

Internal Audit Annual Report 2016/17

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Purpose of the Report

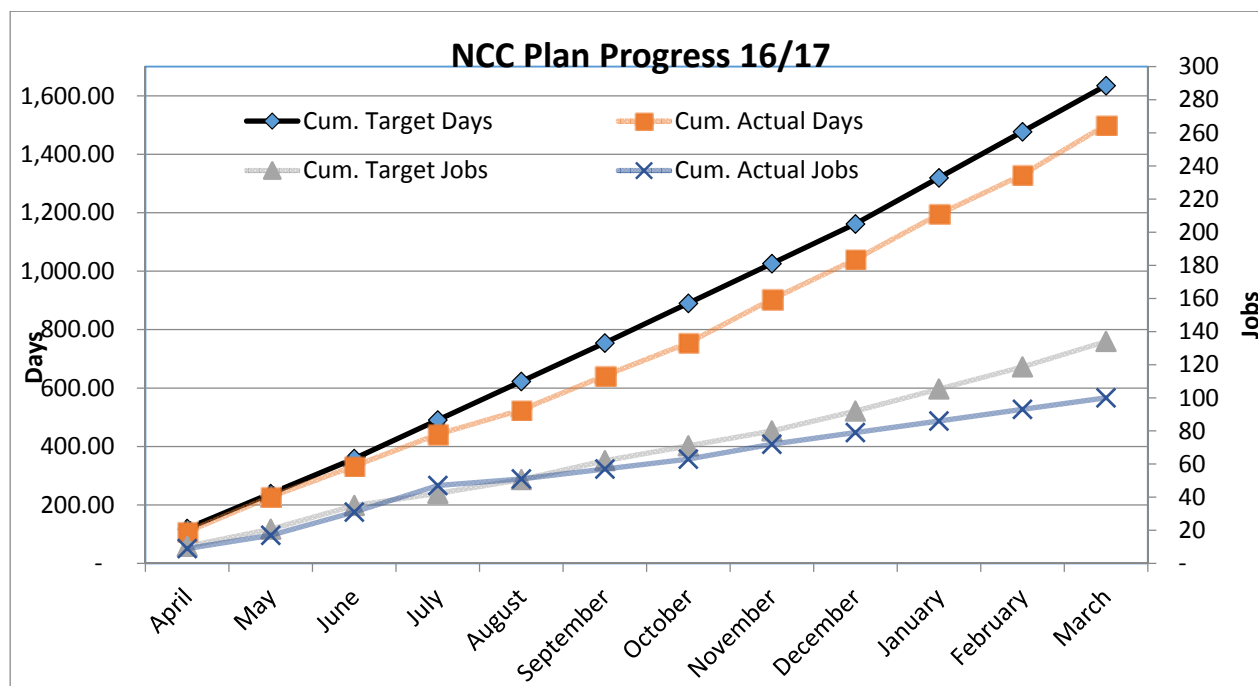
1. To set out the work carried out by Internal Audit during 2016/17 and, based on this work, to provide an opinion on the adequacy of the County Council's internal control environment.

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:-
 - 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 (PSIAS). It is good practice to provide progress reports on Internal Audit work to senior management (Corporate Leadership Team) and the Board (Governance & Ethics Committee) and this report satisfies this expectation.

Summary of Internal Audit Work for 2016/17

5. The graph below depicts achievements against the audit plan for 2016/17. Achievements are expressed in terms of the following:
 - Inputs – the number of audit days delivered against the plan
 - Outputs – the number of jobs completed against the plan
 - Productivity indicator – the target score is 1, indicating that all jobs have been completed on time and using the allocated number of days.



