive list of desktop equipment.
- * Documenting transfer of equipment between sites.
- * Identification of all equipment held and its location.
- * Providing virus checks when using removable media (for example data sticks).
- * Developing a process for dealing with the former Adult Social Care department's equipment.
- * Control over licences in respect of de-commissioned equipment.

CEX 1105 – Employment of Consultants on the Improvement Programme – May 2011. Recommendations were made to further tighten the controls over the appointment of consultants, including to:-

- * Develop a combined form which will apply across the Council.
- * Confirm with consultants that they are bound by the Council's Financial Regulations.
- * Remind staff of the need to comply with Financial Regulations and EU procurement rules.
- * Ensure that a contract is in place before work commences.

COM 1120 – National Water Sports Centre – June 2011. A report was brought before the Audit Committee on 12th September 2011 which identified the issues in this report. The key weakness was over separation of duties in income collection.

E&R 1205 – Cleaning Supervision – June 2011. A number of system weaknesses were identified. In particular, recommendations were made to improve management controls over vehicle use, fuel costs, staff attendance, annual leave and mobile phone use.

ASC 1201 – Meals at Home Income - August 2011. A review was completed looking at the processes in place in Nottinghamshire and Warwickshire, following the entering of a contract with Warwickshire in May 2010. The review identified weaknesses including not destroying 'merchant copy' receipts promptly, no formal handover for transfer of cash, security of cash, prompt banking of cash received, debt management and reconciliation between the local and official accounting systems.

ASC 1203 – Jubilee Court Care Home – August 2011. A large number of recommendations were made to address a range of weaknesses in the areas of income collection, operation of the imprest account, handling of residents' allowances and property, and control over the comforts funds.

E&R 1203 – School Meals Income – September 2011. Although a relatively small number of recommendations were made (five), there is a key weakness in control. The record of cash counted and banked should be compared to the Daily Reconciliation Report. Failure to do this means that any discrepancy between the income received and income banked will go undetected. As there are over 300 schools with budgeted income of £9 million this is a significant risk.

E&R 1204 – Social Care Records (Framework) – January 2012. A number of issues were raised about the management and control of the system. In particular these related to failure to comply with password standards, no review of inactive accounts, duplicated accounts and non-compliance with record retention policy.

E&R 1211 – Rechargeable Works Orders – January 2012. The audit identified weaknesses in assessing the evidence for liability, time delays in raising invoices, documenting fully the costs of repairs and concerns over clearly identifying the culpable party.

ASC 1217 – i-Work Team – February 2012. Financial control within the Team was weak, with a large projected overspend against the budget, and inadequate control over travel expenses, income and assets. Ten recommendations were made and agreed to improve the level of control.

Primary School Audit. There were four primary school audits carried out during 2011/12 that resulted in an “Unsatisfactory” audit opinion. The issues raised were concerned with governance, ordering and purchasing of goods and services, control over income and management of the bank account. Recommendations have been made and agreed to address the weaknesses. The Audit Report is addressed to the Headteacher and the Chair of Governors for action.