6. Productivity in 2016/17 was 0.81, meaning that fewer jobs than planned were completed within the days utilised. The key factors giving rise to the shortfall are summarised below:

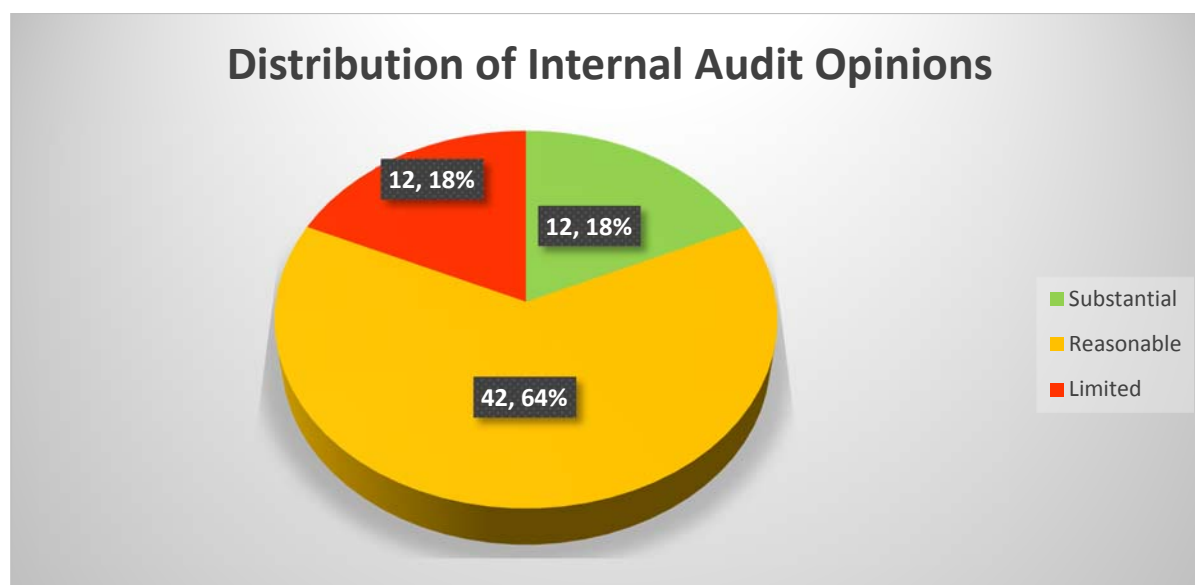
- a) impact of significant pieces of unplanned work – these take more time to complete and so restrict the number of more routine jobs that can be carried out
- b) staffing vacancies and turnover – inability to recruit to senior auditor vacancies requiring the engagement of temporary auditors through the agency contract. The availability of these resources has been both intermittent and of variable quality, and the staff turnover rate has increased the time required for on-the-job training. This has been a contributing factor in extending the length of time taken to bring jobs through to the stage of issuing a draft report. Owing to backfill arrangements to cover for the career break of the Head of Internal Audit, the section carried a vacancy in the ICT Auditor post throughout 2016/17. The postholder took on the role of Audit Manager and this restricted his capacity to carry out the usual number of ICT audit assignments.
- c) There is scope to increase the number of jobs completed by target deadlines. This issue has been discussed with the Internal Audit team and actions agreed to improve the team's performance on this in future.

As a result of these factors, it has not been possible to carry out all of the audits in the 2016/17 Plan. Deferred audits have been rescheduled as part of the annual audit needs assessment.

7. Despite the above, a wide range of audit work was completed during the year. **Appendix 1** sets out details of all final reports, draft reports and written advice, covering the following key types of Internal Audit input:

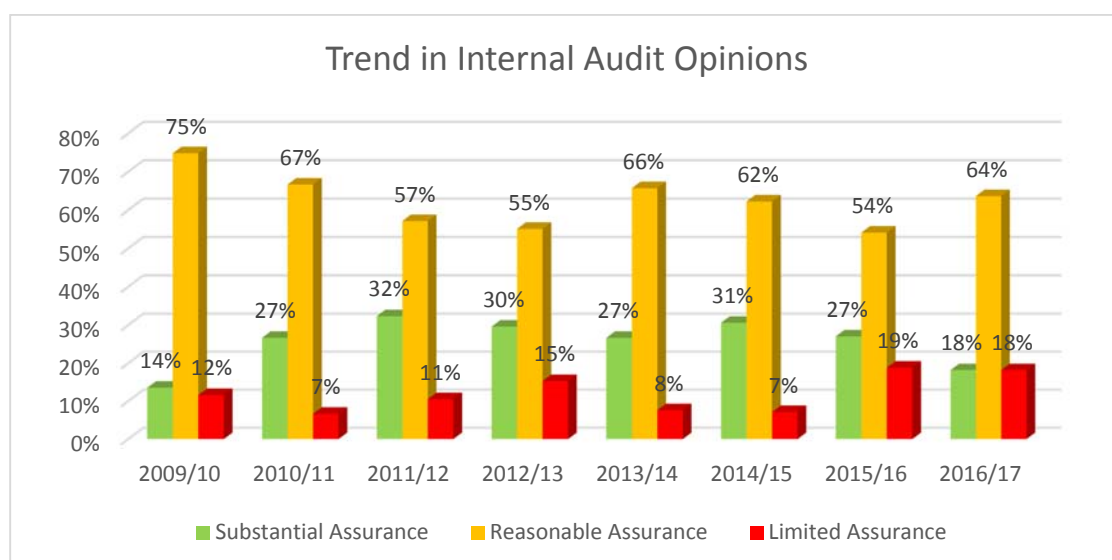
- Assurance audits, for which an audit opinion is issued
- Advice and consultancy – often relating to key developments and initiatives
- Counter-fraud – including the investigation of suspected fraud and whistleblower reports
- Certification audits – generally small jobs to sign off returns and accounts.

8. Most of Internal Audit's assurance work results in the issue of an 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.
9. Analysis of the opinion-based assurance work shows the following distribution of opinions issued during 2016/17. Based on this, we can conclude that **a satisfactory level of internal control is in operation in the Council.**



10. The work in 2016/17 has identified some areas in which internal controls need to be strengthened, most notably in the 12 areas for which a 'limited assurance' opinion was issued. Details of these reports are presented in **Appendix 2**. The weaknesses can be traced back to failures to comply with some aspect of the Council's Financial Regulations. The findings in 2016/17 emphasise a particular need for focus on the following:
 - compliance with procurement regulations
 - control over, and supporting documentation for, locally managed funds
 - risk of failure to secure government funding.
11. It was highlighted in last year's Annual Report that the increased focus by Internal Audit in recent years, on cross-cutting, Council-wide processes has identified inconsistent levels of compliance with the Council's governance framework. Follow-up work on these areas has confirmed the implementation of agreed recommendations, and it is noteworthy from Appendix 1 that the Council-wide reviews carried out in 2016/17 resulted in positive opinions. This is indicative of effective actions being taken across the Council to address the key risks in corporate processes.
12. The trend in the incidence of audit opinions over the past few years is illustrated in the graph below. This shows that, in percentage terms, the incidence of

limited assurance opinions increased in 2015/16 and it has remained at a similar level in 2016/17. As stated above at paragraph 9, Internal Audit's opinion remains that the overall level of internal control in the Council is satisfactory. Nonetheless, the Annual Governance Statement for 2016/17 draws attention to this downturn in the level of assurance provided by the reports over the past 12 months as a current area of significance for the Authority to manage.



13. Internal Audit provided advisory input to a number of key developments in the Council during the year; these are identified in Appendix 1 as 'Advisory and consultancy' input to each department. This type of input ensures that timely advice is delivered by the Section while new and changed systems are being designed and implemented, and it helps to maintain the influence the Section has to retain a proper focus on control issues. Informal feedback from senior officers indicates that this type of input is valued.
14. Internal Audit was involved with a number of irregularity investigations during the year. Details of this work are incorporated in the Annual Fraud Report for 2016/17, which is the subject of a separate report to the Governance & Ethics Committee.

Annual Governance Statement

15. 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.
16. The individual audit opinions set out in paragraph 9 combine to form the basis of the overall Internal Audit opinion on the adequacy of the Authority's internal control system. The chart at paragraph 9 shows that 82% of the audits

undertaken identified that appropriate controls were in place, therefore Internal Audit's overall opinion is that the Authority's system of internal control is satisfactory. However, 18% of the activities audited were found to provide limited assurance, and the reports on these areas feature a higher proportion of high priority recommendations. Additional work is carried out on these areas to ensure that agreed improvements are realised, or continuing concerns are reported to the Governance & Ethics Committee. The evidence from the update reports to the former Audit Committee on the follow-up of Internal Audit recommendations is very positive indeed, with assurance being provided in the vast majority of cases that actions are taken to address the control weaknesses.

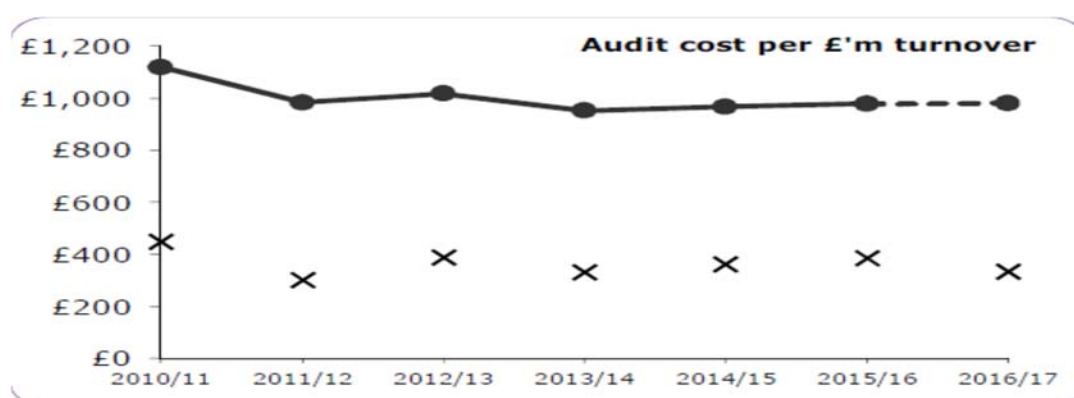
Internal Audit Performance Indicators

17. Progress against the Section's performance indicators, as at 31 March 2017, is detailed in the following table:

Internal Audit Performance Indicators 2016/17

Performance Measure/Criteria	Target	Outcome as at 31/3/17	
1. Risk-aware Council			
Completion of Audit Plan - Days - Jobs	90% 90%	92% 75%	✓ X
Regular progress reports to: - Departmental Leadership Teams - Corporate Leadership Team - Audit Committee	3 pa 3 pa 2 pa	3 3 2	✓ ✓ ✓
Publication of periodic fraud/control awareness updates	2 pa	1 st issue in Q4	X
2. Influential Audit Section			
Recommendations agreed	95%	98.7%	✓
Engagement with the Transformation agenda	Active in 5 key projects	Currently engaged with 5	✓
3. Improved internal control & VFM			
Percentage of high, medium & VFM priority recommendations implemented	75%	95% for 2015/16 actions 74% to date for 2016/17 actions	✓ X
4. Quality measures			
Compliance with the Public Sector Internal Audit Standards	Compliance achieved	Substantial compliance	✓
Reliance placed on Internal Audit work	External Audit place reliance	No concerns raised at 15/16 audit	✓
Positive customer feedback through Quality Control Questionnaire (QCQ) scores	Feedback good or excellent (where a score of 1 is excellent and a score of 2 is good)	Average score 1.76	✓

18. The staffing issues at senior auditor level have hindered the Section's ability to meet the Plan. The vacancies have now been filled and the section is now on a much firmer footing for delivery of the 2017/18 annual plan.
19. Despite the challenges, the work completed continues to be carried out in compliance with the required standards, and clients continue to respond well to the recommendations made and to the audit approach.
20. During the year, the section continued to use a customer satisfaction questionnaire, and has maintained very positive results. The vast majority of recommendations made have been agreed for implementation (98%).
21. The Section participates in the Chartered Institute of Public Finance and Accountancy (CIPFA) benchmarking club for internal audit services. Extracts from the latest benchmarking report received in December 2016 show the Council's Internal Audit Section (plotted 'X's) is below the comparator average (trend line) in terms of the cost of the Internal Audit service per £1m of the Council's turnover. The net budget for 2017/18 is £345k.



Quality Assurance and Improvement Programme (QAIP)

22. The Public Sector Internal Audit Standards require Internal Audit Sections to develop a QAIP to ensure that appropriate quality standards are being applied. An updated QAIP has been developed and is attached as **Appendix 3**, providing an update on progress against the action plan for 2016/17, revised timescales where required, and the addition of new actions arising from the latest assessment against the standards.
23. The QAIP has been informed by an internal assessment of the Internal Audit Section's compliance with the PSIAS, carried out by the Head of Internal Audit. In the following respects, the standing arrangements at the County Council mean that standards are not strictly complied with, but the compensatory arrangements described remain in place:
 - a) 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 strictly met; the Head

of Internal Audit's line manager is the Service Director - Finance, Procurement and Improvement. However, this does not hinder the Head of Internal Audit's direct access to the Chairman of the Governance & Ethics Committee, the Chief Executive or other members of the Corporate Leadership Team. From 2016, the Head of Internal Audit has been meeting quarterly with the Chief Executive, the Monitoring Officer and the Section 151 Chief Financial Officer to discuss governance issues.

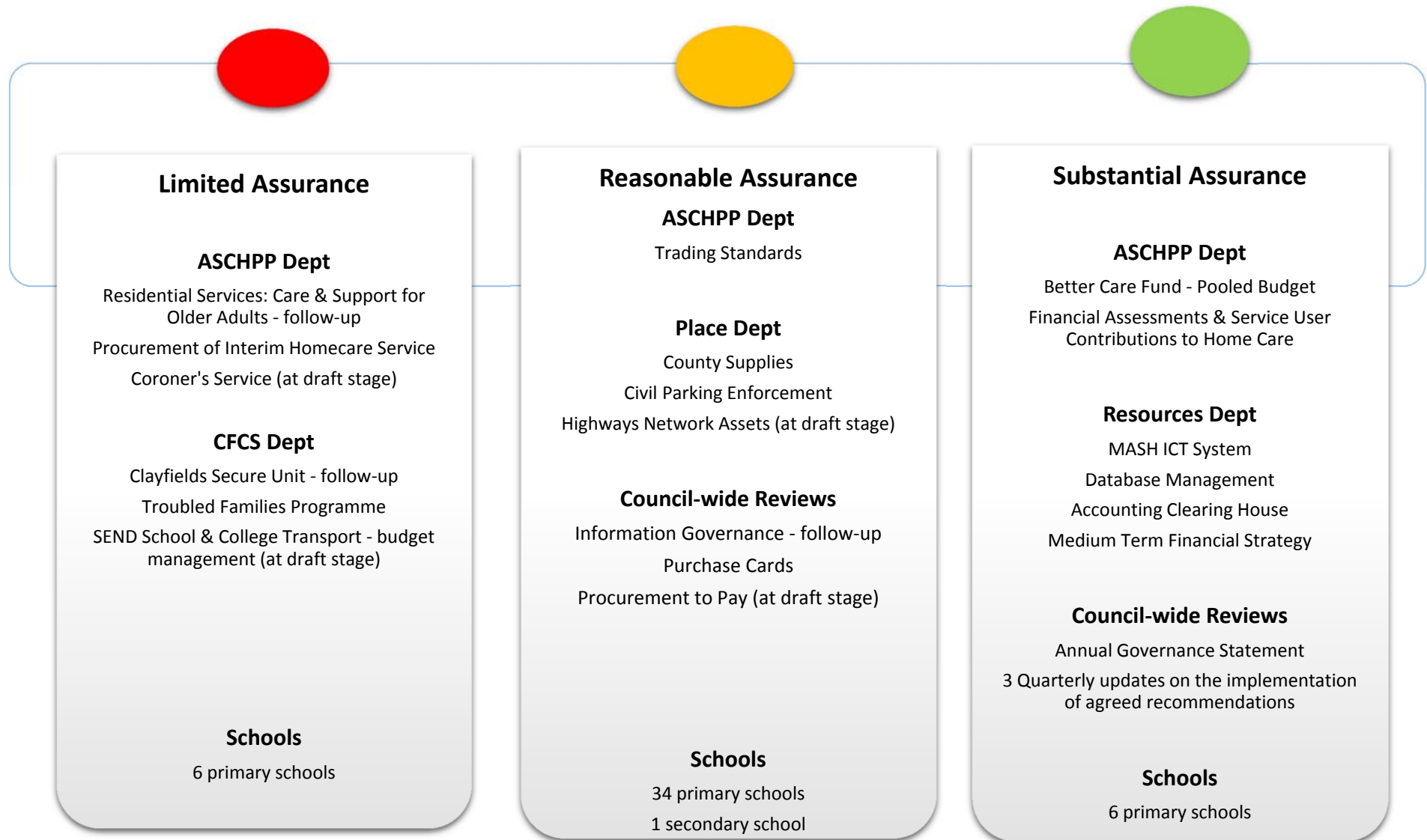
- b) The requirement for the appointment and removal of the Chief Audit Executive to be approved by the Board is not met, as this is dealt with by delegated powers under the Constitution.
 - c) The Board is not responsible for approving the budget and resource plan of Internal Audit. However, the Governance & Ethics Committee receives, and has the opportunity to comment upon, information concerning the size of the annual budget for Internal Audit, its staffing structure and the overall cost of the service per £1m of the Council's budget.
24. The QAIP identifies opportunities to improve the control, governance and risk management framework in the Council and in the procedures and approaches adopted by the Internal Audit Section. Key areas of focus for the coming year will be the following:
- a) A strengthened approach to assurance mapping, both at the corporate level and in terms of its use by the Internal Audit Section.
 - b) More embedded use of data analysis techniques as a matter of routine in Internal Audit's work.
25. Notwithstanding the above and the areas for improvement set out in the QAIP, the Head of Internal Audit's self-assessment against the required standards has confirmed the following in respect of the work carried out by the service in 2016/17:
- a) The service applied a systematic, risk-based approach to the assurance work it delivered
 - b) Internal Audit staff performed their duties with due regard to the code of ethics set out in the standards
 - c) There were no impairments to the independence and objectivity of the service during the year.

Conclusion

26. The work undertaken by Internal Audit during 2016/17 has covered key systems in the Authority and has identified that the controls in the majority of systems and procedures continue to operate satisfactorily. Of the systems and procedures reviewed, 18% were found to provide limited assurance. Action plans have been agreed to address these concerns and follow-up audit work will be carried out to ensure that these areas are addressed.

Rob Disney CPFA
Head of Internal Audit
Nottinghamshire County Council

ASSURANCE AUDITS



ADVISORY/CONSULTANCY INPUT

ASCHPP Dept

- Commissioning & reviewing packages of care
- Care Home remittance advices from Mosaic

CFCS Dept

- Youth Service locality funds – post investigation

Place Dept

- Enviro Energy Ltd – turbine partnership with Nottingham City Council (in draft)
- Property Group Operations overtime
- Highways ASDM – pre go-live advisory input
- Property ASDM – pre go-live advisory input
- Concessionary travel passes – document retention
- Schools catering – meals returns

County-wide

- RSEMB attendance

COUNTER-FRAUD

ASCHPP Dept

- The Grange Nursing Home
- Direct payments – advisory input with current departmental investigations and a proposed data-matching exercise with the City Council
- Care package assessor - whistleblower allegations

CFCS Dept

- Youth Service whistleblowing – budgets and locality funds

Place Dept

- Nottinghamshire Police referral – payments to transport provider

County-wide

- Transparency Code
- Pro-active fraud awareness – Team Talk article
- National Fraud Initiative – data submission
- National Anti-Fraud Network – alert monitoring & dissemination

CERTIFICATION AUDITS

ASCHPP Dept

- Trading Standards: Scambusters audit certificate 2015/16
- Trading Standards: Operation Spinnaker audit certificate 2015/16
- Trading Standards: Operation Comfort audit certificate 2015/16

CFCS Dept

- Beeston Youth & Community Centre Trust accounts

Place Dept

- Carbon Reduction Certificate
- Platt Lane Playing Fields accounts
- Bus Services Operators' Grant

Audit Reports issued to date in 2016/17 which had a “Limited Assurance” Audit Opinion

ASCH 1705 – Residential Services care & support for older adults – follow-up – July 2016. This follow-up review was carried out prior to the change in approach to the follow-up of audit recommendations. The key concern raised in the report is the rate of progress being made with bringing the contractual arrangements with health providers for intermediate care and assessment bed services into line with NCC Financial Regulations and Public Contracts Regulations 2015. The report recommends taking action now to set up a framework agreement for intermediate care to cater for the eventuality of funding becoming available beyond April 2017. Recommendations were also made regarding the authorisation of additional hours worked by staff and the lack of documentation to support some purchase card transactions.

ASCH 1706 - Procurement of the interim homecare service – January 2017. Four core providers were competitively procured to deliver an interim homecare service, but they all experienced significant difficulties with capacity. As a result, the department continued to use the former provider of the service, along with other spot contractors. The contractual arrangements for this were not compliant with financial regulations, and this situation continued for more than two years. Recommendations are made in the report to improve the arrangements both within the department and corporately for monitoring compliance with procurement regulations. Strengthened controls should aim to ensure that problem areas are identified promptly so that the required procurement activity can be scheduled in good time.

2016-40 HM Coroner for Nottinghamshire: NCC contributions – report in draft. A brief summary of key issues arising from this audit will be included in a future progress update, once the report has been finalised.

CFCS 1701 – Clayfields Secure Unit – follow-up – June 2016. This follow-up review was carried out prior to the change in approach to the follow-up of audit recommendations. It identified further lapses in controls over the Unit's imprest account, which operates to a relatively high balance due to the need to process many of the young people's allowances and pocket monies in cash. We also identified scope to limit further the use of the Unit's purchase card, in favour of using the regular purchasing order processing facility in the Business Management System. Recommendations are also made to improve controls over cash handling and budgetary control.

CFCS 1705 – Troubled Families Programme – October 2016. Government funding of just over £5m over five years is anticipated for this programme, although this is dependent on the number of eligible families the Council is actively working and making progress with. The report highlights the slow progress being made with setting families up on the programme and, for some of the families that have

been set up, concerns are raised that some of the established targets for sustained and significant progress may not be consistent with the agreed Outcomes Plan. All of this may place at risk the level of funding the Council will receive

2016-92 SEND Home to school transport – report in draft. A brief summary of key issues arising from this audit will be included in a future progress update, once the report has been finalised.

School Budget Share audits. The programme of school visits in 2016/17 identified six schools for which a limited assurance audit opinion was provided. The audits of school budget share cover a broad range of areas including governance, expenditure, income, assets and information. Reports are provided to the Headteacher and the Chair of Governors for action.

1. Update on progress against the 2016/17 QAIP

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2017
<i>Organisational Independence</i>						
1617 – 1	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 – Finance, Procurement & Improvement	December 2016	Implemented. The Chief Executive provided feedback for the Head of Internal Audit's appraisal.
1617 – 2	Feedback should be sought from the Chairman of the Audit Committee for the CAE's performance appraisal	No formal contribution from the Chairman	Include in future performance appraisal	Service Director – Finance, Procurement & Improvement	December 2016	Implemented. The Chairman of the Audit Committee provided feedback for the Head of Internal Audit's appraisal.
<i>Due Professional Care</i>						
1617 – 3	Consider the cost of consulting engagements in relation to potential benefits	Not formally considered and documented	Include this consideration in the engagement record for consulting assignments	Head of Internal Audit	Immediate	The section's engagement record has been updated to ensure this is a factor for consideration in consultancy engagements.
<i>Reviewing the effectiveness of Internal Audit</i>						
1617 – 4	A formal external review of Internal Audit must be completed once every five years, with the first being due by the end of 2017/18	External review has yet to be commissioned	Evaluate options for the external review of Internal Audit and seek approval of Governance & Ethics Committee	Governance & Ethics Committee to consider options presented by the Head of Internal Audit	March 2017	Options are still to be presented to the Governance & Ethics Committee.

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2017
1617 – 5	Internal self-assessments of Internal Audit should be carried out by officers independent of the Section and with the appropriate knowledge and understanding of the required standards,	Self-assessments are carried out by the Head of Internal Audit	Determine whether an appropriate, independent officer is available within the Council to carry out an internal self-assessment prior to the commissioning of the external review	Head of Internal Audit to identify a suitable officer Appointed officer to carry out self-assessment	September 2016 March 2017	Not progressed due to general capacity limitations for prospective internal officers. Progress will now be made with the external assessment.
Policies and Procedures						
1617 – 6	Maintaining an audit manual to guide staff in the performance of their duties in compliance with the PSIAS	The current Audit Manual requires updating	Update the Audit Manual	Head of Internal Audit	September 2016	Progress has been made but this requires completion. To be carried out by August 2017.
Nature of audit coverage						
1617 – 7	Review the organisation's ethics-related objectives, programmes and activities	Coverage as part of some planned audits, but no audit dedicated to this topic	Include a cross-cutting review of the organisation's culture and ethics as part of a future planning period	Head of Internal Audit	January 2017 as part of planning for 2017/18 audit plan	An audit of ethics will be scheduled as part of the 2017/18 Audit Plan.
1617 - 8	Review the effectiveness of the organisation's risk management processes	The Head of Internal Audit is a member of the Risk Safety & Emergency Management Board, but a dedicated audit of this topic has not been carried out recently	A dedicated cross-cutting review of risk management is included in the 2016/17 audit plan	Head of Internal Audit	March 2017	An audit of risk management was being finalised at the close of the 2016/17 financial year, with a report expected to be issued in the first quarter of 2017/18.

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2017
Communications						
1617 – 9	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 has been developed but still to be actively used	Head of Internal Audit	Immediate	The caveat is in place, ready for use.
1617 – 10	Timeliness of communications	Some instances in recent years of assignments taking lengthy periods to complete and report findings	Timely completion of audit assignments to be monitored more closely through the introduction of 1:1 supervision sessions	Head of Internal Audit to carry out periodic 1:1 supervision sessions with all staff	From June 2016	1:1 reviews have been carried out regularly with all staff during 2016/17 and will continue.
General efficiency and effectiveness of the service						
1617 – 11	Identifying opportunities to improve the efficiency and effectiveness of the service	The Internal Audit Service Plan for 2016/17 includes actions to improve some aspects of the service	a) Embed the use of audit automation software b) Implement revised time-recording and performance management module c) Revise procedure for following up audit recommendations	Head of Internal Audit	a) Immediate b) September 2016 c) September 2016	a) The audit automation is now in place b) Capacity issues in 2016/17 have delayed implementation. Now targeted for the second quarter of 2017/18. c) The revised approach to the follow-up of agreed actions was implemented from September 2016
Internal Audit Charter						

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	Progress as at June 2017
1617 – 12	Internal Audit Charter is compliant with the current standards	The standards were revised with effect from April 2016 to include an Audit Mission statement and a set of Core Principles. The charter may need to be updated if proposals to revise the follow-up process are accepted.	Present an updated Internal Audit Charter to the Audit Committee for approval.	Head of Internal Audit	September 2016 meeting of the Audit Committee	The updated Audit Charter was approved by the Audit Committee in September 2016. Further, minor amendments now required for the change to the Governance & Ethics Committee.

2. New actions for 2017/18

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2017/18)
Proficiency						
1718 - 1	Auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques	There is scope to make the use of these techniques more routine and embedded in the section's day-to-day work	Provision of training and refresher training on the tools currently available. Instil a data-analysis approach wherever it is relevant and appropriate for the work planned in 2017/18.	Head of Internal Audit	For all audits in the 2017/18 audit plan	

	Audit Standard	Gap in meeting standard	Action Required	Officer responsible	Timeline	(Progress – to be updated for 2017/18)
Assurance mapping						
1718 - 2	<p>The application of assurance mapping in relation to the following:</p> <ul style="list-style-type: none"> • The risk-based plan takes into account the organisation's assurance framework • The CAE shares information and coordinates activities with other internal and external providers of assurance and consulting services • The CAE's annual opinion takes account of the risk or control framework or other criteria used as a basis for the overall opinion 	<p>There is scope to strengthen the current approach to assurance mapping at a number of levels:</p> <ul style="list-style-type: none"> • Corporately in relation to the work of the Governance & Ethics Committee • Relating to Internal Audit's planning process • Delivery of internal audit engagements 	<p>Design and implement an assurance mapping process for the work of the Governance & Ethics Committee and for corporate governance processes.</p> <p>Carry out a mid-year review of the 2017/18 Audit Plan to assess any required changes in light of the assurance map. Future opinions of the CAE on the overall effectiveness of the control framework to be based on all available sources of assurance.</p>	Head of Internal Audit	<p>Initial proposals targeted for September 2017</p> <p>Mid-year review of the Internal Audit plan for 2017/18</p> <p>Annual opinion of the CAE in 2017/18</p>	